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The need of an integrated approach for studying the mergers and acquisitions in Latin America

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Abstract

The financial theory about the increased market of mergers and acquisitions in the world, presented diverse reasons for entering into this type of strategic processes, different results about the success or the failure after some years of functioning, and diverse approaches for a better comprehension about financial and non financial variables which are related to those results. In this paper, these themes were explained with a special attention to the market of mergers and acquisitions in Latin America, due to its special characteristics as emerging market and concluded that although the approaches for studying the mergers and acquisitions are so diverse, the proposition of another approaches for researching mergers and acquisitions in Latin America could be related to the situation of the firms to be joined (financial and non financial), the management of those processes, the characteristics of those processes, and the economic behavior of the countries of the firms.

I

Introduction

The market of mergers and acquisitions in Latin America joined to the global market of mergers and acquisitions are increasing their total volume continuously; however, the financial results of those processes are very diverse in the previous studies. The firms which entered into mergers or acquisitions expected to improve their value; but, in many cases, the financial results after mergers and acquisitions were worse than the financial results of the individual firms previously to the beginning of those strategic processes, and in many cases, the real reason for entering into mergers and acquisitions were the empire syndrome and the moral hazard. This theme has been studied with diverse approaches, taking in account the financial characteristics of the previous firms, the management of the mergers or the acquisitions, the characteristics of the mergers or the acquisitions and the economic behavior of the countries in which those strategic processes occurred; however, the studies didn't offer an integrated approach for a better comprehension of this theme, considering the global market and the Latin American market of mergers and acquisitions.

This paper explained: a) the global market of mergers and acquisitions (statistics and merger waves), b) reasons for entering into mergers and acquisitions, c) results of mergers and acquisitions which appeared in the financial theory, d) approaches of the researches about mergers and acquisitions outside Latin America (financial situation of the firms to be joined, the management of the merger or the acquisition, the characteristics of the merger or the acquisition, and the economic behavior of the countries of the joined firms), e) the market of mergers and acquisitions in Latin America (macroeconomic context of Latin America and statistics of mergers and acquisitions in Latin America), f) researches about merges and acquisitions in Latin America, and g) conclusions (the need of an integrated approach for studying mergers and acquisitions in Latin America) and recommendations for future researches (to evaluate the mergers and acquisitions in diverse countries and regions with other statistical techniques and comparing those results among economic sectors, countries and regions).

II

The global market of mergers and acquisitions

1. Statistics about the global market of mergers and acquisitions

Some statistics about the global market of mergers and acquisitions were explained by diverse authors and organizations (Bloomberg, 2013; Thomson Reuters, 2013; Carbonara & Caiazza, 2009; Westfair Communications, 2005; Clarin, 2005; Emol, 2000; Diario del Navegante, 2000), and support the importance of the growth of the investment with mergers and

acquisitions in the world. With data collected from First Half 2013 about mergers and acquisitions, Bloomberg (2013) explained the volume of transactions of mergers and acquisitions, as follows:

A. About Regional Deal Activity, Bloomberg (2013) remarked:

- Firms in the US contributed 44% of the total volume, exceeding the aggregate volume from non-US firms by nearly a third. This was attributable in part to the \$16 billion mega-acquisition of Life Technologies Corp by Thermo Fischer Scientific, the largest deal of the quarter.
- China was the second most active region in terms of deal-making with 275 deals collectively worth \$47.72 billion. The late-quarter joint venture announced by PetroChina Co Ltd for Taikang Asset Management Co Ltd was the region's largest deal worth nearly \$10 billion.
- UK firms spent close to \$40 billion on 463 acquisitions, a 17% increase year-over-year in total value. In Asia, Japanese firms announced 468 worth \$22.13 billion, representing a 49% drop from the same period last year. (p. 2)

B. About Industry Sector Deal Activity, Bloomberg (2013) highlighted:

- Consumer Non-Cyclical was for the second quarter in a row the most targeted industry both in terms of deal value and deal count, with 1,245 deals totalling nearly \$120 billion and constituting 24% of overall volume. This tops the highest deal volume in the first quarter— \$96 billion in the Financial sector—by 15%. Biomedical companies were the most popular targets.
- The average deal premium across industries for the quarter was 26%, with buyers paying the most in the Diversified and Consumer Cyclical sectors (63% and 37% respectively).
- In the Utilities industry, Berkshire Hathaway completed the third largest deal of the quarter with the purchase of NV Energy Inc. on May 29th. What would have been the largest, the \$38 billion bid for Sprint Nextel by DISH Network Corp, was terminated on June 16th.
- Top buyers were once again private equity (PE) and venture capital (VC) firms, even though strategic buyers out-bought financial buyers.
- Kleiner Perkins Caufield was the busiest firm, with 18 deals totalling \$363 million. The total number of PE deals fell by 20% compared to the same period last year, with average premiums falling from 26% to 15%.
- In the Investment Banking industry, announced deals declined approximately 25% in the second quarter, despite CEO confidence and cash levels above the 4% long-term average (Bloomberg Industries). (p. 2)

In the “Total Volume by Industry: Q2 2013” (p. 2), Bloomberg (2013) presented the total volume by industry at the First Half 2013, which was approximately composed by: consumer non-cyclical (24%), financial (22%), energy (11%), industrial (10%), consumer cyclical (10%), communications (9%), utilities (6%), basic materials (4%), and technology (4%). Also, in the “Heat Map: Q2 2013 Volume by Region” (p. 2), Bloomberg (2013) presented the total volume by region at the First Half 2013, which was approximately composed by: North America (39%), Asia Pacific (24%), Western Europe (19%), Latin America & Caribbean (11%), Eastern Europe (4%) and Middle East & Africa (4%).

Bloomberg (2013) explained the following notable highlights:

- Global M&A volume increased by 3% to \$489 billion from last quarter but decreased by 10% from the same period last year. The trend in deal count is similarly negative, falling from 6,727 deals in the second quarter of 2012 to 5,956 in June.
- Deal making activity was highest in North America & Latin America, where 3,389 deals made up 56% of the total global volume. M&A deal activity in Asia Pacific also fell by 14% following a four-year low in the first quarter. In the EMEA region, deal volume fell to \$186.4 billion, down 5% compared to the first quarter. (p. 3)

Also, Bloomberg (2013) explained the following notable highlights:

- The majority of deal making occurred in the mid-market range (below \$500 million), with only four mega-deals (over \$10 billion) being brokered.
- Cash continued to be the preferred payment method, used in 79% of transactions. Only 4% of buyers used a hybrid of cash & stock payment, representing a drop of over 60% compared to the same period last year.
- Announced premiums fell this quarter, with only 3% of deals producing a premium of between 50-75% compared to about 4% in the second quarter of last year. (p. 4)

With data collected from First Half 2013 about mergers and acquisitions, Thomson Reuters (2013) explained the volume of transactions of mergers and acquisitions from Worldwide, US, Europe, emerging markets and cross-border. About that, Thomson Reuters (2013) indicated:

- A. Worldwide M&A down 9% from 2012, being the slowest annual period for deal making since 2009. In respect, Thomson Reuters (2013) indicated that “Announced worldwide M&A totals US\$978.8 billion so far this year, a decrease of 9% compared to year-to-date 2012, and the slowest year-to-date period for worldwide M&A since 2009 (US\$900.8 billion).” (p. 1).
- B. “Americas targets accounted for 53% of global activity in the year-to-date period, ahead of Europe (US\$220.9 billion, 23%).” (p. 1)
- C. US M&A up 34%. In respect, Thomson Reuters (2013) indicated that “US targeted M&A announced so far during 2013 totaled US\$437.1 billion up 34% from year-to-date 2012 and is the strongest year-to-date period for US deal making since 2011.” (p. 1).
- D. European Merger Activity falls to 16-Year Low. In respect, Thomson Reuters (2013) indicated that “M&A in Europe has reached US\$220.9 billion so far in 2013, down 43% from the previous year-to-date period and marks the slowest year-to-date period in the region since 1997 (US\$175.2 billion).” (p. 1).
- E. Emerging Markets M&A falls 16%. In respect, Thomson Reuters (2013) explained that “Year-to-date figures for emerging markets target M&A have reached US\$121.9 billion, accounting for 12% of total M&A, down 16%

compared to the first half of 2012” (p. 1) and that “Chinese M&A activity accounted for approximately 44% of emerging markets acquirers and targets during the first half of 2013.” (p. 1).

- F. Cross-Border down 29%. In respect, Thomson Reuters (2013) indicated that “Registering a decrease of 29% from last year at this time, cross-border M&A totaled US\$292.4 billion during first half 2013, accounting for 30% of total M&A activity this year compared to 38% during year-to-date 2012.” (p. 1)

Also, Thomson Reuters (2013) explained the volume of transactions per industry in the world, in which energy & power, real estate and financials lead all sectors and industries such as: Media, Telecom and Healthcare, register gains. About that, Thomson Reuters (2013) indicated that “M&A in the energy and power sector reached US\$144.0 billion so far during 2013, down 30% from the first half of 2012, while M&A in the real estate sector totaled US\$98.5 billion so far in 2013, up 12% from last year at this time.” (p. 1) and “Media & Entertainment, telecom and healthcare deal making have all registered strong double-digit percentage gains over 2012 levels.” (p. 1). Additionally, per each of the main sectors, Thomson Reuters (2013) wrote:

A. Energy & Power Sector

Bolstered by oil & gas deal making, M&A targeting the energy and power sector reached US\$144.0 billion so far in 2013, down 30% compared to the first half of 2012. Activity was concentrated in the US, with US\$66.1 billion from US energy M&A, or 46% of year-to-date volume. This marks the slowest year-to-date period for energy and power M&A since 2004 (US\$72.8 billion). (p. 5)

B. Real Estate Sector

Deal making in the real estate sector accounted for 13% of global M&A so far this year with US\$124.0 billion of deals announced, up 12% compared to the first half of 2012. Activity in the United States, Canada and Japan accounted for two-thirds of activity in the sector this year. (p. 5)

C. Financials Sector

M&A in the financials sector totaled US\$98.5 billion so far in 2013, down 38% from last year at this time. Acquisitions in Europe accounted for 31% of year-to-date activity. Deal making in the banking and insurance comprised 60% of global M&A in the financials sector this year. (p. 5)

D. Healthcare Sector

Announced acquisitions of healthcare targets totaled US\$93.5 billion, up 13% from the first half of 2012 and the strongest annual start for activity in the sector since 2011 (\$114.3 billion). Activity was strongly focused in the United States, which saw approximately 76% of announced activity during year-to-date 2013. (p. 5)

About the growth of mergers and acquisitions in Europe, Carbonara and Caiazza (2009) indicated that:

Certainly, the growth in merger and acquisition was fed by activity in Europe with firms preparing for the full implementation of the European Union. The enlargement of European market introduced by Euro was a factor that

affected the growth in M&A activities. In 2006, the global M&A market confirmed the recovery seen in 2005, outperforming forecasts made at the start of the year and reaching the peak recorded in 2000 in terms of number of transactions. (p. 189)

Also, about the amount of money and transactions which were involved into mergers and acquisitions, Carbonara and Caiazza (2009) explained that:

The equivalent value of transactions on the global M&A market rose 50% on 2005 from Euro 2,583 million to Euro 3,870 million in 2006. Market volumes rose 18%. In 2006, approximately 32,000 transactions were concluded, compared to 27,000 in 2005, setting a new record after the 2000 peak of 30,000 transactions. The geographic areas most affected by M&A activities were the America with 40% of concluded deals, Europe with 34%, Asia with 18% (excluding Japan), Japan with 6%, and Africa and the Middle East with 2%. (p. 189)

About the mergers and acquisitions in USA and Europe, researchers of Westfair Communications (2005) indicated:

In the United States, the number of merger and acquisition announcements jumped 14.8 percent to 9,964 in 2004 and spending on deals shot up 43.7 percent to \$777 billion. It was the best overall performance for mergers and acquisitions since record-breaking market of 2000. In Europe, year-over-year M&A activity increased by 6.6 percent to 10,966 and spending by 43.5 percent to \$662 billion. It was the best overall performance since 2001 and the largest level of M&A spending since 2000. (p. 11)

The following information about some important mergers and acquisitions in diverse countries was found in the literature review:

- A. Emol (2000) indicated that Chase Manhattan Corporation acquired J.P. Morgan & Company Bank by US\$ 36,000 millions in stocks, resulting the merger of the oldest and prestigious banks in United States of America with the name J. P. Morgan Chase and company, and with Douglas Warner (past chairman of J. P. Morgan & Company Bank) as chairman and William Harrison (past chairman of Chase Manhattan Corporation) as general director, and with US\$ 660,000 millions of assets (similar to Bank of America which had US\$ 679,000 millions, the second bank in United States of America). Also, Emol (2000) indicated that analysts considered that the merger was highly productive due to the products of the banks were complementary, and the presence of J. P. Morgan and Company in Europe will benefit to Chase Manhattan Bank which is not sufficiently known in Europe.
- B. Clarin (2005) indicated that the need of gaining power over the large chains of supermarkets promote the mergers of manufacturers of mass consumption products and that Proctec & Gamble will gain to the English Dutch firm Unilever, with the acquisition of Gillete (synonym of products to shave and also proprietary of Duracell and other products). Also, Clarin (2005) indicated that Procter & Gamble will pay almost US\$ 57,000 millions, in its main acquisition in 168 years of history and the most important in its economic sector since 1999, resulting in a firm with more than 300 brands, almost 140,000 people (and Alan Lafley, past chairman of Procter & Gamble,

announced that will fire 6,000 people) and sales near to US\$ 60,700 millions, gaining to Unilever which sold US\$ 48,250 millions in the last general balance.

