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**Research Report**

## Mergers and acquisitions - the standing of theory in the quest for better institutions and policy

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# CASE Network Studies & Analyses

## Mergers and Acquisitions – The Standing of theory in the Quest for Better Institutions and Policy

Camilla Jensen

No. 401/2010

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## **Abstract**

The paper shows that the standing of theory in the field of mergers and acquisitions is weak for at least three reasons. Research is best described as a battlefield of ad hoc theory testing leaving behind a fragmented field. Research has focused traditionally on high intensity markets under the Anglo-Saxon variant of capitalism. Empirical evaluation is prone to be inexact and suffers among other from significant aggregation problems between the micro (firm performance) and macro level (economic growth). The deficiencies in the standing of theory will be reflected in weak institutions to handle the political processes concerning value, liquidity, efficiency and fairness aspects that affect the market for corporate assets within and across different variants of capitalism.

## 1. Introduction

The objective of the paper is to outline a research agenda and policy dilemmas from a research project that combines neoclassical theory, the resource based view of the firm and institutional theory in an attempt to formulate a more general theory of mergers and acquisitions. Towards this objective the paper poses the following questions 1) What can we learn from the existing literature?, 2) What are the blank spots in our knowledge about mergers and acquisitions? and 3) What are the potential dilemmas in a public policy perspective?

To date research in business and economics on mergers and acquisitions has been highly fragmented and there is no consensus in sight as to the relative societal value of having a well-functioning market for corporate assets. This is problematic in a world where investments take place increasingly with existing rather than new assets (Nitzan, 2001, Andrade et al., 2001). Whereas neoclassical theory sees the benefit of this market in terms of transferring assets from firms with 'bad' production functions to firms with 'good' production functions, the managerial literature shifts the focus to that of 'an arena in which managerial teams compete for the rights to manage resources'.<sup>1</sup> This view has also been evolving with the behavioral model of the time (e.g. big is beautiful, empire building, core capabilities and maximized stock returns), culminating today in a differentiation between the strategic acquirer, the hubris acquirer and the financial acquirer in the management literature.

From these fundamental positions both the resource based view and institutional theory may have additional insights to offer even though the baby (synergy) has been thrown out with the bathwater by many researchers. Also a look outside the ordinary research lab of the US (one of the most highly developed market for corporate assets in the world) could provide new insights. All forms of capitalism are not the same and within each variant of capitalism each market is subject to its own specific institutions.

A resource based view may take us even farther than 2+2 is 5. Mergers and acquisitions to date is the only method by which the unique resources of firms that are organizationally embedded can be passed on from one firm to another and hence also potentially survive across generations. The process of foreign direct investment is a testament to the fact that many of these foreign firms are not new or tabula rasa startups. An overlooked fact in this





respect is also the mergers and acquisitions that take place among small and medium sized enterprises and that many new business startups are buy-ups of small existing business or the remnants of an earlier entrepreneur's failed effort.

Hence from a resource based view mergers and acquisitions are potentially about grasping synergy where outcomes of recombining assets are uncertain. But even more fundamentally mergers and acquisitions are about the recycling of firm-specific resources and hence relates to the sustainability of the economic system with respect to an efficient reuse of those resources that are worth saving and a discarding of those that are not. In Eastern Europe more than anywhere else did this become clear on the eve of socialism. Experienced entrepreneurs or owners and managers of similar assets are those best capable to judge the value of such resources that have been put up for sale. The absence of a capital class in Eastern Europe was the main problem of privatization, and more so because of the vacuum in accumulated skills and complementary assets that the absence of such a class created. Therefore the importance of a well-functioning market for corporate assets under each variant of capitalism should not be underestimated.

The market for corporate assets may need in many instances more intervention effort but not necessarily in the traditional competition regulating way as is the main topic of the last part of this essay. It is also questioned whether policy advice is transferable across variants of capitalism. Here the standing of theory seems important, because the societal value of the market for corporate assets also depends on how we perceive it and hence how we construct rules to regulate it.

## 2. The frequency of mergers and acquisitions and variants of capitalism

In the perspective of the frequency of measurable acquisitions using the Zephyr database, the US topped with more than 80,000 acquisition events during the last ten year period, followed by the UK with almost 54,000 events and Australia with more than 20,000 events. Adjusting for country size these numbers suggest that Australia, the UK, Denmark and Holland are among the countries with the highest frequency of events per capita in the world. Despite the advances of European Integration on the continent these numbers often dwarf the market for corporate assets even in major economies such as France, Spain, Italy and Germany all of which had less than 20,000 events in the same period. In this perspective Japan is also an outlier with very few events in per capita terms.

