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# Value Creation in M&As in Sweden

## -Is the Stock Market Able to Predict Customer Reactions?


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# Abstract


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| **Title:** | Value Creation in M&As in Sweden - Is the Stock Market able to Predict Customer Reactions? |
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| **Authors:** | Besnike Bahtiri and Ammeli Stigborn |
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| **Five key words:** | M&As, Sweden, customer reactions, post-acquisition share price, event study. |
| **Purpose:** | This study evaluates whether the stock market is able to predict the post-acquisition reactions of the business market (customers). |
| **Methodology:** | Quantitative method combined with an event study, using multiple regression analysis. |
| **Theoretical Perspectives:** | Our hypotheses are mainly based on theory regarding stock market and business market reactions following M&As. Moreover, we cover combination potential, cross-border M&As, relative size and acquisition experience. Lastly, we theorize the connection between stock market reactions versus business market reactions to every explanatory variable. |
| **Empirical foundation:** | 176 M&As that occurred between 1990 and 2007 and where the acquiring firm is Swedish. |
| **Conclusions:** | We are not able to prove that the stock market is able to predict the actions of customers; however, we recognize some relationships and trends regarding share price changes versus combination potential and M&A experience. Moreover, we also illustrate that there seems to be a trend between customer reactions and combination potential, cross-border M&As versus M&A experience. |

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# 1. Introduction

*The aim of the first chapter is to present our research topic. First, we introduce the background of the topic, followed by a problem discussion, the purpose and research question. Lastly, we describe the limitations of this thesis and the thesis outline.*

## 1.1 Background

With globalization, firms are faced with greater customer demand, less opportunities for markets with high and stable revenues and more non-profit zones. In addition, globalization leads to more liquid and transparent markets and a "smaller" world. Therefore, mergers and acquisitions (hereafter M&As) sometimes seem like viable options, where valuable growth opportunities may be transferred from firms which are unable to offset the value, to firms able to invest in, and realize the captured value. However, with the recent financial crisis in mind, companies worldwide are less concerned with M&As than they were a couple of years ago. However, an explanation given is that companies might have been too optimistic towards M&As before. As soon as the recession turns around, M&A activity is expected to increase steadily and become a common way for firms to grow and diversify their businesses (Grant Thornton, 2010).

M&As occur for various reasons. For example, M&As provide opportunities for companies to exchange firm-specific capabilities and knowledge that are not easily generated within every company themselves (Capron & Hulland, 1999). Motives include increasing market share, economies of scale, economies of scope, buying capabilities which the firm cannot efficiently create itself, and financial synergies such as co-insurance (Gaughan, 2007).

Following this, the M&A activity, and the research connected to it, has increased during the recent years (Haleblian, Devers, McNamara, Carpenter & Davison, 2009). However, Haleblian et al. (2009) also conclude, when summarizing studies regarding the potential value creation in M&As, that the acquiring firms seldom generate significant value. Harrisson, Hitt, Hoskisson & Ireland (1990) argue that one reason to this failure, is that M&As are complex processes that firms are not used to. What is interesting though, is to examine why some M&As fail and others do not.

Value creation in M&As can be measured in many ways, which implies that the reasoning behind arguing that M&As succeed or fail is different. An interesting focus of research is to pay more attention to the processes firms use to capture value from M&As (Haleblian et al., 2009). In other words, how do firms know they have created value, and in which terms are they measuring value?

First of all, Haleblian et al. (2009) encourages researchers to define acquisition performance clearly and precise in order for readers and other researchers to fully understand the content of every study made.

However, this way of determining value creation in M&As is not that common. The article written by Haleblian et al. (2009) is useful when evaluating different ways of measuring value creation in M&As. For example, many studies focus on accounting-based measurements such as premiums paid to targets' shareholders and changes in share price. In this type of measurements, researchers study the reactions of the stock market. Other dimensions used to estimate post-acquisition performance are more qualitative ones, with the common aim to study the effects M&As have on the business market. Management and employee turnover is one example, where the authors argue that a loss of key managers and employees often is a loss of knowledge and competence. Although this aspect is important, it could be evaluated in the perspective of organizational integration including employee cooperation and cultural differences.

