1 Introduction

1.1 Background

In today's corporate world, many companies are joining forces and combining resources in response to a rapidly changing environment; nearly every day a new acquisition or alliance is announced and covered in the corporate press. Globalization, rapid technological progress, shorter product life cycles, and in many places, stagnating markets are putting companies under increasing competitive pressure thus requiring them to effectively manage new challenges with respect to their national and international competitiveness. Within this context, business combinations are important strategic modes for firm growth and restructuring (e.g., Campa and Hernando, 2002; Capron, 1999; Haspeslagh and Jemison, 1991).

Acquisitions and alliances, though, are not a new phenomenon; already in the second half of the 19th century, various companies—mainly in the oil, tobacco, and steel industries—had combined businesses and formed monopolies; in the US this led to the passage of the 1890 antitrust law to break up the restricted competition. By the time of the stock market crash in 2001 there had been five further significant merger waves. In the last merger wave of the 1990s—driven by globalization, an orientation towards shareholder value, and internationalization—the number and size of the deals skyrocketed. In 2000, the biggest deal yet was announced: the takeover of Mannesmann by Vodafone for $182 billion; although there was a brief slump in M&A activity in the two years after the stock market bubble burst, 2003 was marked by an upturn and deal volumes have again passed previous records. In 2007, on a worldwide basis, firms spent over $4.38 trillion on mergers and acquisitions (see, e.g., Hall, 2007), a 21 percent increase over transaction volume in 2006 and higher even than the previous record of $3.4 trillion in 2000. In 2008, the financial crisis brought about plunging stock markets, a lack of available credit for firms and a limited ability for companies to make acquisitions. Thus, global merger volume dropped to $2.89 trillion and five years of continous deal growth ended (see, e.g., Hall, 2008). It is hard to say when deal volumes will start to increase again given a recession in major economies; however, in consideration of the past, it seems sure that M&As will always remain important strategic modes in the corporate world.

During the past decade, acquisition activity has been particularly high in the European utility industry; deregulation in most European countries has led to a veritable merger wave in the industry and to the creation of mega-players in the market. For example, the largest takeover bid in Europe, in 2005, was made by the German utility company E.On, which offered $56.62 billion for the Spanish utility company Endesa.[1]

In addition to mergers and acquisitions, alliances are an alternative form of corporate growth; both typically offer a more rapid means of corporate expansion than does internal growth. Unlike internal growth processes, they are not characterized by long-term ongoing efforts to procure and combine resources. They allow a firm to instantly expand its strategic options by combining its own resources and capabilities with the resources and capabilities of the acquisition target or the alliance partner respectively (Schaper-Rinkel, 1997, 53). The risks of go-it-alone-strategies are thus circumvented and the firms involved are able to quickly take hold of existing combination potentials. The overarching reason for combining with another organization is to achieve strategic goals more quickly and inexpensively than would be possible if a company acted on its own (Haspeslagh and Jamison, 1991). These characteristics may be very valuable in this era of intense and turbulent change, in which it is necessary for firms to quickly adapt and close critical gaps in their resource profiles in order to remain competitive.

In light of the high relevance of business combinations for firms in the past—and most likely in the future, as well—many scholars have examined success and failure rates for mergers and acquisitions; with the emergence of alliances as an important strategic option for business firms in the 1980s, researchers also began to investigate the success and failure of alliances.

Existing empirical studies on the success of business combinations do not uniformly support managers' apparent enthusiasm for external growth. Estimated failure rates are typically between 60 and 80 percent for acquisitions (Marks and Mirvis, 2001) and between 30 and 60 percent for alliances (Das and Teng, 2000). Against this background, studying the factors that influence the success of business combinations is a promising field for research.