**Table 1: Number of events by selected countries, 2000-2010**

Country	No. of events1/	Events per 1,000 capita	National events2/ (percentage)
<i>Anglo-Saxon</i>			
USA	80,303	0.27	81
UK	53,673	0.89	58
Australia	20,353	1.00	51
<i>Continental European</i>			
France	18,590	0.31	58
Germany	16,264	0.20	60
Italy	13,376	0.23	49
Spain	9,983	0.23	67
Holland	8,013	0.49	63
Denmark	4,730	0.87	51
<i>Confucian</i>			
China	11,153	0.01	42
Japan	8,119	0.06	66
South Korea	5,883	0.12	46
<i>Other emerging markets</i>			
Russia	24,567	0.17	59
India	8,032	0.01	52
South Africa	4,717	0.10	45
Malaysia	4,627	0.18	67
Poland	3,749	0.10	48
Brazil	2,799	0.02	51
Turkey	775	0.01	49

Notes 1/ Events are here defined broadly to include mergers, acquisitions of, joint ventures with and the purchase of minority stakes in targets located in each country.

2/ To national events are counted the cases where both the target and acquirer are located in the specified country.

Source: Zephyr Database, Bureau Van Dijk, Holland.

According to Groenewegen (1997) at least three different types or variants of capitalism are present in today's global economy: the Anglo-Saxon variant of shareholder capitalism, the continental or European variant of state capitalism and the Japanese or Confucian variant of stakeholder capitalism. Last but not least an emerging and highly plural type of capitalism is emerging in various forms around the world in 26 major economies that span most of the continents. Here according to investment bankers a critical mass of markets and investment opportunities have come into existence since the conclusion of the Uruguay Round.

The numbers presented in Table 1 suggest that the frequency of the events (mergers and acquisitions) is strongly related with the prevailing economic system or variant of capitalism. This is not surprising, because the number of firms with more than 250 employees is much lower outside the Anglo-Saxon world. For example, experts in Turkey suggest that the very low number of observable events in this country is partly explained by the limited number of targets compared with for example the UK market. Besides this, when firms are organized in large industrial groups it may create a much stronger inertia in asset drift over time and also other mechanisms may work to solve the problems that the market for corporate assets solves in the Anglo-Saxon system.<sup>2</sup>

### **3. A brief review of the existing theoretical and applied literature**

Table 2 gives an overview of the different theoretical schools within business and economics that have contributed to the literature on mergers and acquisitions. This literature is generally fragmented and has been driven more by ad hoc hypothesis testing rather than theory building. Also, authors within each school often disagree about the predictions of each branch of theory. I have tried to reproduce the various positions to the best of my knowledge and understanding of the available texts. In terms of the empirical literature I have only selectively included contributions that I found where either strongly confirming or negating the theories discussed. Many findings do not have clear implications for giving a concise overview of the standing of different theories.

**Table 2. Theories of the firm - motives and predictions for M&As**

<b>Predictions</b>	High q firms will take over low q firms	The best management teams will prevail. Firm size becomes self-reinforcing.	Firms with similar, related or complementary assets have high M&A potential	Markets with high transaction cost have high M&A potential	M&As occur in waves at the level of industries, countries or both
<b>Motives for or causes of M&amp;As</b>	Move resources (physical capital) to its highest return	Competition in the market for corporate control Managers pursue their own objectives of sales growth, firm growth and rel. compensation benefits	Synergy-based: Combine knowledge resources towards their highest returns	Reduce transaction cost of using markets through purchasing of related assets	Technological and institutional change
<b>Fundamental motives of owners/managers</b>	Profit maximisation	Replace managers Sales maximisation	Firm growth (knowledge creation)	Transaction cost minimization	
<b>Theory of firm</b>	Neoclassical	Managerialism	Resource based view	Transaction cost	
<b>Theoretical roots</b>		Corporate governance	Strategic management		
	Neoclassical theory			Institutional theory	