## 1.2 Problem

Haleblian et al. (2009) conclude, after having reviewed historical research regarding M&A performance, that research on customer' reactions to M&As in large is missing. Likewise, research indicates that customers often are ignored or taken too light on in M&A processes (Cartwright & Cooper, 1996; Cheung, Martin & Chan 2004; Öberg, 2008). This is puzzling since customers are the ones with the wallets, deciding on which companies to keep alive. Customers are recognized as important stakeholder of firms (Öberg, 2008) and they are often indirectly considered in the motives of M&As. For example, if a firm intends to conduct M&As to increase its market share or exposure to a new market, customers are highly involved in the process. In fact, customers could make or break the success of that consolidation. When looking at customers in this perspective, it is obvious that they should be a crucial part of every M&A integration process, since customer reactions represent "real" actions whereas stock market reactions represent expectations of future value creation or destruction.

Although important, when post-acquisition customer reactions are included as a research topic, they are seldom studied as a separate issue. When clustering customers with other stakeholders of a company, it becomes difficult for managers to decide how to best involve customers in M&A processes. One study that somewhat includes customers is Anderson, Havila & Salmi (2001). Their study focused on how a firm's business relationships (including customers, suppliers, banks etc.) evolve during and after a merger or acquisition. One study conducted by Öberg, Henneberg & Mouzas (2007) reviewed customers in terms of companies' networks. These authors primarily discuss

the importance of involving customers (and suppliers) in the integration process and making them feel as a part of the network. Furthermore, Cheung, Martin & Chan (2004) bunch customers together with, for example, suppliers when discussing "soft factors" in M&As. They too argue that customers, and other soft factors, need special treatment compared to tangible features. In order to create successful M&As customers need to be carefully integrated in the combined company.

There are some studies focusing purely on customer reactions following M&As. For example, customer reactions have been studied using a customer satisfaction index. This index includes changes in prices, quality and companies' ability to meet customer expectations following a merger or acquisition (Thornton, 2006). In addition, customer reactions have also been measured in terms of revenues (Larsson, 1990; Galpin & Herndon, 2007). To approach customer reactions with revenue changes is interesting, since it clearly states the direct impact on companies following M&As.

The potential revenue changes represent the business market reaction to companies that go through M&As. What is interesting, and largely missing in the literature as of today, is the connection and comparison between stock market expectations and business market reactions. Also, as important implications for more focused research and managers, it is the appropriate knowledge to predict customer reactions following a merger or acquisition.

## 1.3 Purpose

The purpose of the thesis is to evaluate whether the stock market is able to predict the reactions of the business market, or in other words, the customers' reaction. Thus, we are interested in evaluating if there is any correlation between the stock market's reactions and the business market's reactions to M&As. In addition, we intend to study these two factors in terms of other determinants. In short, the aim of this study is to explain how post-acquisition share price and customer reactions are affected by:

1. Combination potential

2. Cross-border M&As

3. Relative size

4. Acquisition experience

## 1.4 Demarcations

The focus of our study is on the value creation of M&As; a comparison between the stock market and the business market. Hence, we exclude other features of M&A processes such as how a company

goes through with the merger or acquisition, the payment method, or if it is a friendly or hostile takeover.

Indeed, there are several well-established ways to measure M&A value creation. Among others, these include synergy realization (Gaughan, 2007; Larsson & Finkelstein, 1999), stock price reactions (for example: Rosen, 2006), customer reactions (Öberg, 2008) and effects on business relationships (Anderson, Havila & Salmi, 2001). Some of these factors, like the synergy realization in terms of combination potential, will be included in our study. However, they will only be studied in relation to stock market and business market reactions. The most important characteristic of this study is therefore the actual comparison between stock market expectations (measured as changes in share price) and business market reaction (measured as changes in revenues).

We somehow wanted to include other variables than share price and revenue changes, and decided to study four independent variables (combination potential, cross-border M&As, relative size and M&A experience) as explanatory variables. Reasonably, these variables are related to stock market and business market reactions, and they help us explain possible similarities and deviations. In addition, since former research on M&A performance measure value creation in various ways, we intend to study some of them in our study (since they barely have been connected before). The argumentation to why we included these four variables is extended in the literature review; however, a demarcation of this study is to only include these four variables.

Larsson & Finkelstein (1999) explicitly study the organizational integration and employee resistance as two important variables to explain the degree of synergy realization. Although interesting, we do not include these variables since we are not concerned about the actual synergy realization in organizational terms. Instead, we study the expected synergies, as perceived by the stock market, and if these synergies are realized following the reaction of the business market.