1.2 Scope and aim of the study

This study takes the perspective of a firm's shareholders. Because the shareholders provide the resources and share the risk of failure, it is assumed that the interests of the shareholders are the yardstick of entrepreneurial activity; thus success or failure of entrepreneurial activity has to be interpreted in terms of value creation or destruction for a company's shareholders. Accordingly, investment in a business combination should create value for the shareholders. Numerous empirical studies—with varying outcomes—have investigated shareholder value creation for firms from mergers and acquisitions; the same is true for studies examining wealth gains that accrue to parent firms entering alliances. The majority of researchers found that, on average, M&As create value for the target firm's shareholders but not for the bidding

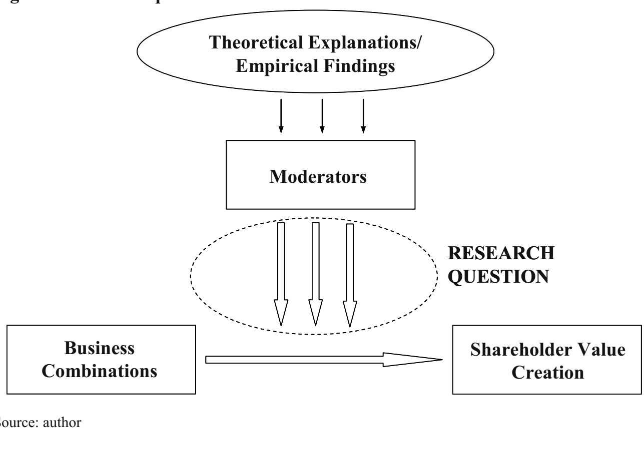
[1] The bid was not carried out.

firm. Some of the studies investigating value creation in alliances find that they are value enhancing for the parent firm (e.g., Chan et al., 1997; McConnell and Nantell, 1985), while others do not (e.g., Chung et al., 1993; Finnerty et al., 1986). Scholars have continued to try to identify determinants influencing value creation in business combinations; although some factors have repeatedly been identified as influences on shareholder value in business combinations, a large part of value creation is still unexplained.[2] Thus there are still major opportunities for knowledge generation in this field.

Although researchers have already tried to integrate the somewhat diverging findings of value creation in mergers and acquisitions by means of meta-analyses (e.g., Bausch and Fritz, 2005), this is not the case for alliances. A systematic review and a consolidation of research based on quantitative methods are currently missing for the topic of shareholder value creation from alliance activities; moreover, a large share of the empirical studies are explorative in nature; their samples often include a variety of industries, thus only allowing them to draw conclusions at a very general level.

In light of all this, the general purpose of this study is to contribute to the explanation of shareholder value creation from business combinations; more specifically, to identify determinants that influence shareholder value creation in business combinations. The major research question of the study is thus (see fig. 1): Which variables moderate the relationship between business combinations and shareholder value creation?

Figure 1: Research question



Source: author

2 This can be attributed to the fact that in all meta-analyses presented here a large part of the variance in the samples remained unexplained.

1.3 Organization of the study

The remainder of this study is divided into five chapters.

Chapter 2 lays the foundation for the study and narrows down the broad topic of value creation in business combinations. Initially, the term business combination is defined and the different types of business combinations are classified according to the level of economic autonomy, the degree of relatedness and interorganizational dependence, as well as options of corporate growth. Afterwards, business combinations are depicted from a process- as well as from a shareholder-value perspective. Finally, the major theories that are relevant for the explanation of business combinations and which might provide valuable links to the research question are described in their basics.

Chapter 3 points out the main motives for mergers and acquisitions and the corresponding theoretical explanatory approaches. It then ascertains the current state of research as regards value creation in mergers and acquisitions; the results of three prior meta-analyses dealing with the topic under investigation are compared and summarized. Finally, some conclusions about potential determinants that influence value creation in mergers and acquisitions are drawn and suggestions for future research are made.

Inasmuch as a systematic review of past research based on quantitative methods is lacking for alliances, **chapter 4** integrates previous empirical research on shareholder value creation in alliances by means of meta-analysis. The theoretical background of past research on the link between value creation and alliances is summarized, and on the basis of the underlying theories, several hypotheses concerning this relationship are derived. The hypotheses are then examined via meta-analytic techniques and general conclusions and suggestions for future research are presented.

In **chapter 5**, the findings of the two prior chapters are empirically put to the test: the potential determinants of shareholder value creation in business combinations are examined for the European utility industry. The major characteristics of the industry are described; then, on the basis of the results of chapters 3 and 4 and consideration of industry specifics, theoretically grounded hypotheses are developed and empirically tested.

Chapter 6 gives an integrative overview of the flow and structure of this study and points out again the motives and the distinct features of this work.