Neoclassical theory has focused on the relative worth of tangible or physical capital assets to firms at different points in time. The market for corporate assets is viewed as serving the function of shifting or trading physical assets among firms. For example, the famous q theory has been used as a way to show the opportunity cost of investing in new assets relative to old assets.<sup>3</sup> This has been interpreted so that q represents the buy to build ratio. When q is high it is a signal that it is more expensive to acquire existing assets and vice versa. However, this has been strongly rejected due to the empirical fact that waves in acquisitions typically take place during periods when q is high (Nitzan, 2001). This has again led to different revisionist attempts within and beyond the neoclassical school. For example, Jovanovic and Rousseau (2002) revive the theory by offering a model that shows that the dispersion in q gives incentive for shifting physical assets from low q firms to high q firms – or in other words reinterpret the theory so that the market for corporate assets serve to move the resources (physical assets) to their highest return within each industry. The net effect is a one-way technology transfer effect. The financial literature based on stock market data has provided a wealth of evidence in support hereof, even though the significance of these results are disputed.<sup>4</sup> It has been more difficult for empirical researchers based on accounting data to establish the long run gains and that high q firms take over low q firms (Ravenscraft and Scherer, 1987, Andrade et al., 2001, Picot, 2002, Pautler, 2003). Evidence

produced by Andrade and Stafford (2004) for the US lends some support to the q theory especially in declining industries.

The fact that acquisitions are on the increase during periods when q was high or on the increase (high profitability or high valuation episodes or both) has been a central empirical regularity for other schools of thought on acquisitions.

In the beginning the managerial school explained the evolving market for corporate assets with the change in assumption from profit maximizing owners to managers that may be in de facto control and pursue objectives that deviate from the interests of the owners (Marris, 1966, Baumol, 1967). Veblen (1929) originally conceived of this problem especially in his last work *Absentee Ownership*. Hence acquisitions become one important method by which managers can pursue effective sales growth. Related explanations are that large firms are more likely to grow through this method because of their easier access to finance the asset purchases (Jensen, 1986). The most advanced hypothesis under the managerial theories is offered in Jensen and Ruback (1983) (see also Jensen, 1988) who see the market for corporate assets as a market where competition among top management teams can take place. This also lends a new focus in terms of efficiency implications, because a well-functioning market for corporate assets can help to solve the corporate governance problem. The threat of takeover works as a disciplining device on managers and inefficient managers can be more easily replaced. Other branches of the managerial school have focused on the irrationality of managers (hubris) or the increasing tendency of managers to be compensated in ways that make them benefit either directly or indirectly from increasing the value of their stock or engaging in the market for corporate assets (such as in Shleifer and Vishny, 2003).

A major study conducted by Gugler et al. (2003) negates the general validity of managerial theory across all the countries included in their study, since on average the net sales effect was negative for target and acquiring entities combined. However, this study (ibid.) and another similar study (Gorton et al., 2009) also showed that the efficiency of the process (when measured on profitability) went down especially for acquisitions among the larger firms in the populations investigated. Jensen and Ruback (1983) lend their evidence more to the short event window studies using stock market data (Footnote 4). This evidence has however been placed in question by subsequent management researchers, who suggest that overvaluation aspects may lead to the exact opposite being true – e.g. that low q firms take over high q firms based on episodes of overvalued stock (Shleifer and Vishny, 2003,

Rhodes-Kropf et al., 2004). Hence the dispute rests on the trust in the efficient market hypothesis.<sup>5</sup>

A different line of inquiry has been pursued in strategic management. Here the central tenet is that acquisitions exist to exploit synergies in the knowledge resources of firms (Mahone and Pandian, 1992, Anand and Singh, 1997, Barney et al., 2001). Chatterjee (1986) defines three categories of synergies: collusive, production related and financial. Where horizontal agreements have the highest synergy potential (all three types), vertically related a medium potential (production related and financial) and unrelated agreements the lowest potential (only financial). Again are the ideas of resource based scholars in some ways similar to those of the neoclassical economist. However, there is an important shift in emphasis from tangible to intangible assets. The aim is to combine knowledge resources toward their highest returns. Also, unlike neoclassical scholars, resource based economist often work with concepts such as uncertainty and bounded rationality. Synergy development can in this respect be thought of as a two way technology transfer effect – or the emergence of a 'new' production function that draws on the best in both firms (Larson and Finkelstein, 1999, Lyles and Salk, 1996). However, this is not without risk and uncertainty as the quest for synergy can fail (Toth, 2007). Well-designed empirical tests in strategic management have rendered strong support for the resource based view (Capron, 1999). Researchers from outside strategic management have also documented synergy effects, however, especially when there was a large technological distance between the target and acquirer.<sup>6</sup>