Not many studies on M&A performance, and customer reactions in particular, have been focused on Swedish firms. Our study intends to provide this information and close this research gap. Following this, however, a demarcation of this study is to exclude foreign M&As. Nevertheless, cross-border M&As are included in this study with an aim to possibly explain differences in stock market expectations and business market reactions.

## 1.5 Outline

After having introduced our research topic and narrowed down to our purpose, we will continue with chapter two. This chapter gives an overview of the existing literature within the studied field. Upon this literature, hypotheses are built and the underlying arguments behind them are explained.

The third chapter describes the methodology chosen in the thesis. Included in the discussion of the methodology is research approach, method, sample, variables and a discussion on reliability and validity. Moreover, chapter four states our results and indicates which hypotheses we are able to prove. Following that, the analysis of these results is presented in chapter five. Lastly, chapter six contains a conclusion, contributions of this thesis, its limitations and also our suggestions for further research.

# 2. Literature Review

*This chapter serves to introduce interesting and relevant literature for this thesis. Firstly, the various areas of interest are studies, followed by a critical literature review where we dig deeper into the issues related to post-acquisition customer reactions. Lastly, hypotheses are formulated based on the former research presented in the overview of existing literature and the critical literature review.*

## 2.1 Article of Inspiration

The framework of this thesis is based on an article written by Larsson & Finkelstein (1999). The purpose of this article is to explain post-acquisition performance in terms of strategy, economics, finance, organization theory and human resource management. To establish the research, the authors studied 61 domestic and cross-border M&As thoroughly. In the model that the authors construct, combination potential, organizational integration, and employee resistance are the main attributes that affect synergy realization. The discussion regarding the combination potential involves various motives behind M&As and relatedness between the firms in terms of similarities and complementarities. Moreover, the degree of interaction and the degree of coordinative efforts are assumed to influence the organizational integration. Employee resistance includes three perspectives: a "we versus them" viewpoint, a merger syndrome arguing that M&A might influence individuals' career plans and, lastly, a possible change of the firms' corporate cultures and values.

The authors find empirical evidence for some of their hypotheses. Most importantly, the greater combination potential the greater organization integration, and the lesser employee resistance the higher the potential for synergy realization. In addition, subordinated characteristics of M&As, including management style similarity, cross-border combination, and relative size are also examined in relationship to the three major areas of study (combination potential, organizational integration and employee resistance). In concluding words, the authors find evidence that management style similarity positively affects the organizational integration, that cross-border M&As generate greater combination potential, and that greater relative size (target to acquirer) increases the combination potential.

Yet, the authors are forced to reject some hypotheses. Most interestingly, they are not able to show support for greater combination potential and organizational integration, respectively, leading to greater employee resistance. This article is a basis for the thesis since the aim is to explain post-acquisition experience in another way than measuring value creation through only stock prices.

However, we intend to keep some of the variables studied, but also to extend it to include customer reactions. Mainly, we exclude employee resistance and organizational integration, since these two variables take too much time for us to measure. Following that, we also do a comparison between stock market expectations and business market reactions.

## 2.2 Combination Potential

One of the ways to evaluate and determine the ability for M&As to realize their synergies, is the so-called combination potential. The term combination potential refers to the motives behind M&As; or in other words, the benefits and efficiency gains companies aim to achieve. These motives are named synergies, and means that the companies' capabilities are greater together than standalone. Gaughan (2007) argues that synergies may be of either operating or financial character; although, operating synergies are often regarded as more viable motives. Operating synergies include, among others, revenues enhancements, economies of scale, economies of scope, spreading overhead and cost reductions. Financial synergy on the other hand, refer to lowering the cost of capital by debt co-insurance (more stable and consistent cash flow streams). In addition to these synergies, other motives behind M&As are likely to pursue a growth strategy or to diversify its business in different manners (Gaughan, 2007). All these M&A motives make up the potential synergy realization. However, the expected synergy realization is also dependent on how companies work to achieve these synergies and whether the combined companies have the proper combination fit or not.