- C. *Diario del Navegante* (2000) explained that Terra Networks would buy Lycos by US\$ 12,500 millions through a public offer of stocks for over the double of the value in the stock market, resulting Terra Lycos Inc., a firm which would be the third Internet group in the world, following Yahoo and America Online, with headquarters in Massachusetts and sales estimated of US\$ 600 millions, reinforcing the position of Terra Networks in United States of America, Asia and Europe, and reinforcing the presence of Lycos in Latin America. Also, *Diario del Navegante* (2000) indicated that Juan Villalonga (chairman of Terra) will be the chairman of the new joined firm and Robert Davis (past chairman of Lycos) will be the main executive with the designation of delegated counselor.

2. Merger waves

About the waves of mergers and acquisitions outside Latin America, Maksimovic, Phillips, and Yang (2013) studied how private and public firms participated in merger waves in United States of America and the outcomes of the mergers, McCarthy (2011) explained the characteristics of the six merger waves occurred in USA, Europe and Asia since 1897 until 2008, and McNamara, Haleblian, and Johnson Dykes (2008) evaluated the behavior of the performance of firms which participated in the waves of mergers and acquisitions in 12 industries since 1984 until 2004.

Maksimovic, Phillips, and Yang (2013) studied how private and public firms participated in merger waves in United States of America and the outcomes of the mergers, using approximately 40,000 firms since 1977 until 2004, founded that “Public firms purchase and sell assets at a higher intensity than private firms” (p.2178). Their empirical framework has four parts: a) the study of the public and private participation in merger waves, b) public status and participation in merger waves, c) firm quality, decision to be public, and participation in merger waves, d) gains in productivity: on and off the wave mergers. Using logit models and OLS as statistical techniques, the estimated marginal effects with a significance level of 10%. 5% and 1%, were calculated with the following variables:

- A. D Buy, equals one if a firm buys at least one plant and zero otherwise.
- B. D Sell, equals one if a firm sells at least one plant and zero otherwise.
- C. Size is the log of the total value of shipments (in 1987 dollars)
- D. TFP is the total factor productivity.
- E. I Tobinq is the industry Tobin’s Q
- F. HERF measures the industry Herfindahl index based on sales.
- G. Ind UV is the average unexplained valuation (UV) based on all public firms in that industry. We calculate UV using the procedure of Rhodes-Kropf, Robinson, and Viswanathan (2005) as updated by Hoberg and Phillips (2010).
- H. Credit Spread is the spread between the C&I loan rate and the Fed Funds rate.
- I. S&P is the return of S&P Industrial index.
- J. D Wave is an indicator variable that equals one for wave years and zero for non wave years.

After the use of time series and panel data for processing the collected data, Maksimovic, Phillips, and Yang (2013) concluded that:

- A. First, we find that both efficiency and financial access affect acquisition decisions. Firms with higher productivity are more likely to buy assets and firms with lower productivity are more likely to sell assets, and transacted plants improve in productivity. (p. 2215).
- B. Second, differences in participation between public and private firms are not driven just by contemporaneous efficiency and valuation. Firms with higher productivity and greater anticipation of future growth choose to become public and later participate more in acquisitions when opportunities rise. (p. 2215)
- C. Third, consistent with neoclassical theories, Maksimovic and Phillips (2001, 2002) and Yang (2008), we find that mergers that occur on the wave are associated with greater efficiency improvements. In particular, acquisitions by public firms during wave years realize bigger productivity gains. (p. 2215)
- D. We find that public firms make better acquisition decisions than private firms as judged by efficiency gains despite potential conflicts due to separation of ownership and control in public firms. This finding suggests that gains from access to capital for productive firms may outweigh the potential costs from the separation of ownership and control. (p. 2215)

McCarthy (2011) explained the characteristics of the first five waves of mergers and acquisitions:

- A. First wave (since 1897 until 1904). The first wave began with economic expansion, industrialization, new corporate legislation, changes in the New York Stock Exchange, and technological progress; however, the outcomes were monopolies, and ended with stock market crash, economic stagnation, and the first world war.
- B. Second wave (since 1922 until 1929). The second wave began with economic recovery after the market crash and the first world war, and antimonopoly law; however, the outcomes were oligopolies, and ended with stock market crash, and the beginning of the great depression.
- C. Third wave (since 1960 until 1969). The third wave began with bull market, economic recovery after the second world war, and tightening of antitrust regime in the 1950s; however, the outcome was a large diversified conglomerate, and ended with stock market crash and oil crisis and economic slowdown.
- D. Fourth wave (since 1981 until 1989). The fourth wave began with: economic recovery, antitrust, financial services deregulation, and financial and technological progress; however, the outcomes were smaller and split-up firms with focus strategies, and ended with stock market crash.
- E. Fifth wave (since 1991 until 2001). The fifth wave began with: economic and financial markets boom, globalization, technological innovation, deregulation and privatization; however, the outcome was globalization, and ended with stock market crash and 9/11 terrorist attacks.

Also, McCarthy (2011) identified and studied a sixth merger and acquisition wave (since 2003 until 2008), and concluded that:

The picture that emerges is one of a sixth wave with global impact and yet local difference. We find evidence to suggest that while all three regions – that is, Europe, Asia and North America – were united in embracing the sixth

wave, each region experienced the sixth wave somewhat differently. In North America, for example, sixth wave mergers were driven by large and friendly acquirers, using externally sourced cash, for the purposes of domestic diversifications. European mergers, by contrast, were about integration, and consolidation, although less so than was the case in the fifth wave.

European mergers were somewhat hostile, domestically orientated and financed with cash, a lot of which was generated internally. Asian mergers too were seen to have focused on their core competencies, to have been increasingly hostile and increasingly expensive. The rise of both hostility and premiums paid in Asia runs contrary to the trends in Europe and North America, we suggest, just as the rising popularity of a diversification strategy in North America runs contrary to the strategies employed in Europe and Asia. All are important findings, we believe, which may offer important insights for managers and shareholders looking to ‘ride’ future M&A waves. (p. 34)

In their study about the performance of firms which participated in the waves of mergers and acquisitions in 12 industries since 1984 until 2004, with the information of the global stock market of the SDC database, McNamara, Halebian, and Johnson Dykes (2008) considered the following independent variables: experience of the acquirer, the acquirer's relationship with the acquired company, free cash flow of the acquirer, the acquirer's debt-equity ratio, acquirer performance, share value, attitude, industry munificence, industry stability, and position on the wave; and, the dependent variable was the return of the acquisition. Also, McNamara et al. (2008) concluded that:

- A. Exist significant performance consequences associated with the participation in different stages in the wave of acquisitions; however, these effects are contingents due to the industry and the characteristics of the acquirers.
- B. The acquirer firms can obtain benefits of early acquisitions; but, often suffer of late acquisitions, due to the market penalize to followers and reward to pioneers overall when the market is munificent.
- C. The financing method (money or stocks) moderates the performance of the acquisition, due to the acquisitions financed by money experiment only a few decrease of the performance with the advance of the wave; but, when the stocks financed the acquisitions, the acquirer firms experienced more negative returns according to the increase of pressures of the wave. This result is consistent with the idea that the firms with asymmetric information use the money for financing acquisitions; but, the firms which don't have better information use the financing by stocks.

After their conclusions, McNamara et al. (2008) recommended the following considerations:

- A. The results of the pattern suggested caution for managers in the context of the waves of acquisitions, in which, abnormal positive results can be estimated only in a wide range of conditions: early movements and lack of experience in acquisitions, rather than stable and munificent environments.
- B. Imitation theories may help explain the leadership and the follower behavior in waves. Researchers can also examine if firms implement acquisitions differently at different points within the waves of acquisitions.
- C. To investigate into the procurement process within companies, which could shed light on the relationships found in their study.

III

Reasons for entering into mergers and acquisitions

Diverse studies (Krähmer & Strausz, 2011; Carbonara & Caiazza, 2009; Pradhan & Abraham, 2005; Gilson & Schwartz, 2005; Cantwell & Santangelo, 2002; Aydogan, 2002; Adams & Brock, 1987; Williamson, 1983a) explained the financial and the non financial reasons of the firms for entering into mergers or acquisitions. The financial reasons were the following: increment of market share, increment of assets, increment of stock price, increment of market power, economic efficiency, increment of profitability, increment of return on assets, increment of return on equity, increment of earnings per share, quick growth through an established firm, operative synergies, financial synergies, scale economy, scope economy, cost reduction, reduction of the cost of capital, improvement of leverage capacity, tax reduction, risk diversification, to get monopoly, etc. The main non financial reasons for entering into mergers or acquisitions were: empire syndrome and moral hazard. It is important to remark that previous related studies were related to regions or countries outside Latin America.

Krähmer and Strausz (2011) indicated that pre-project investigations about mergers and acquisitions involved a moral hazard problem. Additionally, Carbonara and Caiazza (2009) explained that the strategic motivations for realizing mergers and acquisitions can be grouped in four categories:

- (1) increase market power through the erection of entry barriers or the creation of monopoly-type influence, (2) increase political power, or the ability to influence governing bodies domestically or internationally, (3) increase efficiency in research, production, marketing, or other functions, and (4) provide product or service differentiation. (p. 189)

Pradhan and Abraham (2005) studied the patterns and motivations behind the overseas M&As by Indian enterprises and found that “a large majority of overseas M&As originated within services sector led by software industry and in overwhelming cases were directed towards developed countries of the world economy” (p. 365). Also, Pradhan and Abraham (2005) explained that

The main motivations of Indian firm’s overseas acquisitions have been to access international market, firm-specific intangibles like technology and human skills, benefits from operational synergies, overcome constraints from limited home market growth, and survive in an increasingly competitive business environment. Further it has been found that overseas acquirers in the case of manufacturing sector tends to be large sized and research intensive, while they are older, large sized and export-oriented in the case of software sector. (p. 365)

About empire syndrome, Cantwell and Santangelo (2002) explained that “A further motive identified by the financial economics literature concerns the desire of managers to control larger firms, which allows them to enjoy power and leads them to favor a policy of acquisition.” (p. 404). Also, Cantwell and Santangelo (2002) explained the motivations for entering into processes of mergers or acquisitions, found in their literature review, which were the following:

- A. Competitive Considerations: a) Increasing market or political power, b) Defensive reactions, c) Economies of scope or synergies, and d) Reduction of transaction and information costs.
- B. Responses to a Changing Environment: a) Regulation and b) Access to markets or technologies.
- C. Inefficient Capital Markets: a) Removal of inefficient management, b) Corporate hedging, c) Internal capital markets, and d) Managerial ego.

Adams and Brock (1987) indicated that “The moral is that there is no salvation through acquisition, that the dream of assembling a corporate empire by shuffling and leveraging assets is an empty one.” (p. 3). About moral hazard, Gilson and Schwartz (2005) indicated that “The standard contract that governs friendly mergers contains material adverse change (MAC) and material adverse effect (MAE) clauses; these clauses permit a buyer to costlessly cancel the deal if such a change or effect occurs.” (p. 330). Also, Gilson and Schwartz (2005) explained that “The modern MAC and MAE terms thus respond to the threat of moral hazard by both parties in the sometimes lengthy interim between executing a merger agreement and closing it.” (p. 330) and Aydogan (2002) explained that “most discussion on horizontal mergers is on antitrust issues and price collusion” (p. 3).