Much less treated and hardly tested is the transaction cost economic perspective on firms. However, due to its centrality among institutional scholars working at the level of the firm I did not wish to omit it. From a theory viewpoint the transaction cost approach has clear predictions since high transaction cost should be an argument for internalizing transactions which the market for corporate assets can help to achieve.<sup>7</sup> However, it seems that the theory is best suited towards explaining particular cases of acquisitions that happen in relation to auxiliary or vertically related activities of the firm (Coase, 1937). It can hardly explain the motive for horizontal acquisitions – e.g. the acquisition of activities that is duplicating what the firm is already doing.<sup>8</sup> Also, due to the difficulty of measuring transaction cost there is hardly any applied work available under this tradition.<sup>9</sup>

Next to the transaction cost theory is added a last column which lacks a central theory of the firm. Some scholars claim that this particular institutional perspective belongs together with the neoclassical theory of the firm (see e.g. Harford, 2005). But this interpretation of

institutional economics may be somewhat misleading for others.<sup>10</sup> It stands last next to the transaction cost theory that has been developed by institutional scholars such as Coase (1937) and Williamson (1973). Because this perspective on mergers and acquisitions does not belong together specifically with any of the theories of the firm. It can stand alone. It does not give a microeconomic but rather an institutional thesis on the motivations for mergers and acquisitions. The central tenet is that it is not factors in firms but factors in the environment that causes the processes to take place in waves. Interestingly, Veblen an institutional economist saw this explanation as strongly related with the phenomena of managerialism in the US system why I drew the suggestive connection between institutional theory and managerialism. If managers are not rational or we have no rational explanation such as sales growth to explain why they behave as they do, maybe an alternative explanation is to be found in the institutions that guide them (including investment banking and business school teachings). Recent years has produced a critical mass of empirical evidence in support of the institutional theory of why mergers and acquisitions take place in waves (e.g. Cox and Watson, 1995, Andrade et al., 2001, Evenett, 2003, Harford, 2005, Martynova and Renneboog, 2006).

## 4. Blank spots and biases in the existing literature

### *Validity problems in acquisition research*

Focusing on the results of accounting research which is central for long-run firm performance and economic growth outcomes, empirical research suffers from two fundamental problems. Researchers have been aware of these for a long time but still search for new ways to solve them.

One is to choose the right performance measure.<sup>11</sup> Research focusing on profitability more often reports negative results than research focusing on the other measures. One problem with profitability in relation to an average event window of 5 years studied is that it may be a much too short perspective. Another problem is to focus on EBIT data for taxation and amortization writing practices. EBITDA may be a better candidate for calculating profitability also depending on the specific taxation and accounting regime of each country. In relation to the problem of choosing the right performance measure, are also questions about the unit of analysis (e.g. target, buyer and seller or combinations of these) and the length of the event window.

Another major problem identified by applied researchers in the field is the question of who the firms that are subject to acquisition events should be compared to. A very stringent approach called propensity score matching has developed in the literature where it has become customary to compare for example target data with data for very similar firms on a set of predefined characteristics that did not undergo the same treatment of acquisition. From an industrial economics viewpoint this may be problematic because the very proximate peers are those most likely to be affected by acquisition events in the industry (Chatterjee, 1986).

#### *Firm performance vs. economic growth*

Adam Smith portrayed a romantic view of the economy where if everyone goes about minding their own business it will also benefit the growth of the nation. In late modernity the view of many economists is somewhat different from that of Adam Smith. For example, game theory has clearly demonstrated that what is best for the economy as a whole is not necessarily the equilibrium that individual actors will pursue.

Research on acquisitions suffer from a similar aggregation problem in the sense that what might be observed to be bad for firm performance (e.g. firm closure or layoffs) is not necessarily bad for the economy as a whole. What is bad for the efficiency of the market in the short run is not necessarily bad in the long run if we measure efficiency on other dimensions besides price. Many acquisitions may be strategically preemptive in the sense that owners are reacting to future projected changes in the industry. From an economic sorting perspective national firms projecting a decline in future performance may have as best alternative to merge with other similar national firms in the face of globalization and entry of new foreign competitors buying up national champions. In this perspective ex-post evaluation may not provide relevant evidence on the basis of which social judgment can be made.