The combination potential is explained so that M&As with low combination potential are less likely to realize synergies, than M&As with high combination potential. Together, these motives that determine the combination potential, are often measured in terms of the relatedness (or unrelatedness) of the companies involved in M&As (Larsson & Finkelstein, 1999). Relatedness may be conceptualized in different ways. Larsson & Finkelstein (1999) state that great combination potential consist of two dimensions of relatedness: similarities and complementarities.

Former research has found somewhat dispersed results concerning the effect of relatedness on the synergy realization of M&As. Most studies that focused on the relationship between relatedness in terms of similarity and post-acquisition performance, have found that related acquisitions generally perform better (Tuch & O'Sullivan, 2007; Gaughan, 2007; Cartwright & Cooper, 1995; Datta, 1991; Finkelstein & Haleblian, 2001). An explanation often mentioned is a greater ability for synergy realization and value creation. On the other hand, Barney (1988) shows that M&As that are based on complementarities (named dissimilarities in their study) perform better than M&As based on similarities. In this regard, relatedness is not the most suitable term to expect great synergy realization. Rather, he argues that the relatedness might lead to synergy realization when it results in

"private and unique, inimitable and unique, or unexpected" (Barney, 1988, p. 77) cash flows. Also, Harrisson, Hitt, Hoskisson & Ireland (1990) showed in their study that relatedness in terms of complementary is best at performing post-acquisition value. In fact, this study implies that the division of related and unrelated M&As is less of importance than the characteristics of synergies (similarities versus complementarities). They suggest a mind-set that focuses on specific resources rather than strategy variations. Even so, the authors were able to conclude that most managers still favour similarities when evaluating different target companies. Furthermore, studies performed by Singh & Montgomery (1987) and Hollman, Carpe & Beuron (2010) concluded that relatedness, and the degree of synergy realization, depends on if and how M&As work to transfer capabilities in the combined company. Thus, the actual combination fit/process is more vital than what could be expected from the M&A.

## 2.3 Cross-border M&As

When the target and the acquirer are from different countries, these transactions are named cross-border M&As. Cross-border M&A activity has increased significantly during the 1990s and 2000s. The major reason to why cross-border M&As are getting more common, is that globalization is affecting firms in a very important way; it is getting increasingly vital to continuously grow (either organically or externally). Also, when countries and markets are getting more global, the financial markets are getting more transparent. Following that, it becomes easier and more interesting for firms to invest and grow outside its domestic heritage (Francis, Hasan & Sun, 2007). This leads us to the fact that, in addition to strategies such as greenfield, joint venture and alliances, companies can "buy growth" by using cross-border M&As. Cross-border M&As are often believed to create shareholder value through synergies, not available in a significant manner in the domestic country (Zhu, 2010; Seth, Song & Pettit, 2000). Recent research is dispersed in the matter of whether cross-border M&As create value, although, the majority of the studies indicate that cross-border M&As create shareholder value (Zhu, 2010; Santos, 2008). However, cross-border M&As are more complex than domestic ones (Collins, 2009) and demand a greater ability from firms to understand international strategies, knowledge transfer and integration of people.

Cross-border M&As might, if we generalize, be the result of some of the benefits mentioned in the section about combination potential (such as access to new markets, market shares, knowledge, resources and skilled labour). In addition, the discussion regarding M&As and value creation could also be extended to include relatedness and unrelatedness. Santos (2008) concludes that relatedness in cross-border M&As creates an insignificant value increase, whereas unrelated cross-border M&As generate significant value destruction. However, the targets' shareholders seem to gain value regardless of the type of acquisition. This is, according to the author, connected to the well-known

theory of “the diversification discount”. Moreover, Larsson & Finkelstein (1999, p. 8) give some proof to the fact that “cross-border M&As are positively associated with combination potential”.

## 2.4 Relative Size

Larsson & Finkelstein’s (1999) state that the relative size between the target and the bidder is an important factor that affects the post-acquisition success. If the bidder is larger than the target the combination potential between the two firms is limited naturally by the size. Also, smaller mergers might not attain needed attention from the management in order to realize potential synergies. This implies that the greater the relative size of target to acquirer, the greater combination potential and the greater the organization integration.

Another paper, written by Jakobsen & Voetmann (2003), states that, when the relative size of the acquirer to target is significantly large, the percentage return for the shareholders of the acquirer is smaller. In addition, Seth (1990) argues that it is intuitively clear that, in M&As where the relative size of the target to the acquirer is significant, the potential for synergy realization is great. This is due the fact that targets in these situations are able to provide the acquirers with, for example, market power, economies of scope and economies of scale.