About the problems related to collusion and rate regulation of mergers and acquisitions, Williamson (1983a) explained that “Vertical integration is most likely to facilitate collusion in conjunction with forward integration into retail distribution.” (p. 607) and indicated that:

Acquisition of a supplier by a regulated utility might permit the utility to evade rate regulation, because "after the merger, the utility would be selling to itself and might be able arbitrarily to inflate the prices of internal transactions." These practices should be difficult for regulators to monitor. Thus, although the Department is sensitive to "genuine economies of integration," it will "consider challenging mergers that create substantial opportunities for such abuses. (p. 607)

IV

Results after mergers and acquisitions

1. Financial results of mergers and acquisitions

In respect to the financial reasons for entering into mergers and acquisitions, previous researches (McCarthy & Kozhikode, 2014; Oghojafor & Abayomi, 2012; Doytch, Mixon, & Upadhyaya, 2011; Garrie, Griver, Giacobbe & O’Connor, 2009; Lam, Chi, & Lee, 2007; Danzon, Epstein, & Nicholson, 2007; Mantravadi & Reddy, 2007; Mehmet, Chang-Keong &

Ekrem, 2007; Pazarskis, Vogiatzoglou, Christodoulou, & Drogalas, 2006; Sanfilippo, 2006; André, Kooli, & L'Her, 2004; Cabolis, 2004) presented diverse and different results.

McCarthy and Kozhikode (2014) studied the value generation of geographic acquisitions, considering “a sample of 4,223 US acquisitions, announced and completed, between January 1, 2000 and December 31, 2008, completed or withdrawn before Dec 31, 2010” (slide 60) and taking in account moderators: a) market based moderators (N-Concentration Ratio), b) resource based moderators (internal -financial slacks of the acquiring firms- and external -ratio of the target firm's sales to the total sales per state-), and c) non-market based moderators (the level of corporate taxes, the adoption of the right-to-work act, and the political preferences in presidential elections). The results of the study of McCarthy and Kozhikode (2014) were the following:

- A. The market responds decidedly negatively to the announcement of a geographic acquisition.
- B. High levels of concentration in the home market positively moderate the performance of a geographic deal.
- C. In other words, acquirers which are forced out, due to high levels of competition in the home market perform better
- D. Levels of concentration in the host market do not moderate performance. Perhaps shareholders do not have sufficient information on the status of the host market?
- E. Cash matters, and internal resource constraints impact the potential to create value in the case of a geographic acquisition
- F. Looking at the market share of the target firm, we find that the market share has a positive moderating effect
- G. Red and Blue governments doesn't impact deal performance, but differences between the state and federal levels do.
- H. Lower taxes in the target state moderates performance, and shows that fiscal arbitrage plays a roll in the performance of geographic deals.
- I. We find no evidence to suggest that differences in the labour-versus - business regulation provides the firm with any arbitrage opportunities. (slide 71)

Also, McCarthy and Kozhikode (2014) explained that:

In doing so, we help to answer the paradox of geographic acquisitions.

Such deals, we find, can create value, if:

- (1) there are market based reasons to incur the costs / risks of expansion
- (2) the firm and its target has the resources necessary to create value, and
- (3) there are non market arbitrage opportunities available with the deal.

In doing so, we unite the three branches of the strategic management literature, to help us to understand the conditions in which acquisitions can work. (slide 82)

Oghojafor and Abayomi (2012) evaluated the mergers and acquisitions as intervention strategies in Nigerian banking sector in 2005, with a sample of 100 banks and concluded that: “merger and acquisition was able to rescue the banks from

the brink of collapse in 2005 and that, financial indices showed an improved performance after the merger” (p. 154) and “Profit recorded for pre Merger period was N 2192.48 million while post Merger profit was N16839.12 million thereby creating significant differences between pre and post Merger profit which was statistically significant” (p. 147)

Doytch, Mixon, and Upadhyaya (2011) studied the employment effects of mergers and acquisitions in the manufacturing, financial and service sectors of the US economy, since 1978 until 2008, and concluded that “mergers and acquisitions have worked to increase employment in both the short-run as well as in the long-run in all three sectors of the economy” (p. 928) and that “mergers and acquisitions have been contributing positively to employment in the US economy since 1978” (p. 928). Also, Lam, Chi, and Lee (2007) explained that “Many mergers and acquisitions are undertaken with the promise of significant cost savings through workforce reduction. However, the issue of whether the projected synergies are achievable is often left for integration teams to tackle.” (p. 1). Also, Lam, Chi, and Lee (2007) indicated that firms could gain benefits using a practical framework that “not only validates the workforce synergies available at the pre-deal stage but also highlights the operational risks associated with closing this type of transaction.” (p. 1).

Garrie, Griver, Giacobbe and O’Connor (2009) explained that “In theory, a merger or acquisition adds value in multiple ways: by either creating economies of scale or scope or by producing technical, "allocative, productive, dynamic, [or] transactional" efficiencies in the merged or acquiring entity.” (p. 1). Also, about the results of mergers and acquisitions, Garrie et al. (2009) explained that:

In fact, hundreds of studies suggest that most M&A are failures, with a failure rate somewhere "between 50% and 80%." Not only do M&A deals fail to add value, but often these deals result in significant losses to the merging or acquiring entities. Thus while the ostensible goal of an M&A deal is to create a whole greater than the sum of its parts, the reality is that the parts are often greater than the whole.

The puzzle of M&A failure has generated a "steady stream" of research examining the determinants of merger and acquisition success. Many such determinants have been discussed, including, inter alia, " 'strategic' " and " 'organizational fit,' " the existence of a postintegration plan, and the compatibility of different corporate cultures. (p. 26)

Mantravadi and Reddy (2007) studied the impact of mergers on the operating performance of acquiring corporate organizations in different periods in India, after the announcement of industrial reforms, through pre and post merger financial ratios with chosen sample firms and all mergers involving public limited and traded companies in India, since 1991 until 2003. The results revealed that there are minor variations in terms of impact of operating performance following mergers in different intervals of time in India. Also, the results of the research of Mantravadi and Reddy (2007) revealed that:

for mergers between the same group of companies in India, there has been a deterioration in performance and return on investment, suggesting that such mergers were only motivated by a potential for increasing the asset base through consolidation of different businesses, rather than driving efficiency improvements. (p. 52)

Additional results of the study of Mantravadi and Reddy (2007) were the following:

The comparison of the pre- and post-merger operating performance ratios (Table 3) shows that there is no difference in the mean operating profit margin (19.847% vs. 19.336%) and gross profit margin (15.993% vs. 14.321%), during the pre- and post-merger phases. This is also validated by the low 't' statistic (0.193 and 0.718). However, the net profit margin ratios have shown a significant decline (6.555% vs. 2.755%), statistically confirmed by the t-value of 2.121. Results also show that the mean returns on networth (15.749% vs. 9.327%) and returns on capital employed (24.291% vs. 18.182%) have declined after the mergers, when compared to the pre-merger period, and the decline in ROCE is found to be statistically significant, with t-value of 3.090. There is a marginal leverage effect, as evident from the Debt Equity Ratios before and after the mergers (1.258% vs. 1.610%), and the low t-value of -1.677. These results suggest that mergers in India have caused a decline in the net profit margin, while other profitability ratios did not change after the merger. Merging firms also saw a decline in returns on capital employed. These results suggest that mergers had not yielded improvements in operating efficiency, in the Indian context, in general, and the findings seem in agreement with earlier studies on post-merger operating performance. (p. 60)

Mehmet, Chang-Keong, and Ekrem (2007) studied the performance outcomes of mergers and acquisitions, with a sample of three giant pharmaceutical M&As and three non-M&A rivals in the pre-merger and post-merger phases, measuring the outcomes with three terms: research productivity, return on investment, and profit margin, and concluding that value creation was not generated in M&A firms, in terms of productivity, return on investment, and profit margin. In respect, Mehmet, Chang-Keong, and Ekrem (2007) concluded that

- A. The sample M&As had lower research productivity than that of both pre-M&A and independent non-M&A rival firms. In a similar vein, with regard to return on investment, M&As were not better than their pre-M&A firms, but performed relatively better than their non-M&A rivals. As far as the profit margin is concerned, the sample M&As, however, appeared to have better performance than pre-M&A firms and almost on par with the non-M&A rivals. (p. 57)
- B. "This study, however, reveals that the issue of value creation might not be that straightforward; not all the anticipated benefits are realized following the formation of M&As." (p. 57)
- C. "To date, none of the existing studies or published articles can serve as a reference or guide to facilitate managerial decision making toward formation of M&As." (p. 57)
- D. "Given mixed and equivocal results reported by the researchers and analysts, this can be very intimidating for those managers planning to pursue an M&A." (p. 57)

Danzon, Epstein, and Nicholson (2007) examined the determinants and effects of mergers and acquisitions in pharmaceutical and biotechnology industry using data of Securities and Data Corporation Worldwide Mergers and Acquisitions Database, about 383 firms since 1988 until 2001, and concluded that mergers may be a response to capacity or financial troubles, but not a solution. Also, Danzon et al. (2007) explained that "large firms that merged experienced a similar change in enterprise value, sales, employees, and R&D, and had slower growth in operating profit, compared with similar firms that did not merge." (p. 307)

Pazarskis, Vogiatzoglou, Christodoulou, and Drogalas (2006) studied empirically the impact of mergers and acquisitions (M&As) on the operating performance of M&A-involved firms in Greece, taking in account financial and non financial characteristics about operating performance and business strategy, from a confidential questionnaire response data, which include the type of merger, the method of evaluation and the method of payment, and explained that:

Using financial and nonfinancial characteristics, the post-merger performance of fifty Greek companies, listed at the Athens Stock Exchange (ASE) that executed at least one merger or acquisition in the period from 1998 to 2002, is investigated. Selected accounting variables (financial characteristics) are introduced to measure operating performance and compare pre- and post-M&A firm performance for three years before and after M&A, while the year of M&A event is omitted from comparisons. (p. 184)

Pazarskis et al. (2006) indicated that “The main interesting finding of the survey is that there is strong evidence that the profitability of a firm that performed an M&A is decreased due to the merger/acquisition event” (p. 191). Additionally, about the mergers and acquisitions in Europe, Sanfilippo (2006) explained that deregulation, disintermediation, technological progress, globalization and financial innovation have increased competitive pressures threatening the position they held more banks in their respective countries, while appreciably reduced margins; and that the new situation has forced the bank managers to perform various actions, which are discussed below, in which mergers and acquisitions are set to one of its main strategies. Sanfilippo (2006) indicated that through mergers and acquisitions, the credit firms can obtain important gains with economies of scale, reductions of costs, risk diversification or increment of market power; however, there are difficulties for obtaining benefits with these operations, and due to that, bank managers must choose carefully the entity for joining. Also, Sanfilippo (2006) explained that according to Vester (2002), 1/3 of mergers and acquisitions failed before 5 years and at least 80% didn’t obtain the expected profit. Vester (2002) explained that

Despite the evidence that most acquisitions fail to add value to the acquirer, an acquisition can be successful by following a disciplined integration program based upon best practices. A solid strategic foundation that explains the "why" of the deal is the right place to start customizing the integration process for maximum value capture. After the process is created, it should be followed rigorously. While speed is essential, quality is paramount; in fact, excellence at each stage of the integration cumulatively increases the odds of overall success. And don't forget the major impact of simple actions like CEO visits. By following these guidelines you can weather the inevitable surprises that sink many acquisition integrations. (p. 33)

André, Kooli, and L’Her (2004) studied the long-term performance of 267 Canadian mergers and acquisitions that take place between 1980 and 2000. The results suggested that Canadian acquirers significantly underperform over the three-year post-event period. Also, André et al. (2004) explained that “Further analysis shows that our results are consistent with the extrapolation and the method-of-payment hypotheses; that is, glamour acquirers and equity financed deals underperform. We also find that cross-border deals perform poorly in the long run.” (p. 27).

Cabolis (2004) indicated that “Corporate governance concerns the enhancement of corporate performance via the supervision, or monitoring, of management performance and ensures the accountability of management to investors (Kasey and Wright, 1997).” (p. 9). In respect, Cabolis (2004) developed three researches about the corporate governance and its effects in the financial results of mergers and acquisitions: a) “Adopting Better Corporate Governance: Evidence from

Cross Border Mergers”, b) “Race to the Top in Corporate Governance: Firm Evidence from Cross-Border Mergers” and c) “Competition and the 1986 Semiconductor Trade Arrangement”. The last research was about market and marginal cost-pricing issues and not specifically about mergers and acquisitions; however the researches “a” and “b” will be explained in the following lines.