Hardly any connection has been made in the literature between what goes on in the market for corporate assets and how it interacts with other efficiency aspects of the economy (Kumar, 2000, Calderon et al., 2004).<sup>12</sup> Matching or sorting models can perhaps help to answer these questions and can be used to incorporate the role of institutions more specifically. To date the number of countries that have been studied has been limited. Economic growth researchers see the limited number of independent countries in the world (around 190) as a major restricting factor of growth empirics. However, in the perspective of



research into variants of capitalism and neighboring disciplines such as corporate governance the world as a research lab still offers manifold opportunities to learn more about the relationship between institutions, firm performance and economic growth.

### *Large firm bias*

Most of the data and information uncovered about mergers and acquisitions suffer from a large firm bias. The same is true when it comes to the attention that policy-makers give to the market for corporate assets (see also Section 5). More often the perspective has been to countervail the tendency of firm size becoming self-reinforcing (as treated under the managerial perspective in Section 3) and eventually exclusive to any kind of competition. Therefore the bias is important because it may have taken attention away both in research and policy-making from the entrepreneurial process and what can be done in terms of institution building and policy-making to aid SMEs to grow bigger or build assets from the bottom-up in ways that are beneficial for society.

## **5. Institutions and policy**

Based on a broad reading of papers in business and economics this literature review of the relative standing of theory has demonstrated the potential pitfall of discarding mergers and acquisitions as irrational events that are impairing market efficiency and economic growth. With this the aim has also been to show the extensive research agenda that still exists in the field.

Most schools of thought see the market for corporate assets as serving a vital function, even though the perspective depends on what each school perceives to be important in understanding the role of the firm: physical capital or tangible assets to neoclassical scholars, management teams to management scholars, firm-specific resources or intangible assets to resource based scholars and firm boundaries to transaction cost scholars. Besides these micro founded perspectives, the institutional thesis moves the attention to factors in the environment (institutional and technological change) that may give rise to mergers and acquisition events taking place in waves.

Perhaps more weight should be given to the resource based view and institutional perspectives that often have received massive support in applied research designs that took explicit outset in those theories. If the institutions affect the value of resources, as landmarks

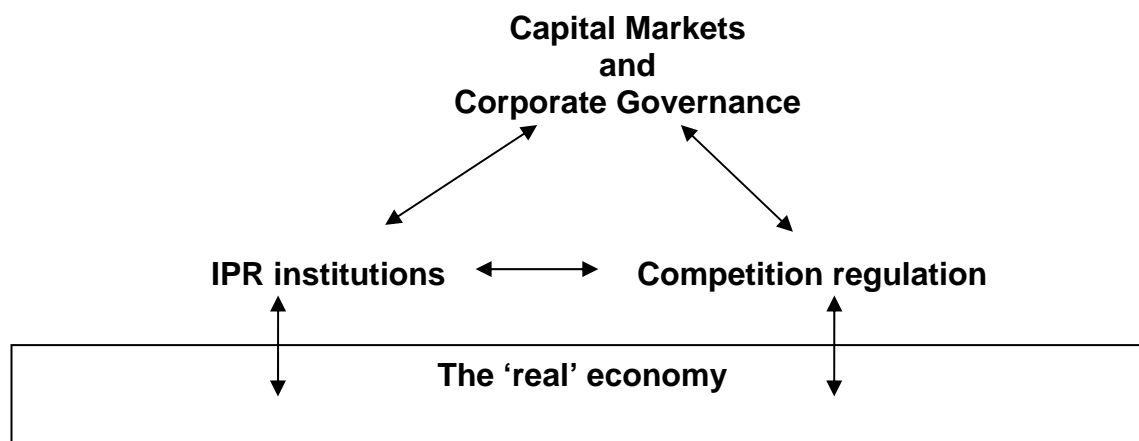
in the study of economic growth and institutions has taught us (North, 1981), these two theories would combine well to give an understanding of how institutional change can affect firm agency (e.g. when values change trading positions in terms of reservation prices may also change).

In the concluding part the aim is to offer a number of questions or dilemmas for public policy that could follow from such a different research agenda.