However, there is also evidence that the relative size is not significantly related to post-acquisition performance, when performance is measured in terms of share price movements (Finkelstein & Haleblian, 2002). Conclusively, it can be said that the relative size seems to affect post-acquisition performance; however, there is controversy in exactly how (Haleblian et. al., 2009).

## 2.5 Acquisition Experience

The majority of the global M&A activity fails for various reasons. Therefore, researchers and managers find it more and more important to learn from previous failures to achieve value in future M&As (Barkema & Schijven, 2008). According to Finkelstein & Haleblian (1999) past experience of acquisitions does not necessarily lead to applying that knowledge and achieving better acquisition performance. Rather, the effects are explained by a behavioural point of view, where good firm performance is a reward, whereas bad firm performance is a punishment. The reward makes that specific behaviour persist, and therefore affects organizational behaviour. Good performance depends on the firm maintaining the good behaviour since it is a reward, and is not an effect of the firm applying the knowledge of its acquisition experience.

Acquisitions can be either generalized or discriminated. When the acquiring firm applies its experience it generalizes, and when it does not make this application of experience it discriminates. The acquisition performance depends on the similarity between previous and present acquisitions.

Experience from similar acquisitions will lead to greater synergy realization between the acquirer's and the target's assets, and a faster organizational integration between the two firms. Dissimilarity between the current acquisition and prior acquisitions will lead to negative acquisition performance. This is the case for acquirers with moderate experience. The best post-acquisition performance is reached when the firm lacked experience and therefore could not make any generalization errors, or when the acquirer had a large experience and could therefore correctly discriminate the targets. As figure 1 shows, when firms generalize their acquisition experience the result of similar acquisitions is positive performance, and the result to dissimilar acquisitions is negative performance. For firms discriminating their acquisition performance, this has no effect on the acquisition performance.

| | | Antecedent Condition: Similar Experience | Antecedent Condition: Dissimilar Experience |
|---|---|---|---|
| Organization Behavior | Organization Response: Generalization | Appropriate Generalization (Positive) [1] | Inappropriate Generalization (Negative) [4] |
| | Organization Response: Discrimination | Inappropriate Discrimination (Neutral) [2] | Appropriate Discrimination (Neutral) [3] |

*Figure 1: Acquisition experience in relation to organizational behavior (Finkelstein & Haleblian, 1999, p. 33)*

Another important result is that when firms make acquisitions in the same industry, they actually benefit from generalizing their knowledge and therefore show positive performance. But the essence of their study is that effects from the learning curve are limited, and there is a U-shaped relationship between acquisition experience and post-acquisition success (Finkelstein & Haleblian, 1999).

The result that acquisition experience solely does not generate positive performance is also supported by Zollo & Singh (2004). They also state that the effects from the learning curve are limited. According to their article, positive acquisition performance depends on the ability to create an awareness of actions and to codify the knowledge.

Furthermore, acquisition experience increases the likelihood that the firm will make new acquisitions, especially when these acquisitions are rewarding. Research also shows that mergers and acquisitions of a specific kind, for example horizontal, vertical or in a specific industry, also increase the probability of continuing with the same acquisition type (Haleblian et al., 2009). However, former research on the relationship between acquisition experience and acquisition performance is not

consistent; there are findings that support a positive learning curve and others that do not (King, 2004).

## 2.6 Stock Market Expectations of M&As

There are many studies that examine how the stock market reacts to M&As. Stock market reactions reflect the expectations of the market, and, since the market generally reacts directly to news, stock prices should react negatively, positively or neutrally on the announcement day of M&A news. Generally, former studies indicate that stock returns around the announcement day are significantly positive for the target firm, yet small or insignificant for the bidding firm (Jakobsen & Voetmann, 2003). However, there are studies indicating various results of stock market reactions to M&As. For example, King (2004) concluded that both the target's and the bidder's share prices increase following the announcement of a merger or acquisition, indicating expectations of long-term value creation. However, during the days following the day of announcement, the returns of the acquiring firms are negative or insignificant. Also, Jakobsen & Voetmann (2003) prove that acquirers underperform the market three years after the announcement day. However, this underperformance is not that significant as other studies have proved. Thus, the conclusion of this study is that M&As generally do not improve the financials of the acquiring companies.