In the first research “Adopting Better Corporate Governance: Evidence from Cross Border Mergers”, Cabolis (2004) studied the corporate governance (considering the following indicators: shareholder protection, creditor protection, accounting standards, and corruption - for acquiring firm’s country and for target firm’s country -) of cross-border mergers with a sample which included 16,772 cross-border acquisitions of 39 industries from 49 countries (using the available US firms in CRSP + Compusat and Datastream), in the period 1990-2001, and found that “the Tobin's Q of an industry increases when firms within such industry are acquired by foreign firms coming from countries with better shareholder protection and better accounting standards” (p. 1). Also, Cabolis (2004) indicated that

Interestingly, we also find positive valuation effects for the acquirors, when they come from poor-protection countries. All in all, we present evidence that the transfer of corporate governance practices through cross-border mergers increases industry value in those countries where corporate governance is weak, by allowing firms to buy and be bought by firms in more protective systems. (p. 1)

In the second research “Race to the Top in Corporate Governance: Firm Evidence from Cross-Border Mergers”, Cabolis (2004) explained that were constructed “measures of the change in investor protection induced by by cross-border mergers in a sample of 506 acquisitions from 39 countries, spanning the period 1989 to 2002” (p. 65) and indicated that:

We find that the announcement effect of a cross-border merger for the target firm is higher—relative to a matching, domestic acquisition—the better the shareholder protection and the accounting standards in the country of origin of the acquiror. This result is only significant in acquisitions where the acquiror buys 100 percent of the target, and therefore where the nationality of the target firm changes. Secondly, this result is only significant when the acquiror comes from a more-protective country, which suggests that target firms avoid borrowing worse protection via private contracting. Interestingly, we do not find the symmetric effect on the acquiror's return. All in all, we present evidence that the transfer of corporate governance practices through cross-border mergers is positively valued by the market in those countries where corporate governance is weak, when their firms become nationals of countries with more protective systems. (p. 65)

2. Reasons for the differences of results after mergers and acquisitions

Diverse reasons for the different results after mergers or acquisitions appeared in the literature (Garrie, Griver, Giacobbe, & O’Connor, 2009; Reyes, 2005; Cisneros & Jiménez, 2003; Cantwell and Santangelo, 2002; Lubatkin, 1983; Williamson, 1983a). Garrie, Griver, Giacobbe, and O’Connor (2009) explained that “Nonetheless, merging or acquiring companies often fail to perform adequate data due diligence” (p.3) and “They even fail entirely to consider the electronically stored information (ESI) and data storage systems of the target company or merging counterpart. This oversight runs a serious risk of creating post-integration problems that may increase the likelihood of M&A failure.” (p. 3). Also, Garrie et al. (2009)

indicated that “One of the crucial ways that corporate and outside counsel fail to conduct proper data due diligence is by not considering e-discovery issues as part of an M&A deal.” (p. 8) and explained that:

As a result, merging counterparties and acquiring companies would do well to consider e-discovery issues when conducting due diligence by creating an e-discovery checklist. An e-discovery checklist could have many elements and would vary with respect to the industry and company, but in all instances, it should account for (1) the state of the target company’s ESI, ensuring that such has been thoroughly identified, categorized, and sourced; (2) existing preservation and litigation holds; (3) costs of preserving data for existing or anticipated legal holds; and (4) structured and unstructured data. (p. 9)

Reyes (2005) suggested that the failure of mergers could occur by two main types of errors:

- A. Focus errors: a) overestimate the market of the firms to be integrated, b) to pay too much for the acquired firm, c) not obtain the sufficient information of the firms to be acquired, d) not anticipate dramatic changes in the environment, and e) to choose an acquiring business which core processes are very different to the acquirer firm.
- B. Integration errors: a) to integrate the operations very quick or very slow, b) not obtain the estimated synergies, c) lack of planning of the integration, d) lack of leadership, e) lack of conciliation to integrate cultures, f) to merger too much or too little activities, and g) not changing the processes as it was planned.

For obtaining the success of mergers and acquisitions, Cisneros and Jiménez (2003) suggested the following aspects: a) financial adjustment (price and payment conditions of the operation of external growth), b) entrepreneurial adjustment (to obtain synergies, to improve the strategic position and reinforce competitive advantages), c) organizational adjustment (design of organizational structure, development of processes and operating systems), and d) social adjustment (human resources management). Also, Cantwell and Santangelo (2002) explained that empirical evidence suggested that M&As might fail because of “over-optimistic expectations of benefits and underestimation of post-integration difficulties (e.g., a lack of market or technology relatedness, business culture clashes, etc.)” (p. 405). Also, Cantwell and Santangelo (2002) explained that the main disadvantages generated by M&As had been identified by the literature and were the following:

- A. Overpaying for the target company, as a result of bidding wars (winner’s curse).
- B. Overestimation of the ability to (i) manage larger organizations, (ii) deal with unfamiliar markets and technologies, (iii) integrate efficiently by exploiting synergies.
- C. Misjudging competition policy restrictions. (p. 402)

Also, Lubatkin (1983) criticized the popularity of the mergers as strategic alternatives due to the lack of performance of acquiring firms and offered two possible explanations: a) managers make mistakes selecting the proper merger candidate and the proper price, and b) managers may seek their own wealth at the expense of stockholder’s wealth, and proposed that in the cases in which mergers cause real benefits, they were not detected due to the following reasons: a) administrative problems may accompany merger and cancel out the benefits of merger, b) methodological problems have

prevented the empirically based studies from detecting the benefits, and c) only certain types of merger strategies benefit the stockholders of the acquiring firm. Additionally, Williamson (1983a) indicated that

The main antitrust problem posed by conglomerate and vertical mergers is that they may reduce actual or perceived potential competition. The Justice Department evidently believes that potential competition problems are insubstantial unless the Herfindahl-Hirschman index (HHI) in the acquired firm's market exceeds 1800 and the market share of the acquired firm exceeds 5%. The threshold for challenging conglomerate and vertical mergers is thus set at these levels. (p. 605)

V

Approaches of the researches about mergers and acquisitions outside Latin America

1. Financial situation of the firms which participated into mergers and acquisitions

The most common indicators for evaluating the financial situation of the firms, according to the financial theory, were the following: a) value creation or value driver indicators, b) liquidity ratios, c) activity ratios, d) debt ratios, e) profitability ratios and f) market ratios. The majority of those indicators, were applied to the evaluation of the financial results of mergers and acquisitions.

1.1 Value creation or value driver indicators

The Tobin's Q is the most common indicator for evaluating the value creation of mergers and acquisitions and was supported by diverse studies (Kammler & Alves, 2010; Bris, Brisley & Cabolis, 2008; Adams & Mehran, 2008; Delcours & Hunsader, 2006; Chang, 1998; Chappell & Cheng, 1984), which indicated that after mergers and acquisitions, the firms generated value with the increase of Tobin's Q. Also, diverse studies evidenced similar or lower results than before the mergers or the acquisitions (Garrie, Griver, Giacobbe, & O'Connor, 2009; Mantravadi and Reddy, 2007; Mehmet, Chang-Keong, & Ekrem, 2007; Danzon, Epstein, & Nicholson, 2007; Cantwell & Santangelo, 2002; André, Kooli, & L'Her, 2004). Also, Marie, Rao and Kashani (2009), Palmatier (2008), and Barnhill and Souto (2009), explained the diverse concepts associated to value drivers (economic value added, net present value, risk-free rate, among others), but it is important to highlight that were not applied to the evaluation of the financial results after mergers or acquisitions.

Another important concept related to the value creation is the stock price. In respect, Gitman (2007) who cited Gordon's model which defined the stock price as follows: $P = D / (k - g)$, where: P = price of the stock, D = profit per stock, k = expected yield rate of the stock, and g = growth rate of the profit per stock (p. 292). Also, Gitman (2007) indicated that the yield rate of an asset as follows: $k = R_F + \beta \times (k_m - R_F)$, where: k = expected yield rate of the asset, R_F = risk free yield rate, β = beta coefficient (coefficient of systematic risk) or non diversifiable risk index, k_m = yield rate of the

market (p. 216). Additionally, a basic valuation model was presented by Gitman (2007), who indicated the value of an asset in the moment zero as follows: $V_0 = CF_1/(1+k)^1 + CF_2/(1+k)^2 + CF_n/(1+k)^n$, where V_0 = value of an asset in the moment zero, CF_t = expected cash flow in the moment t, k is the expected yield rate (discount rate), and n = relevant period (p. 252).

1.2 Liquidity Ratios

Gitman (2007) explained the liquidity ratios of the DuPont analysis, which were the following: a) Net Work Capital = Current Assets – Current Liabilities, b) Current Ratio = Current Assets / Current Liabilities, and c) Quick Ratio = (Current Assets – Inventory) / Current Liabilities.

1.3 Activity Ratios

Gitman (2007) explained the activity ratios of the DuPont analysis, which were the following: a) Inventory Rotation = Cost of Sales / Inventory, b) Average Collection Period = Accounts Receivable / Average of Sales per Day, c) Average Payment Period = Accounts Payable / Average Purchases per Day, and d) Total Assets Rotation = Sales / Total Assets.

1.4 Debt Ratios

Gitman (2007) explained the liquidity ratios of the DuPont analysis, which were the following: a) Debt Ratio = Total Liabilities / Total Assets, and b) Ratio of the Capacity of Payment of Interests = Profit before interest and taxes / Interests.

1.5 Profitability Ratios

The profitability ratios which were found in the literature of mergers and acquisitions, were the following:

- A. Return On Equity. Some studies indicated the use of Return On Equity (ROE) for evaluating the value creation and the synergies of mergers or acquisitions (Pasin, Matias, Santos, & Minadeo, n.d.; Marie, Rao & Kashani, 2009). Pasin et al. (n.d.) studied the mergers and acquisitions in food sector in Brazil using ROE among other main financial variables and Marie et al. (2009) explained that ROE positively influenced cost efficiencies.
- B. Return On Assets. The use of Return On Assets (ROA) was supported by diverse studies (Andonova et al., 2010; García & Gómez-González, 2009; McNamara, Haleblian, & Johnson Dykes, 2008). Andonova et al. (2010) proposed a model for evaluating Return On Assets (ROA) of mergers and acquisitions in seven industry sectors in Colombia, considering the time for entering into the wave of mergers and acquisitions, based on the study of McNamara et al. (2008). Also, García and Gómez-González (2009) studied the effects of bank failures of mergers and acquisitions in Colombia and proposed a model for evaluating ROA of mergers and acquisitions.

Also, it is important to remark that according to Gitman (2007), the DuPont Analysis has the following indicators:

- a) Gross Profit Margin = Gross Profit / Sales,
- b) Operating Profit Margin = Operating Profit / Sales,
- c) Net Profit Margin = Available Profit for Common Shareholders / Sales,
- d) Earnings Per Share = Available Profit for Common Shareholders / Quantity of common shares outstanding,
- e) Return On Assets = Available Profit for Common Shareholders / Total Assets
- f) Return On Equity= Available Profit for Common Shareholders / Equity.

1.6 Market Ratios

Gitman (2007) explained the market ratios of the DuPont analysis, which were the following: a) Price to Earnings Ratio = market price of the common share / earnings per share, and b) Market to Book Ratio = market price of the common share / book price of the common share.

1.7 Size of the firms

Some indicators for evaluating the size of the firms are: the total assets of the firms, the number of employees of the firms, and the category of size of the firms (according to the norms or laws of the countries). In respect to the size, Goranova, Dharwadkar, and Brandes (2010) explained that the size could affect mergers and acquisitions indicating that “Moeller et al. (2004) find that large firms are associated with lower abnormal returns. Furthermore, firm size could affect both acquisition activity and M&A propensity (Amburgey and Miner, 1992; Sanders, 2001)” (p. 1122). Also, Erel, Liao, and Weisbach (2012) took in account the sizes of the acquired and the acquiring firms, in their study of the determinants of cross-border mergers and acquisitions.

About the employment effects of mergers and acquisitions, Lam, Chi, and Lee (2007) explained that “Many mergers and acquisitions are undertaken with the promise of significant cost savings through workforce reduction. However, the issue of whether the projected synergies are achievable is often left for integration teams to tackle.” (p. 1). Also, Lam, Chi, and Lee (2007) indicated that firms could gain benefits using a practical framework that “not only validates the workforce synergies available at the pre-deal stage but also highlights the operational risks associated with closing this type of transaction.” (p. 1). However, the conclusion of the study of Doytch, Mixon, and Upadhyaya (2011) about the employment effects of mergers and acquisitions in the manufacturing, financial and service sectors in the US economy was that “mergers and acquisitions have helped to increase employment in both the short-run as well as in the long-run in all three sectors of the economy” (p. 925), contradictorily to the conclusions of Lam, Chi and Lee (2007). Also, Weitzel and McCarthy (2009) studied the results of mergers and acquisitions considering the category of size of firms (micro, small, medium and large firms) which participated in those strategic processes.

2. Management of the merger or the acquisition

2.1 Corporate Governance

Corporate Governance is a way of introducing the accomplishment of good practices of management with the respective rights and responsibilities of investors and managers for obtaining successful results (CONASEV, 2002; Cabolis, 2004). Some important corporate governance's indicators which were explained in the literature, are the following: percentage of directors who are managers, percentage of directors of the firm who are directors of other firms, and number of directors (board size) of the firms (Choi, 2008; Goranova, Dharwadkar, & Brandes, 2010). Additionally, Oghojafor and Abayomi (2012) explained that "there would not have been need for merger if good corporate governance had been in place" (p. 147).