The traditional policy stance towards mergers and acquisitions has been strongly influenced by the structure conduct performance paradigm dating back to the beginning of the 20<sup>th</sup> century. Markets with only a few firms such as oligopolies may need regulation for the sake of society since everyone is a consumer and hence everyone benefits from more fair pricing practices. In this perspective mergers and acquisitions can potentially divert markets from efficient outcomes if they lead to an increase in the market power of individual firms. Evenett (2002) shows that institutions matter for intensity in this market because countries with pre-closing merger reviews experience a halving in the intensity of crossborder acquisitions relative to countries with post-closing, voluntary or no merger reviews.

New avenues for public policy emerge if the resource based view and the institutional theories are taken into account. Their inclusion leads up to a more difficult policy triangle rather than the one-dimensional policy space of more or less competition. The three corners of policy become instead competition, intellectual property rights and capital markets including corporate governance. These are the most important aspects of national institutions that affect the market for corporate assets in terms of value, liquidity, efficiency and fairness (Dibelius, 2002). Also I suggest to add the real economy at the base, because policy needs to take into account major shifts in policies and institutions that regulate the real economy such as investment and trade liberalization. For example, national policy-makers must beware of changes that shift regulatory issues between national and international domains and preempt these changes so that all firms (national as well as foreign) can be presented with fair solutions that are non-discriminating.

**Figure 1. The Policy Triangle for Regulation of M&As**



Capital markets development and corporate governance system is perhaps the most fundamental aspect of understanding why a market for corporate assets come into being or exist in the first place (Dibelius, 2002, Yurtoglu, 2000). The stock exchange is the central institution for giving rise to a system that attaches a marketable value to firms, a transparent trading system and hence also perceptions about a 'fair' place for valuation practices where transactions take place in the public rather than private realm. In variants of capitalism where banks are more important, the regulation surrounding the banking system may be vital for public disclosure in the area of trade in firm-specific assets. Bank-based capitalism is known to have a much less developed market for corporate assets (Picot, 2002). Typically this is anchored in a model where firms are organized in industrial groups (with or without the state as active participant). The banks themselves are often internal rather than external to these groups. Such models or variants of capitalism may need a completely different approach to regulation. Generally how the market for corporate assets work under those variants, to which extent and under what circumstances it has been more fair, liquid and effective is much understudied. Hence the preconditions for sound policy advice are largely non-existent. In Germany the solution has been instead of merger reviews to establish a specific body to overview the market for corporate assets that consist in a wide range of experts from different fields (Dibelius, 2002).

Intellectual property rights (IPR) institutions are the most fundamental in the aspect of corporate assets. In the absence of this type of institution it is almost impossible for firms to build knowledge resources (North, 1981). The problem is often that IPR discussions take place in a somewhat isolated or ethnocentric perspective of western views or in particular the Anglo-Saxon solution to the problem of property rights. (Not discarding that it may offer a

much superior system but only suggesting that it can be difficult to implement outside the Anglo-Saxon variant).

Other institutions do exist besides the formal patenting system that provides some solution for this problem (Maskus, 2000). Especially informal institutions may be important such as trade secrets (which is true for Turkey and other emerging economies). But many institutional contexts are found to work to the general lack of property rights. Under state socialism the natural right principle is not acknowledged. In the Confucian variant individual inventions are viewed as drawing on a 'common pool of past knowledge' (Zimmerman and Chaudhry, 2009) combined with selective centralized state censorship. In Islamic capitalism the state also often sanctions the common right to intellectual property. How these different types of IPR systems work to the favor and disfavor of building and trading corporate assets is largely unknown? Most likely the lack of incentives<sup>13</sup> for using the patenting system will also work to the disfavor of a well-functioning market for corporate assets since it will work to reduce the marketable value of the resources held by firms. Picot (2002, Page 25-26) suggests that an international system in the area of mergers and acquisitions is emerging that may help to break down national transaction cost by 'externalizing' the forum of the market itself. Turkish firms increasingly do this by choosing the international rather than national forum (courts, organizations etc.) for contracting, arbitrage, registration and dispute resolution in the area of IPR.

The relationship between the institutions regulating competition and the institutions regulating IPR has received some attention especially in the Anglo-Saxon literature. Two different positions exist. One holds that there is a fundamental dilemma between the two institutions, because one works to the favor of competition and the other to the favor of monopoly. Hence what the one institution seeks to achieve the other institution will undo. Another position holds that the two institutions serve complementary functions and that together they provide firms with the opportunities to create assets (value) and at the same time assuring that firms do not resort to unfair practices by distorting the competitive process.