Moreover, Ma, Whidbee & Zhang (2011) confirm this view, although, they state that studies may have come to these conclusions since shares sometimes are under- or overvalued. The authors measure post-acquisition performance in terms of intrinsic value, rather than stock price. However, they still come to the same conclusion as prior researchers.

However, there is also research that suggests that the stock price of the bidding firm increases after the announcement date. Rosen (2006) suggests that both the bidding firm's and the target firm's stock prices increase after the announcement date, if there are other successful mergers in the market, and these gained positive responses from the market, or if the stock market in general is doing good. That is, there are positive shareholder returns when there is a "hot" merger market. Another interesting finding in Rosen's study is that overall optimism about M&As, and specifically optimism about firms, generate positive autocorrelation in stock returns after the announcement day.

## 2.7 Business Market Reactions to M&As

Haleblian et al. (2009) argue that it has become more important for companies, which are going through M&As, to correctly integrate, transfer and manage their internal and external capabilities. Customers are seldom mentioned in this context. However, they should indeed be seen as vital external resources of firms. In fact, they are often indirectly included in the motives for M&As, such

as increased market share. It could be questioned how exactly firms intend to increase market shares without the customers' reactions towards M&As (Öberg, 2008). When summarizing recent literature about M&As and marketing, Öberg (2008) concludes that discussions regarding customers' roles in M&As are absent. Customers are never directly mentioned as motives for M&As, and customer reactions of M&As are barely never discussed. Many studies discuss the importance of the human factors in M&As, and that these factors too often are being ignored or taken too light on (Cartwright & Cooper, 1996; Cheung, Martin & Chan 2004; Kongpichayanond, 2009). Either way, as Larsson & Finkelstein (1999) point out, employees are often blamed for unsuccessful M&As. If so, the human factor, in regard to customers, could indeed make or break a merger or acquisition. Also, research regarding post-acquisition performance generally has focused on financial implications, such as stock price reactions. What is lacking in this literature are studies focused primarily on other measures of firm performance, such as customer reactions (King, 2004). After all, customers are the ones with the money, deciding on whether to keep companies alive or dead. In fact, Thornton (2006) states that customers react negatively on M&As.

One perspective of this issue is to look at a company in terms of its various stakeholders. A stakeholder is defined as "any group or individual who is affected by or can affect the achievement of an organization's objectives" (Hitt, Freeman & Harrison, 2001 p. 189). Thus, according to the stakeholder theory, every stakeholder, from shareholder to customer, should be taken into account when determining, for example, the future of the company. When applying a stakeholder perspective, relationships, such as the ones with customers, are central. However, relationships between customers and companies seize to exist if the customers no longer buy the products or services provided by the company (Öberg, 2008).

One important study in this field, written by Anderson, Havila & Salmi (2001), argues that the M&A literature focuses too narrowly on synergy realization and post-acquisition performance in terms of motives and organizational integration. The purpose of their study, on the contrary, was to explore how M&As affect the business relationships of firms (mainly customers and suppliers). These authors also argue that these relationships are complex, since they are dependent on the approval and success of at least two parties. Furthermore, these authors refer to the stakeholder theory, when discussing the importance of post-acquisition customer reactions. However, they also emphasize that it is not enough to refer to customers as one of the many stakeholders; customers means so much more for firms than that. Customers should be recognized for being valuable intangible assets of companies. Their results indicate that customer relationships can take unexpected turns following M&As, and that the most important implication is to recognize this difficulty and to always include customers in the M&A process in order to avoid future issues. Moreover, these authors also

conclude that customers are more likely to be affected (positively or negatively) following a related acquisition, since two related firms have more in common and, thus, overlap to a certain degree. Another study written by Capron & Hulland (1999) discusses the motives of acquiring brands through M&As. These authors conclude that, in their sample, buying brands through M&As is a strong underlying motive. This also involves customers, since a strong brand is connected to positive customer perceptions regarding that particular brand. Hence, customers are viewed as important intangible assets in this regard as well.

Another study in the field of marketing and M&As state that there is an alarming lack of research in regards to the link between marketing and post-acquisition performance (Homburg & Bucerius, 2005). The authors of this study show that marketing issues related to post-acquisition performance are bridged with a faster integration process of the marketing area. In fact, they are also able to prove that a lack of correct customer integration could serve as an explanation to why some M&As fail. Managers should integrate customer by using "customer satisfaction-based incentive systems or continuous customer feedback instruments" (Homburg & Bucerius, 2005, p. 109).