Goranova, Dharwadkar, and Brandes (2010) explained that board size may be a determinant of board effectiveness and that the literature contains two different perspectives on board size: a) "larger boards increase abilities to acquire critical resources that benefit the firm (Pfeffer and Salancik, 1978; Zahra and Pearce, 1989)" (p. 1118) and b) "smaller boards can better monitor managers (Eisenberg, Sundgren, and Wells, 1998; Yermack, 1996), as the smaller size may be conducive to more effective decision-making processes (e.g. Shaw, 1976; Smith et al., 1994)" (p. 1118). Also, Goranova, Dharwadkar, and Brandes (2010) explained that previous researches addressed the implications of board leadership structure and indicated that

Finally, research addresses the implications of board leadership structure, positing that the separation of chief executive officer (CEO) and chairperson roles provides greater board monitoring effectiveness (Malette and Fowler, 1992; Morck, Shleifer, and Vishny, 1989). However, researchers using organization theory instead argue that joint structures provide for unified leadership, such that these leaders can implement strategic decisions and overcome organizational inertia (Donaldson and Davis, 1991; Pfeffer and Salancik, 1978). (p. 1118)

Choi (2008) indicated some measures such as: a) "% insider directors" and "grey directors" which indicate the level of independence of the board of directors, b) the average "board size" between seven and ten, which is optimal size in terms of board efficiency, c) "# meeting" and "% of less than 75% attendance" show the level of due diligence of boards of directors, and d) "Director ownership" is percentage of board members' common stock ownership, which measure the level of interest involved between board members and firm performance. Also, Choi (2008) explained that:

Board structure index increases as boards of directors are less independent, less efficient, busier for their responsibilities for other firms, less diligent, and less self-interest involved. Board structure index increases as boards of directors are less independent from managers less active, and less efficient. The index also increases as directors become busier and have less self interest aligned with firm value. (p. 54)

2.2 Other management variables of the merger or the acquisition

Other management variables which are associated to the management of the mergers or acquisitions, are the following: plan for implementing the merger or the acquisition (Krähmer & Strausz, 2011; Reyes, 2005) and leadership of the management and the board of directors (Reyes, 2005). Krähmer and Strausz (2011) indicated that "practitioners in managing procurement projects stress the importance of pre-project planning" (p. 1015) and that "pre-project investigations also

involve a moral hazard problem” (p. 1016). Additionally, Reyes (2005) explained that the failure of mergers could occur by two main types of errors:

- C. Focus errors: a) overestimate the market of the firms to be integrated, b) to pay too much for the acquired firm, c) not obtain the sufficient information of the firms to be acquired, d) not anticipate dramatic changes in the environment, and e) to choose an acquiring business which core processes are very different to the acquirer firm.
- D. Integration errors: a) to integrate the operations very quick or very slow, b) not obtain the estimated synergies, c) lack of planning of the integration, d) lack of leadership, e) lack of conciliation to integrate cultures, f) to merger too much or too little activities, and g) not changing the processes as it was planned.

3. Characteristics of the mergers or the acquisitions

3.1 Type of Union

Walter and Barney (1990) determined five clusters (I, II, III, IV and V) for four merger types (vertical, horizontal, concentric, and conglomerate). Cluster I grouped goals which suggest that M&A are a mechanism for managers to obtain and exploit economies of scale and scope. Cluster II grouped goals which suggest that M&A are a key mechanism through which managers deal with critical and ongoing interdependencies with firms in their environment. Cluster III grouped goals which suggest that M&A are sought by managers who are motivated to expand their current product lines and markets. Cluster IV grouped goals which suggest that M&A provide a way for managers to enter new businesses. Cluster V grouped goals which suggest that M&A are a way in which managers maximize and utilize a firm’s financial capabilities.

3.2 Geographic Distance

Geographic distance between the firms to be joined, was considered in the literature as a variable which influences the value generation after the mergers or the acquisitions (McCarthy and Kozhikode, 2014; Erel, Liao, & Weisbach, 2012). McCarthy and Kozhikode (2014) explained that: a) geographic distance increases transportation costs, b) geographic distance increases monitoring and agency costs, c) geographic distance reduces the potential for market power gains, and d) geographic distance reduces the benefits of so-called ‘soft information’ for three reasons; however, foreign direct investment grew by 584% since 1990 until 2012, internationally, and domestically US acquirers increased the number of distant acquisitions.

Erel, Liao, and Weisbach (2012) explained that “Geography clearly matters; holding other things constant, the shorter the distance between two countries, the more likely we are to observe acquisitions between the two countries” (p. 1046). Also, Erel, Liao, and Weisbach (2012) indicated that “In addition, mergers are likely to occur between firms of countries that trade more commonly with one another, since they are more likely to have synergies and also a common cultural background”. (p. 1046).

3.3 Method of Payment

Diverse studies (Netter, Stegemoller, & Wintoki, 2011; Pazarskis et al., 2006; Faccio et al., 2006) studied the association of the method of payment of the mergers and the acquisitions and their financial and nonfinancial results. Netter, Stegemoller, and Wintoki (2011) indicated that they found evidence that “it is not a general result that stock deals are associated with negative abnormal returns for the acquirer” (p. 2353) and “For example, stock as a method of payment in M&As is used more than cash in deals associated with the highest cumulative abnormal results” (p. 2353). Also, Netter, Stegemoller, and Wintoki (2011) explained that “the use of stock as a payment method is as frequent in the greatest value-reducing deals as in the deals that create the most value.” (p. 2353). Also, the authors explained two interesting observations about the method of payment: “the large increase over time in cash-financed transactions and the preponderance of deals with positive returns to acquirer deals financed with mostly stock” (p. 2351) and also found that “during our sample period, there is a doubling in the percentage of deals paid for with mostly cash—from 36% in 1992 to 71% in 2009” (p. 2351). Additionally, Faccio et al. (2006) explained that the method of payment for the target (cash, stock, or a combination) influenced to abnormal returns for firms which participated into mergers and acquisitions.

3.4 Foreign Direct Investment and State Firms

Dinc and Erel (2013) studied government reactions to large corporate mergers in European Union since 1997 until 2006, using hand-collected data with a sample of the largest 25 merger targets by market capitalization of target firms in each one of the first 15 countries of Europe (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom) since 1997 until 2006. The authors concluded that: “instead of staying neutral, governments of countries where the target firms are located tend to oppose foreign merger attempts while supporting domestic ones that create so-called national champions, or companies that are deemed to be too big to be acquired” (p. 2504) and “nationalist reactions by governments affect the workings of the market economy significantly” (p. 2505). Also, Dinc and Erel (2013) found that “Target country governments are less likely to show nationalist reactions for acquirers from countries that enjoy a higher level of trust in target countries” (p. 2505).

Sun (2012) explained that there is a serious problem of loss of state-owned assets of multinational companies in the processes of mergers and acquisitions of Chinese enterprises, mainly for: a) State-owned assets were leaked and undervalued (the evaluation method of the enterprises was not scientific, and then state-owned assets were seriously underestimated and transnational corporations assets value were often overestimated, resulting in loss of State-owned assets), and b) Loss of intangible assets (Chinese brands of state-owned enterprises became foreign “encroachment”, causing loss of intangible assets).

Capron and Guillén (2009) studied the “characteristics of national systems of corporate governance to theorize about the nature of the shareholders’ and employees’ interests when it comes to reorganization, under the assumption that the firm is coalitional in nature” (p. 803) with a sample of cross-national dataset of corporate acquisitions and post-acquisition reorganizations composed by “253 acquisitions undertaken by 190 acquirers located in 14 countries and targets in 27 countries” (p. 810). Capron and Guillén (2009) supported their predictions about “stronger legal protection of shareholder rights in the acquirer country compared to the target country increases the acquirer’s ability to restructure the target’s assets

and leverage the target's resources, while the protection of employee rights in the target country restricts the acquirer's ability to restructure the target's assets and redeploy resources to and from the target" (p. 803), considering the following variables:

- A. Dependent variables: the extent of post-acquisition target asset restructuring, the extent of post-acquisition redeployment of acquirer resources to target, and the extent of post-acquisition redeployment of target resources to acquirer.
- B. Independent variables: acquirer country shareholder rights, target country shareholder rights, acquirer country labor rights, and target country labor rights.
- C. Control variables: type of acquisition (domestic or cross-border), domestic industry growth, international industry growth, and acquirer motive.

Bris, Brisley, and Cabolis (2008) studied cross-border mergers and found that "Tobin's Q of an industry - including its unmerged firms - increases when firms within that industry are acquired by foreign firms coming from countries with better shareholder protection and better accounting standards." (p. 1) and indicated that "We present evidence that the transfer of corporate governance practices through cross-border mergers is Pareto improving. Firms that can adopt better practices willingly do so, and the market assigns more value to better protection." (p. 1). Also, André, Kooli, and L'Her (2004) studied the long-term performance of 267 Canadian mergers and acquisitions that take place between 1980 and 2000. The results suggested that Canadian acquirers significantly underperform over the three-year post-event period. Also, André et al. (2004) explained that "Further analysis shows that our results are consistent with the extrapolation and the method-of-payment hypotheses; that is, glamour acquirers and equity financed deals underperform. We also find that cross-border deals perform poorly in the long run." (p. 27).

Some of the most important causes of acquisitions of government firms in Latin America were the privatizations. In this respect, Vidal (2001) explained that according to the researcher Eliana Cardoso, author of "La Privatización en América Latina" (The Privatization in Latin America), the true privatization fever which was recorded in Latin America, was grounded in both the failed policies of state intervention and import substitution as in the stagnation of most Latin American countries and the serious budget deficits affecting their governments. Also, Vidal (2001) indicated that Eliana Cardoso also argued that the need for reform was widely shared and that there was a lot of studies that examine in detail the failures of government intervention, but also emphasized two issues: a) privatization is not a panacea because it must occur in a process of economic reform to reach in their view, a highly positive effect, and b) what was done in Latin America to those years (1980s and early 1990s) has notable differences.

3.5 Acquisition Premiums

Reuer, Tong and Wu (2012) extended the signaling theory to acquisition premiums (the difference between the price paid to acquire a company and the expected price of the seller) and suggested that inter-organizational relationships of target

firms can enhance seller's gains, after the evaluation of the results with a sample of 28 acquirers engaged in more than one acquisition transaction. As conclusions, Reuer, Tong and Wu (2012) explained that:

Specifically, associations with prominent underwriters, venture capitalists, and alliance partners can enhance the gains IPO firms obtain when selling their companies. Our arguments and evidence suggest that private firms' interorganizational relationships not only can facilitate more immediate economic exchanges and performance, but also can enhance longer-term benefits in the form of higher acquisition premiums.

The benefits of such signals apply similarly to domestic and cross-border acquisitions, and these benefits are more pronounced when IPO firms sell their companies to acquirers based in different industries. (p. 680)

4. Economic behavior of the country in which the merger or the acquisition occurred

The economic behavior of the country in which the merger or the acquisition occurred, influenced to the results of mergers and acquisitions, mainly the issues related to the following variables: the growth rate of the gross domestic product, the growth rate of the inflation, the growth rate of the exchange rate of the currency (respect to the currency of the acquirer or the other firm for the merger or the acquisition process) and the growth rate of the market concentration of the country in which the mergers or acquisition occurred, according to the following explanations:

- A. Gross Domestic Product's Growth Rate (GDPGR) takes in account the effects of the economy through the consumption increase and the consequent increase of sales or the change of another related variables (cost of sales, operating profit, etc.), without the effects of the mergers or the acquisitions. It is important to remark that according to Montoro and Navarro (2010), existed a high correlation among Tobin's Q, the future values of investment and the gross domestic product. Also, Erel, Liao, and Weisbach (2012) studied the determinants of cross-border mergers and acquisitions with a sample of 56,978 cross-border mergers of Security Data Corporation's database, with a total transaction value of US\$ 2.21 trillion, between 1990 and 2007, considering the gross domestic products of the countries of the acquirer and the acquired firms.
- B. Inflation's Growth Rate (IGR) takes in account the effects of economy through the increment of the amount of money (sales, operating profit or other financial variables) without the effects of the mergers or the acquisitions. In respect to the use of the inflation, Indacochea (1992) indicated that the board of directors needs real information of the financial statements; in other words, adjusted by the deforming effect of the inflation. Also, Indacochea (1992) indicated that in an inflationary economy, there is an apparent increment of sales, which could cause financial problems which will impact in the management of the firm.
- C. Market Concentration's Growth Rate (MCGR) takes in account the effects of the mergers and acquisitions on the economy and consequently for incrementing the market power of the new joined firms and possible oligopolistic situations, which could improve the financial indicators. In respect to the market concentration, Estrada (n.d.) used Herfindahl-Hirschman Index (HHI, which measures the relative size of the distribution of the market share of firms)

for deposits in the financial system of the 4 major cities and explained that the HHI increases when the number of firms in the market decreases and when grows the variation of the size of firms in the market and can be a value between 0 (the market has a large number of relatively equal size firms) and 10,000, resulting possible values: a) competitive market ($HHI < 1000$), b) moderately concentrated market ($HHI \geq 1000$ and $HHI < 1800$), and c) highly concentrated market ($HHI \geq 1800$). Also, McCarthy and Kozhikode (2014) used the N-Concentration index for evaluating the market concentration.