Mergers and acquisitions are more likely to be plenty and fair under institutions informed by the second view. First because the market for corporate assets must be preceded by the assignment of value to the assets of firms which can only happen with some kind of protection of IPR. Where then the competition institutions overview that the assignment of value or the use right over value property becomes less rather than more monopolistic over time. This again feeds back into the value creating potential of the firms in the Schumpeterian view on competition as a process of 'creative destruction'. Firms only have



incentive to renew their value potential if they perceive that their market power is not constant over time. Therefore competition regulation is also important.

The perspective maintained about emerging markets especially from outside observers is that there is too little competition and that the core of the problem is to increase competition. However, this is often not the truth. The main problem seems more often to be a lack of protection of property rights for local entrepreneurs and local firms and that competition when markets do exist is extremely high. Hence the problem for developing a sound market for corporate assets in emerging markets where also local firms will perceive themselves as fair participants in the face of foreign competition is often obstructed by ill-fetched conceptions about IPR issues on both sides. In such seas of competition and transaction cost it is perhaps not strange that the most valuable assets have been carefully vaulted among a few powerful impenetrable industrial groups.

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<sup>1</sup> Jensen and Ruback, 1983, Page 5.

<sup>2</sup> The numbers may be comparatively downwards or upwards biased especially for the non-western countries due to a more selective data coverage for these countries. For example, Bureau Van Dijk has a very good data coverage for Russia, whereas the coverage is expected to be significantly downward biased for countries such as India and China.

<sup>3</sup> Traditionally  $q$  is defined and measured as the market value of the firm (using information about its stock prices) divided with the book value of its total assets. An accounting variant is to divide ROA with the going rate of interest. See also Tobin and Brainard (1977).

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<sup>4</sup> Analysis based on stock market data from the Anglo-Saxon countries show that the great beneficiaries of acquisitions are target firm shareholders whereas the net benefit for the acquiring firms' shareholders is quite small (Jensen, 1988, Andrade et al., 2001, Picot, 2002, Silva Rossa and Walter, 2004).

<sup>5</sup> The efficient market hypothesis implies that there should be a high correlation between stock market based measures of  $q$  and its accounting equivalent – see also the previous Endnote 3.

<sup>6</sup> Suggesting that what is captured is more like a one-way technology transfer effect (Harris and Robinson 2002, Conyn et al., 2002, Piscitello and Rabbiosi, 2002, Arnold and Javorcik, 2005, Bertrand and Zitouna, 2005, and Karpaty, 2007.)

<sup>7</sup> According to this theory firms perceive higher transaction cost in environments or industries where uncertainty, higher contracting frequency, asset specificity, opportunism and factors of limited rationality prevail (Williamson, 1973).

<sup>8</sup> This is problematic since most acquisitions are of the horizontal type. Even in a crossborder perspective transaction cost theory has relatively little to say about how the firm should invest (Greenfield vs. Acquisition).

<sup>9</sup> Transaction cost are illusive types of cost, according to the theory, firms exist to forego them or minimize them. It gives however an important fundamental explanation for why the large industrial groups exist in the first place.

<sup>10</sup> Today institutionalism is as plural a discipline within economics as economics itself. Indicating that it is a perspective that is being incorporated across all subdisciplines. Hence it does not belong only with anthropology and sociology at the one end or law and economics at the other end, nor does it belong with one particular theory of the firm.

<sup>11</sup> Profitability is the central measure in strategic management research whereas productivity is the central measure in economics. Sales growth is also central for management researchers because of the behavioral assumption that managers seek sales growth rather than maximized profits. Other important measures include innovation, employment growth and markups.

<sup>12</sup> Jensen (1988) estimates the social value of an efficient market to be quite high (e.g. equivalent to half of all cash dividends paid out to investors).

<sup>13</sup> In emerging forms of capitalism it is often the foreign firms that are most active users of the new patenting system. Especially in variants where trade secrets and a general resort to secrecy is common there may be very large barriers to the development of an Anglo-Saxon patenting system if enforcement is perceived to be unfair or problematic. By using patenting the firms will make themselves more vulnerable since they codify their secrets and hence make them easily reproducible. The problem can also be founded in a generally distrustful relationship between the state and private firms. This demonstrates strongly opposing values among different variants of capitalism that must be overcome before the new institutions can take any effect.