- D. Exchange Rate of the Currency's Growth Rate (ERCGR) takes in account the effects of the growth rate of the exchange rate of the currency of the country in which the merger or the acquisition occurred, respect to the currency of the acquirer firm or the other firm for the merger or the acquisition process. Erel, Liao, and Weisbach (2012) concluded that “firms in countries whose stock market has increased in value, whose currency has recently appreciated, and that have a relatively high market-to-book value tend to be purchasers, while firms from weaker-performing economies tend to be targets” (p. 1045). Also, Dewenter (1995) explained that “the exchange rate relationship with absolute foreign investment flows exists for exchange rate levels and changes at lags of 3-4 quarters, suggesting that both long- and short-run PPP deviations play a role in the foreign investment process” (p. 431). Dewenter (1995) named PPP to purchasing parity power.

VI

The market of mergers and acquisitions in Latin America

1. Macroeconomic Context of Latin America

Some studies (International Monetary Fund, 2014; Mendoza, 2014; Guesmi, Khuong, Nguyen & Teulon, 2013) explained the macroeconomic context in Latin America. According to the study of International Monetary Fund (2014), “Economic activity in Latin America and the Caribbean is expected to remain in relatively low gear in 2014” (p. 60). Also, International Monetary Fund (2014) indicated that

The recovery in advanced economies should generate positive trade spillovers, but these are likely to be offset by lower commodity prices, tighter financial conditions, and supply bottlenecks in some countries. Growth in the Caribbean remains constrained by high debt levels and weak competitiveness. Policymakers need to focus on strengthening fiscal positions, addressing potential financial fragilities, and pressing ahead with growth-enhancing structural reforms to ease supply-side constraints. (p. 60)

Mendoza (2014) explained that the low economic growth and the high inflation rates in Latin America in the decade of 1980 occurred due to external and adverse shocks, to the fall of interchange terms and the growth of international interest rates, which motivated the exits of capitals of the region. Also, Mendoza (2014) explained that the improvement of the economic behavior of the next decades would be determined by the income of capitals, motivated by the low international interest rates and the improvement of the international interchange terms.

According to the study World Economic Outlook 2012 of the International Monetary Fund, Mendoza (2014) studied the international context (through gross domestic product and inflation) and domestic macroeconomic policy (through state leverage and availability of international reserves) and concluded that in the period 1980-2012, the economy of Panama had the best performance; also, the author concluded that Panama, Chile, Ecuador, Peru and Colombia had economic performances which were over the average of the region, while Brasil, Bolivia, Argentina, Mexico and Venezuela had economic performances which were under the average of the region. Also, about Latin America, Guesmi et al. (2013) indicated:

Latin American countries have established a key economic region over the past twenty years. The regional economic dynamics is substantially driven by Brazil as the sixth largest economy in the world overtaking the United Kingdom and Italy as well as by Mexico as the second largest economy of the region and the 14th largest economy in the world (August 2012). For their parts, Argentina and Chile are ranked 27th and 41st largest economies respectively. With a combined GDP of nearly 4,400 billion, this group of four fastest-growing economies in the Latin American region is located between Germany (3,600 billion) and Japan (5,800 billion). A number of studies have been devoted to these countries given their important role in world's international trade and economic growth, but the main focus was extensively on the issue of trade integration. Indeed, while Mexico is part of the North American Free Trade Agreement (NAFTA), Argentina, Brazil, and Chile (associate member) are the source of inspiration behind the creation MERCOSUR, another free trade area. (p. 397)

2. Statistics about the mergers and acquisitions in Latin America

Greenberg Taurig and Merger Market (2013) explained that Greenberg Taurig commissioned Merger Market to conduct a study about Latin American M&A activity, and indicated that:

In connection with the third edition of the Latin American M&A Spotlight, mergermarket interviewed 50 investors and corporate executives who focus on the Latin American region. Respondents offered their perspectives on the region's current M&A environment, which helps to identify current and potential trends in Latin American M&A over the next year. All respondents are anonymous and results are presented in aggregate. (p. 1)

As results of that study, Greenberg Traurig and Merger Market (2013) indicated the following:

- A. What do you expect to happen to the level of intraregional M&A activity within Latin America over the next 12 months?: a) significantly increase (32%), b) somewhat increase (62%), c) remain the same (4%) and d) somewhat decrease (2%). In respect to the countries of Latin America in which the level of intraregional M&A activity over

- the next 12 months would significantly increase (32%), the results were as follow: a) Chile (56%), b) Peru (54%), and c) Central America (48%).
- B. What do you expect to happen to the level of inbound cross-border M&A activity involving foreign (non Latin American) bidders over the next 12 months?: a) significantly increase (16%), b) somewhat increase (70%), c) remain the same (12%) and d) somewhat decrease (2%). In respect to the countries of Latin America in which the level of inbound cross-border M&A activity involving foreign (non Latin American) bidders over the next 12 months would significantly increase (32%), the results were as follow: a) Brazil (72%), b) Chile (58%), and c) Mexico (52%).
- C. What do you expect to happen to the level of outbound cross-border M&A activity involving Latin American bidders and foreign targets over the next 12 months?: a) significantly increase (10%), b) somewhat increase (36%), c) remain the same (46%) and d) somewhat decrease (8%).
- D. Top Latin American countries expected to acquire internationally: a) Brazil (94%), b) Mexico (70%), and c) Argentina (40%).
- E. Countries/regions expected to be home to most attractive targets: a) Asia-Pacific (80%), b) North America (60%), and Africa (58%).
- F. Top expected drivers of economic growth in Latin America: a) commodities and natural resources, b) growth of the middle class, c) regulatory reform, d) liquidity in the local financial and capital market, and e) political stability.
- G. What will happen to local access to capital in Latin America?: a) significantly increase (16%), b) somewhat increase (64%), c) remain the same (20%), and d) somewhat decrease (0%).
- H. What will happen to international access to capital in Latin America?: a) significantly increase (0%), b) somewhat increase (54%), c) remain the same (40%), and d) somewhat decrease (6%).
- I. Which of the following transaction types do you expect to be most common in Latin America in the next 12 months?: a) acquisitions (92%), b) private equity (65%), c) joint ventures (42%), and d) IPOs (27%).
- J. Company types most expected to be acquired in Latin America: a) publicly traded companies (68%), b) other privately held businesses (58%), c) private equity exits (56%), d) family owned businesses (44%), and e) state-owned enterprises (40%).
- K. Who will be the most common domestic acquirer of Latin American targets over the next 12 months?: a) private strategic buyers (68%), b) financial buyers (20%), and c) government/state-owned enterprise. The most common domestic acquirers would be from: a) Brazil (98%), b) Mexico (56%) and c) Colombia (36%).
- L. Who will be the most common foreign cross-border acquirer of Latin American targets over the next 12 months? a) large multi-national corporations (70%), b) private strategic buyers (12%), c) government/state-owned enterprise, d) financial buyers (4%), and e) family owned business (2%). The most common cross-border acquirer would be from: Asia-Pacific (92%), b) North America (64%), and c) Western Europe (42%).
- M. What will be the primary drivers of Latin American M&A in the next 12 months?: a) access to raw materials (68%), b) increase market share (52%), c) consolidation on a regional basis (50%), d) vertical integration (30%), and e) technology (26%).
- N. Biggest deterrents for foreign bidders in Latin America: a) difficulty in performing due diligence (66%), b) lack of clear regulation (64%), and c) rule and law (42%).

- O. Most difficult deal terms to agree on in Latin America pre-LOI: a) regulatory barriers (60%), b) valuation method (44%), and c) shareholder agreement (42%).
- P. Most difficult aspects of post-merger integration in Latin America: a) personnel / human resources (76%), and b) regulatory compliance (70%).
- Q. Which Latin American country has the most favorable regulatory environment for M&A?: a) Chile (60%), b) Mexico (44%), and c) Peru (40%).

Platt (2010) explained that according to Thomson Reuters, “*Mergers and acquisitions involving companies based in Latin America that were announced in 2009 totaled \$106 billion, down from \$146 billion in 2008*” (p. 67). Also, Platt (2010) indicated that “*Mergers in Mexico and Brazil that will create strong regional and global competitors in a number of industries overshadowed a dormant M&A market in the United States in January.*” (p. 67) and listed the top mergers and acquisitions of Latin America in January 2010:

- America Movil (acquirer from Mexico) and Carso Global Telecom (target from Mexico), with a ranked value of US\$ 27.55 billion.
- America Movil (acquirer from Mexico) and Telmex International (target from Mexico), with a ranked value of US\$ 6.6 billion.
- Braskem (acquirer from Brazil) and Quattor Participacoes (target from Brazil), with a ranked value of US\$ 4.04 billion.
- Vale (acquirer from Brazil) and Bunge Participacoes e Investimentos (target from Brazil), with a ranked value of US\$ 3.8 billion.

About the importance of mergers and acquisitions in Latin America, The Economist Intelligence Unit (2010) explained that

Latin America remains a relatively small global player in terms of mergers and acquisitions (M&A), accounting for around 5% of total activity in January-September 2009, although the region witnessed a significant increase in the number and value of deals in 2003-08. M&A activity dried up in late 2008 and early 2009 with the onset of the global economic slowdown. Yet as the global economy begins to recover, deal activity is expected to increase notably, with a particular focus on smaller transactions.

The first mega deals in Latin America were driven by privatisations during the 1990s, and were mainly led by European and American investors. Transactions subsequently shifted increasingly to mid-market deals (€30m-300m) among intra-regional players.

While recessions typically result in a slowing of deal activity, as companies push back deals in the hope that valuations fall, the recent recession has had a particularly suffocating effect on M&A. The nature of the slump which stemmed from the financial sector and resulted in a sharp reduction in the availability of credit has meant that it has been extremely difficult for companies to raise finance for new deals. During the worst period of the downturn, the

value of announced worldwide M&A activity dropped by 40% year on year in the first half of 2009, to US\$ 941bn. The number of deals also fell, albeit less dramatically, from 20,342 in the first half of 2008 to 17,389 in 2009.

Latin America has also been badly affected, with deals in Mexico and Central America coming to a virtual standstill. Announced M&A in Brazil fell from US\$ 50bn in the first half of 2008 to US\$29bn a year later. In addition to more challenging financing conditions, as the US dollar is the global currency for M&A deals exchange rate volatility in Latin America complicated valuations, given that many target enterprises held US dollar-denominated debt. (p. 1)

In the following paragraphs, some studies about mergers or acquisitions in Colombia, Brazil, Chile and Peru, will be explained. KPMG (2010) indicated that the total numbers of mergers and acquisitions in Brazil by year since 2000 until 2009 were the following: a) 2000: 123 domestic and 230 cross border, b) 2001: 146 domestic and 194 cross border, c) 2002: 143 domestic and 84 cross border, d) 2003: 116 domestic and 114 cross border, e) 2004: 100 domestic and 199 cross border, f) 2005: 150 domestic and 213 cross border, g) 2006: 183 domestic and 290 cross border, h) 2007: 351 domestic and 348 cross border, i) 2008: 379 domestic and 284 cross border, and j) 2009: 219 domestic and 235 cross border. Also, García and Gómez-González (2009) studied the effects of bank failures of mergers and acquisitions in Colombia and concluded that macroeconomic variables such as growth and market concentration generated incentives for entering into mergers and acquisitions, contrary to stability, profitability and liability which reduced this probability, especially in periods of favorable macroeconomic behavior.

Quispe (2009), consultant of Deloitte Peru, explained that the results of the last trimester of 2008 showed that the operations of M&A originated in Latin America added up to US\$ 6,899 millions. Among the 27 registered operations, Chile had the first place with 11 M&A (31%), with transactions which added up to US\$ 4,796 millions. However, these results were lower than previous trimesters. The number of operations, which were registered in the second and third trimester of 2009, summed 93 and 88 operations, respectively, with transactions around US\$ 19,000 millions and US\$ 13,000 millions. The main sectors of these types of operations during 2008 were manufacturers (first place), food and beverages (second place) and financial services (third place). In 2009, the following acquisitions highlighted: a) Brazilian firm Aracruz Celulose S.A. was acquired by Votorantim Celulose e Papel S.A. in a transaction of US\$ 1,726 millions, b) Sao Paulo Alpargatas S.A. was acquired by Horacio Gabriel Scapparone in a transaction of US\$ 280 millions, and c) the brewery firms Bieckert y Palermo by Chilean CICSA in a transaction of US\$ 90 millions. Also, Abejo (2008) indicated that “Dealogic reported that M&A activity in Latin America grew to \$107.16 billion in 2007, representing an all-time high, according to Reuters. In 2006, M&A activity reached \$96.11 billion.” (# 2) and “Apart from a more appealing regulatory environment, other factors are also contributing to Latin America's rush of M&A activity. For one, the corporate sector has generated cash totaling as much as \$78 billion, according to a recent report from Merger Market, giving strategic acquirers tremendous buying power.” (# 9).

About mergers and acquisitions in the 1990s decade in Brazil, Matias, De Mattos Barretto and Gorgati (n.d.) explained that multinationals were the firms with better participation focused in their core business, indicating that:

Given the characteristics of internal business environment, with high interest rates, capitalization of most domestic companies, lack of resources for investment in modernization of technology and distribution networks (the case of

manufacturers), fragmentation of the industrial activity of various sectors in many small and medium enterprises (which favors a consolidation), the potential domestic market and little competition to operate in a global marketplace, companies with ability to lead this wave of mergers and acquisitions are the multinationals, which should act to promote horizontal integration, focusing on their core business. (p. 13)

In the case of Brazil, Siffert and Souza (n.d.), Subdirector of the Secretariat of Regional Development of the BNDES and economics intern in the Planning Department respectively, explained that in the 1990s, mergers and acquisitions were related to foreign direct investment. Also, Siffert and Souza (n.d.) indicated that:

Another aspect to consider is the relationship between the trend in mergers and acquisitions and foreign direct investment. According to the United Nations Conference on Trade and Development [Unctad (1998)], the same trend is the main factor that drives foreign direct investment flows. In 1997 alone, cross-border transactions involving companies of different nationalities represented 85% of foreign direct investment flows [Unctad (1998)], with these having grown at an annual average rate of 21% during the period 1987-90, 30.2% per year during 1991-95, and 45.2% per year during 1996-97.

Within Brazil, the entry of foreign direct investment is also closely associated with the privatization process as well as the trend towards mergers and acquisitions. Investments in the acquisition of public sector companies amounted to US\$ 2.6 billion in 1996, doubling to US\$ 5.2 billion in 1997, and accounting for 28% of all investment in Brazil for these years [Laplace and Sarti (1999)]. Mergers and acquisitions, including the private sector, accounted for 30% of such inflows in 1995 and for 32.5% in 1996. (p. 5)

VII

Researches about mergers and acquisitions in Latin America

1. Value Generation of mergers and acquisitions in Latin America

Some studies (Loyola y Portilla, 2011; Andonova, Rodríguez-Ramos, y Sánchez-Manchola, 2010; García & Gómez-González, 2009; De Camargos & Barbosa, 2006; Panchana, Yoong, & Romero, 2006; Reyes, 2005; Cisneros & Jiménez, 2003; Pasin, Matias, Santos, & Minadeo, n.d.; Pasin & Neves, n.d.; Estrada, n.d.) evaluated the value generation of mergers and acquisitions in countries of Latin America, supported in the academic theory and empirical results; but, were not applied to Latin America as a whole and not for all the economic sectors.

Loyola and Portilla (2011) evaluated empirically the effects of bank mergers in Chile over the efficiency X (management efficiency), applying a focus of frontiers of benefits (comparison of scenarios, before and after the merger).

Also, Loyola and Portilla (2011) explained the absence of studies over the effects of bank mergers in Chile, and that the reduced quantity of studies which exists over the costs and the efficiency are not conclusive in their results or don't consider the post merger period.

Loyola and Portilla (2011) differentiated the scale economies and the scope economies, of the efficiency X or management efficiency, and defined the efficiency X of a firm as the approximation to the frontiers of best practices of a determined industry, making this aspect extensive to the positive and negative cash flows. Also, Loyola and Portilla (2011) defined the inefficiency input as the technical inefficiency for producing less output than expected level and the allocative inefficiency for inadequate answers to the prices of the outputs (including the effects of the sales and the costs if the production plan that maximize the benefits is deviated), and as a similar way, it is possible to calculate the inefficiency input and the mixed inefficiency input-output. For their study, Loyola and Portilla (2011) used the following variables: total benefits, placement rate, investment return rate, deposit rate, price of labor, capital, loans, investments, deposits, and workers, and hypothesized that efficiency X or management efficiency adds major benefits to scale economies and scope economies. Finally, Loyola and Portilla (2011) concluded that:

- A. The effects of mergers both on the level of efficiency of the quantile of profit efficiency of merged firms are generally positive. By decomposing the results regarding the level of profit efficiency, the results indicate that these changes are mainly concentrated on a technical component, being in general, allocative efficiency changes very little. Moreover, all fusions studied had favorable changes in the case of input efficiency, yielding ambiguous results regarding the output efficiency and regarding which component dominates the other in the improvements of efficiency.
- B. Their research suggested that the reduction of the inefficiencies X can be a new and important argument for justifying bank mergers, and that argument must be weighted appropriately for evaluating those processes in the private scope and from a perspective of the policies of the competition.

Andonova, Rodríguez-Ramos, y Sánchez-Manchola (2010) evaluated the mergers and acquisitions in Colombia in seven industry sectors since 1995 until 2008, through the ROA 3 years before and 3 years after the merger or acquisition, and measuring the munificence and the dynamism (Dess & Beard, 1984; Sutcliffe, 1994; McNamara, Halebian & Dykes, 2008) for elaborating a model. Andonova et al. (2010) defined the munificence and the dynamism for their research as follows:

- A. Munificence is the average of two measures: i) the value of industry sales in 1995 returned against time, for the period 1995 to 2008 and then dividing the coefficient of this regression in the average value of industry sales during the period, ii) the value of sector assets in 1995 returned against time, for the 1995-2008 period and then dividing the regression coefficient is the average value of sector assets during the period.
- B. Dynamism is the average of two measures: i) the value of industry sales in 1995 returned against time, for the period 1995-2008 and then dividing the typical error of the regression over the average sales value of the sector

during the period, ii) the value of sector assets in 1995 returned against time for the period 1995-2008 and then dividing the typical error of this regression in the average value of sector assets during the period.

Andonova et al. (2010) categorized firms into three groups: pioneers to move (first 10% of all enterprises in the wave), incoming boom (number of firms in the year that the biggest number of mergers and acquisitions presented into the wave) and last to move (bottom 10% of companies in the wave). Also, Andonova et al. (2010) concluded:

- A. The identified model of the behavior of ROA of the firms of 7 industrial sectors in Colombia, was the following:

$$ROA_{t+3} = 0.143 ROA_{t-3} + 0.002 LAct - 8.985 ExpPim + 0.29 DPico - 2.67 MuniPico + 0.07Ult$$
, where:
- a. ROA_{t+3} is the return on assets, 3 years after the merger.
 - b. ROA_{t-3} is the return on assets, 3 years before the merger.
 - c. LAct is the logarithm of the total assets.
 - d. ExpPrim is the experience of the leaders when the merger occurred in the wave, measured with the number of mergers in which participated the first 10% of the firms in the wave over the total of mergers in the wave.
 - e. DPico is the dummy variable which takes the value of 1 if the organization was merged in the peak of the wave and 0 in the contrary case.
 - f. MuniPico is the measure of the munificence of the industry interacting with the organizations which merged in the peak.
 - g. Ult is the dummy variable which takes the value of 1 if the organization is in the last 10% of organizations in the wave and 0 in the contrary case.
- B. In the context of the 7 analyzed industries in Colombia, results strategically more sensate don't be the pioneers for entering in a merger wave.
- C. As an organizational factor, the experience for realizing mergers and acquisitions brings more disadvantages than advantages from the point of view of the profitability of the firm.
- D. The munificence of an industry is a good indicator of the severity of the competition for resources which will appear in the peak of the wave. Due to that, to realize mergers and acquisitions in industries with great potential (munificent) is a more difficult job. The firms must have an internal discipline very solid for not being pressured to enter in the peak of the wave when all the firms appears merging and when the competitive auction for the resources is the most severe.
- E. The observation about that not always the industry with greater munificence is which offers the greater profitability appears accomplished, also for the case of mergers and acquisitions. Although this study analyzed only the context in Colombia, is an evidence of the idiosyncrasy that can have the dynamic of the mergers and acquisitions in countries in Latin America.

Finally, for future research, Andonova et al. (2010) recommended:

- A. To work against the establishment of organizational routines in the practice of mergers and acquisitions, taking in account each deal as unique, mainly in international firms with a broad practice of merging and acquiring processes.
- B. To study the dynamic of the mergers and acquisitions in other countries of the region without dudes will be of great support to the managers who now choose Latin America for growing their firms and the mergers and acquisitions are tools for obtaining it.

García and Gómez-González (2009) sought to identify the key variables that encourage the participation of financial institutions in integration operations in the Colombian Market between 1990 and 2007, distinguishing the crisis and recovery periods and considering the main credit institutions (commercial banks, financial corporations and commercial finance companies), by estimating duration models. García and Gómez-González (2009) raised the following variables:

- A. Log (assets): is the logarithm of assets, which measures the effect of the scale of production.
- B. ROA: Return On Assets, defined as the ratio between profits and assets.
- C. Solven: the participation of capital in equity which measures the borrowing capacity, solvency and leverage of institutions.
- D. Acid: acid test, defined as the ratio between current assets and current liabilities.
- E. Lev: the ratio between liabilities and equity.
- F. Eff: the ratio between operating expenses and liabilities (to measure efficiency).
- G. GDP growth.
- H. Herfindahl: Herfindahl Concentration Index over the assets.

After the use of duration models, Chi Square, Long Rank, Wilcoxon and Cox tests for data analyzing, García and Gómez-González (2009) concluded that:

- A. For Colombia, the integration processes are highly affected by the rules that induce changes in the market, identifying three different processes: expansion of commercial banking, economic crisis and recovery, and restructuring of the financial system.
- B. The good performance of firms reduces the probability of a merger or acquisition of financial institutions.
- C. It was found that the variables of scale, efficiency and market concentration create incentives to perform such operations; in contrast, stability, profitability and leverage reduce this probability, especially during periods of favorable macroeconomic performance.

Panchana, Yoong, and Romero (2009) conducted a study of events that was to measure abnormal changes in the prices of the shares on the date of announcement of the merger and about the same, taking into account the information of the stock markets in which were quoted Interbrew and AmBev shares. Also, Panchana et al. (2009) provided a

comprehensive literature review on the study of normal or abnormal returns as a result of the announcement of mergers or acquisitions and for their study raised the following variables: a) Abnormal return obtained from the company, and b) Expected return of the company.

The hypothesis of the study of Panchana, Yoong, and Romero (2009) were the following: “Exists abnormal returns between previous ten days and after ten days of the announcement of the merger among firms”. After the use of t-test for data analyzing, Panchana et al. (2009) concluded that: a) the results showed positive abnormal returns of 21.44% in the case of AmBev and negative abnormal returns of 1.33% in Interbrew, b) the showed results evidenced that after the announcement of the merger, in the case of AmBev, the market perception continued increasing after the broadcasting of the results of the transaction and has been maintained the structural break which was caused by sustained growth of the firm after the merger, additionally to the announcement of the merger, and c) for the case of InBev, those returns had been diminished due to the firm after the merger continued realizing small acquisitions in the rest of world, including Fujian Sedrin Brewery as the most important, being with this transaction the third brewery group of China, although the growth has been maintained and now is considered the first brewery industry in the world.

De Camargos and Barbosa (2006), through a case study of merger and acquisition announcements of companies listed on the São Paulo Stock Exchange (Bovespa) in Brazil, which took place between July 1994 and July 2002, investigated the abnormal returns in the market model, adapted by business to business procedure, taking into account days before and days after the announcement of the merger or acquisition. To the respect, De Camargos and Barbosa (2006) explained that:

- A. The market efficiency hypothesis has been a financial paradigm since 1960, when it was revived and restructured. Based on the premise that the relevant information is incorporated into a fast and accurate pricing of financial assets, the current price is the best estimate of the price of a security.
- B. Roberts (1967) and Fama (1970) defined three ways to implement the concept of a market informational efficiency: weak, semi-solid and strong.

Also, De Camargos and Barbosa (2006) concluded:

- A. Despite the advances, informatively the Brazilian capital market did not behave efficiently in the period analyzed in relation to the semi-strong way.
- B. This, coupled with other studies analyzed with other events, provides contrary evidence to support market efficiency model for this market.

Estrada (n.d.) evaluated the effects of mergers in the Colombian banking system on system efficiency (costs and benefits) and market power (price increase due to concentration), and explained that the literature suggested bank mergers can have a major impact on the profits of the entities through increases in cost efficiency, profit efficiency or market power to set prices. In his study, Estrada (n.d.) raised the following variables: a) cost efficiency, b) profit efficiency, and c) market power. Also, Estrada (n.d.) commented that prices for inputs are related to: a) interest cost (interest expense / liabilities

liabilities others more customers), b) labor price (personnel costs / number of employees), and c) price of physical capital (administrative expenses plus expenses sanitation asset / tangible assets), and the bank products are the following: a) credit portfolios (sum of all credits offered by middlemen), and b) investments (sum of bond investments (public and private) and other investments, such as stock purchase).

Also, in his study Estrada (n.d.) used as a control variable: capital (because it establishes a significant difference in the efficiency analysis of the banking sector compared to other sectors), and for measuring the concentration used Herfindahl-Hirschman Index (HHI, which measures the relative size of the distribution of the market share of firms) for deposits in the financial system of the 4 major cities. The HHI increases when the number of firms in the market decreases and when grows the variation of the size of firms in the market and can be a value between 0 (the market has a large number of relatively equal size firms) and 10,000, resulting possible values: a) competitive market ($HHI < 1000$), b) moderately concentrated market ($HHI > = 1000$ and $HHI < 1800$), and c) highly concentrated market ($HHI > = 1800$).

Estrada (n.d.) concluded that banks that have undergone mergers may experience improvements in profit efficiency indexes. These improvements in efficiency were higher for those banks that had lower efficiency rankings before the merger. Additionally, the effects of price changes didn't reflect collusive behavior on the part of banks in the deposit market. Also, Estrada (n.d.) recommended further analysis of competition and the effect of mergers around the following areas of research:

- A. The identification of relevant markets.
- B. Most of the studies have analyzed the relationship between concentration and competition without finding conclusive results on this relation, therefore, as noted Cetorelli (1999), to analyze the impact of the concentration on prices must consider 2 factors: a) the existence of alternative sources of funding and the degree of contestability of markets, or b) ease of potential competitors to enter the market; these factors contribute to reducing the potential impact of the concentration as a result of mergers.
- C. The relationship financial integration-competition, taking into account this aspect to the national and international levels with free trade treaties and the incorporation of electronic banking avoiding geographical proximity requirements between customers and banks.

Pasin, Matias, Santos, and Minadeo (n.d.) studied the mergers and acquisitions in food sector in Brazil between 1996 and 1999, with a sample of 15 of 148 firms which entered into M&A processes with a foreign capital of 57% of the deals, explaining that:

This exploratory work seeks to identify the impacts of this processes in the main financial indexes (Return on Equity, COGs/Net Sales, Administrative Expenses/Net Sales, Debt on Assets, Current Ratio and Working Capital Required) of 15 brazilian companies of the food sector involved in M&A processes occurred between 1996 and 1999. (p. 1)

In their study, Pasin et al. (n.d.) obtained the following results:

- A. Eight firms presented greater indexes of cost efficiency and six firms presented lower indexes.
- B. Seven firms presented lower indexes of administrative efficiency and five firms presented greater indexes.
- C. Nine firms presented greater Return On Equity (ROE) and five firms presented lower ROE.
- D. Six firms presented lower indebtedness and nine firms presented greater indebtedness.
- E. There were no great variations of liquidity.
- F. Four firms presented lower and less significantly need of working capital, while nine firms presented an increase in the need of working capital.

Pasin et al. (n.d.) explained that the results of the study indicated that the gains from synergies, better integration between companies and administration in the M & A helped reduce business costs and increment of the needs of working capital of others or themselves. Waak (n.d.) studied 20 firms of veterinary industry in Brazil and explained that the searching of portfolios and the need of investment of research and development were the main motives for entering into merger or acquisition processes; also, found that veterinary industry integrated pharmaceutical industries and indicated that it is necessary to study management of business and profitability. Also, Pasin and Neves (n.d.) explained that mergers and acquisitions were the main ways of internationalization of the Brazilian firms in the 1990's decade with 2308 transactions and the presence of 61% of foreign capital into the deals; in this study, were analyzed 24 transactions into 4 types: a) fusion power plants (3 transactions), b) purchase of plants by others of the same macro-region (7 transactions), c) acquisition of plant groups Northeastern (7 transactions), and d) acquisition of power plants by international players (7 transactions).

There were a few researches about success or failures of mergers and acquisitions in some countries of Latin America, as showed in this section; and, were not found researches about Latin America Stock Market as a whole. Major research about this theme would be necessary.

2. Corporate Governance and Value Generation of Mergers and Acquisitions in Latin America

According to CONASEV (2012), corporate governance specifies the distribution of the rights and responsibilities among the different participants in a society, such as the board of directors, the managers, the shareholders and other economic agents who maintains some interest about the firm. Some researches about the influence of corporate governance on the value generation of mergers and acquisitions, will be explained in the following lines.

Cueto (2009) developed three researches about the influence of corporate governance on mergers and acquisitions in Latin America: a) Ownership structure and firm value: a panel data analysis, b) Substitutability vs. complementarity among corporate governance mechanisms in Latin America, and c) Market liquidity and ownership structure with weak protection for minority shareholders: evidence from Brazil and Chile. Those researches will be explained in the following lines.

In the first research: "Ownership structure and firm value: a panel data analysis", Cueto (2009) explored the relations between ownership structures and firm value, considering the firms of the stock markets of Brazil, Chile, Colombia, Peru and Venezuela since 2000 until 2006 and obtaining 1179 valid observations and 242 firms. Cueto (2009) indicated that for

484 observations out of 1179, dominant shareholders have voting rights which are numerically equal to cash-flow rights. The variables of this study were the following:

- A. TOP1VR is the percentage of voting rights held by the dominant shareholder.
- B. GAP1 is the difference between the percentage of voting rights and the percentage of cash-flow rights held by dominant shareholders.
- C. RATI is the ratio of the percentage of cash-flow rights to the percentage of voting rights held by dominant shareholders.
- D. CFCON1 is a dummy variable that takes the value of 1 if dominant shareholders are corporations or family groups, and zero otherwise.
- E. TOP23 is the percentage of voting rights held by the second (or third) largest shareholder provided that it is not an institutional investor or government.
- F. BHS is the sum of the percentage of voting rights held by all blockholders (Family+Corporation+Other) excluding dominant shareholders.
- G. BHD is a dummy variable equal to 1 if an aggregated blockholder exists, as defined in BHS, and zero otherwise.
- H. INSOWN is the percentage of voting rights held by institutional investors excluding dominant shareholders.
- I. GOVOWN is the percentage of voting rights held by governments excluding dominant shareholders.
- J. CIGOWN is the percentage of voting rights held by combined institutional investors and governments excluding dominant shareholders. Size is Total assets in USDS MM.
- K. LSIZE is the natural logarithm of Total assets.
- L. Leverage is computed as Total liabilities divided by Total assets.
- M. Volatility is measured by the standard deviation of monthly stock price returns over the previous 24 months.
- N. The column Count indicates how many observations are not zero for those variables (not 1 for RATI). 670 obs. are >0 for GAP1.

After processing the results with the statistical techniques (Ordinary Least Squares (OLS), Chi Square, Regression Analysis, and Contingency Tables), Cueto (2009) concluded that:

- A. A discount is imposed on the value of firms in which the voting rights of dominant shareholders exceed their cash-flow rights. However, investors prefer dominant shareholders which are family groups or corporations rather than institutional investors or governments.
- B. The evidence suggests that the stock market discount is lower when other family groups and corporations assume monitoring roles similar to that of creditors.
- C. Collusion between blockholders and dominant shareholders for the purpose of extracting private benefits, to the detriment of investors, is not evident.
- D. Moreover, some blockholders have the potential for monitoring dominant shareholders and the market seems to value this role. Given the large potential for private consumption, the existence and frequency of blockholders demands further investigation.
- E. Since their portfolios are undiversified and they face expropriation risks, other governance mechanisms should be in place to secure risk-adjusted return on investment. (p. 25)

In the second research: “Substitutability vs. complementarity among corporate governance mechanisms in Latin America”, Cueto (2009) analyzed the relations between several corporate governance mechanisms and in particular the interactions with ownership structures and firm value, with a sample of 935 observations of 198 firms from Brazil, Chile, Colombia, Peru and Venezuela for the period 2001-2006, and using the following variables:

- A. Takeover activity PACQ is the fraction of acquisition deals announced, for targets in the same industry over the past five years, in five countries of the region (Brazil, Chile, Colombia, Peru, and Venezuela).
- B. Cross-listing COSTING is a dummy variable equal to 1 for firms with liquid equity securities listed on a US stock exchange, and zero otherwise.
- C. Liquidity is measured as the standard deviation of monthly stock price returns, over the previous 24 months.
- D. Shareholders rights SHRRTS is a dummy variable equal to 1 for firms with single-class shares (voting shares), 0 for multiple-class shares.
- E. Firm/Ind: Firm specific characteristic / industry characteristic
- F. Ext./Int.: Decided externally to the firm / decided within the firm
- G. Endo./Pred.: Endogenous variable / predetermined variable

In the second research, “Substitutability vs. complementarity among corporate governance mechanisms in Latin America”, Cueto (2009) concluded that:

- A. Many corporate governance mechanisms are active at the same time. Thus they are complements rather than substitutes in the response to an environment of weak protection for minority shareholders.
- B. Of particular interest is the role of governance mechanisms directly linked to stock markets: cross-listing and single/multiple-class shares; and mechanisms directly linked to the organization of the board of directors: board size and board independence.
- C. The costs imposed by cross-listing exceed the expected benefits.
- D. Firms with multiple class shares are common in the region but not highly appreciated by investors.
- E. Small boards and more independent directors are rewarded with high firm value. However, the dual role of the CEO as chairman of the board is not of much concern.
- F. In addition, the markets for corporate control are not active enough to have a disciplinary role. Using a completely different approach, the findings from Chapter 2 are confirmed with respect to the stock market discount as well as with respect to the monitoring role of blockholders.
- G. An additional finding from essay one is confirmed: more debt financing will contribute to the value of these firms as it makes feasible growth by direct investment while preserving control. Unfortunately the access to debt financing remains constrained and too expensive in these markets. (p. 92)

In the third research: “Market liquidity and ownership structure with weak protection for minority shareholders: evidence from Brazil and Chile”, Cueto (2009) turned to the investigation of the effects of ownership concentration and the separation of ownership and control on market liquidity, and concluded that: }

- A. With high potential for private consumption, a liquid market, with the possibility of quickly closing a position is one condition for blockholders and minority shareholders to invest.
- B. I show that a number of corporate governance mechanisms including ownership by dominant shareholders converge to reduce asymmetric information and increase market transparency.
- C. Providers of liquidity are thus encouraged to post smaller spreads. (p. 93)

VIII

Conclusions

The conclusions of this study are the following:

- A. There is not an agreement about the improvement of value through the mergers or the acquisitions in the world.
- B. The studies about the mergers and the acquisitions in Latin America and other regions in the world, presented very diverse results; however, an integrated approach for studying those processes, is still necessary.
- C. For the mergers and the acquisitions in Latin America, studies about the value generation related to: method of payment, geographic distance, strategic planning of the mergers or the acquisitions, the leadership of the board of directors and the management and the acquisition premiums, were not found. Also, it is necessary the study of the impact of some economic variables such as: exchange rate of the currencies of the countries of the firms and tax rates.
- D. An integrated approach for studying the merger or the acquisitions in Latin America must include the following aspects:
 - a. The situation of the firms to be joined (financial and non financial). The financial situation must include variables associated to the sizes of the firms (considering assets, number of workers or size condition according to the standardized measures of size of firms in the countries), the indicators based on the information of the financial statements through DuPont Analysis and the value generation indicators (Tobin's, economic value added, net present value, Return On Assets and Return On Equity).
 - b. The management of those processes: the corporate governance, the strategic planning for the process of merging or acquiring, and the leadership of the board of directors and the managers.
 - c. The characteristics of those processes: type of union (integration or diversification), geographic distance, method of payment (cash, stocks or cash and stocks), characteristics of foreign direct investments, characteristics of state or private firms, and acquisition premiums.

- d. The indicators of the economic behavior of the countries of the firms, which are the following: gross domestic products, inflations, market concentrations, tax rates, and exchange rates of the currencies.

The recommendations for future research are the following:

- A. To evaluate the results of mergers and acquisitions with better statistical techniques, which could offer better analysis and conclusions.
- B. To evaluate the results of the countries and economic sectors of Latin America by each country and as a whole.
- C. To compare the results of the countries and economic sectors of Latin America with another regions in the world.

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