Of course, customer reactions, and other "soft" factors are hard to evaluate. Cheung, Martin & Chan (2004) argue that soft factors should be taken into consideration in different ways than financial factors. Moreover, Anderson, Havila & Salmi (2001) point out that customer relationships are hard to measure since they are time consuming; it takes time both to establish and maintain them. However, this statement should only make it more vital for firms to engage in post-acquisition customer reactions. In fact, it is very reasonable to argue that firms rather would fight to keep their existing customers after a merger or acquisition, than try to attract new ones. Hence, what is important for customers after a merger or acquisition is that the new company is transparent and open with its new vision and goals (Siegenthaler 2011). Also, Anderson, Havila & Salmi (2001) urge companies not only to inform their customers about a merger or acquisition, but to involve them throughout the process. The authors also state that customers are highly valuable, intangible asset to the firms. The intangible nature of these assets needs to be correctly understood, in order for managers to handle them. One of the important results of their study is that customers of the target firm may be less attracted by the customers of the bidding firm than the managers of the target firm are. In addition, the authors conclude their paper by highlighting that customers are valuable asset, but that the value in M&As are dependent on the customers themselves and managers from both the target and the bidder. Thus, firms should be very interested in the development of these relationships. To put the importance of customers in other words, Haleblian et al. (2009 p.491) argues that customers are "likely to be influenced by the type of acquisition, the level of industry concentration before and

after the acquisition, the level of differentiation in product or service offerings in the industry, and the barriers to entry to the market".

Since customer reactions following M&As poses a gap in the research base about M&As, table 1 provides a clarifying overview of the most important literature previously gone through. The articles brought up in the table are the ones that we feel provide a sufficient background for our hypotheses development. Also, in the table, we focus on areas covered and conclusions made that relate to customer reactions.

| Authors | Year | Title of the article | Areas covered | Main conclusions drawn |
|---|---|---|---|---|
| Cartwright & Cooper | 1996 | Introduction: mergers, acquisitions and strategic alliances - a people issue | How people are involed in M&As. | People are not integreated enough in M&As. |
| Capron & Hulland | 1999 | Redeployment of brands, sales forces, and general marketing management expertise following horizontal acquisitions: a resource-based view | Post-acquisition redeployment of general marketing expense, sales force and brand between acquierer and target. | In particular, brands tend to be redeployed from target to acquirer, and firms should be more careful when redeploying brands following M&As. |
| Anderson, Havila & Salmi | 2001 | Can You Buy a Business Relationship? | Analysing post-acquisition performance by evaluating firms' business relationship. | Customers are likely to be affected by M&As; however, the effect could be positive, negative or unexpexted. |
| Cheung, Martin & Chan | 2004 | Sustaining Competitive Advantages in Mergers and Acquistions | How firms create sustainable competitive advantage with intangible assets through M&As. | Intangible assets are critical for competitive advanatage creation, and should be further investigated. |
| Homburg & Bucerius | 2005 | A Marketing Perspective on Mergers and Acquisitions: How Marketing Integration Affects Postmerger Performance | Post-acquisition integration of marketing in terms of extent and speed of integration. | The faster the integration of marketing factors, the greater the effect in market-related performance, and market-related performance is more vital driver of financial performance than M&As than cost savings. |
| Öberg | 2008 | The importance of customers in mergers and acquisitions. | Different ways of how customers are involved and affected by M&As. | Many conslusions made; however, major conclusion that customers are important, independent actors which are vital to consider in M&As. |
| Haleblian et al. | 2009 | Taking Stock of What We Know About Mergers and Acquisitions: A Review and Research Agenda. | Various antecedents and moderators to M&As and outcomes such as customers. | Customer reactions have not been sufficiently examined in the M&A literature yet. |

*Table 1: Articles about customer reactions towards M&As.*

## 2.8 Hypotheses Development and Model Building

The various areas covered in the literature review serve as the background for the hypotheses building. This section is, therefore, a continuation of the literature review. The aim of our study is to compare stock market and business market reactions to M&A activity. This is done by putting these

two variables, separately, in relation to both the stock market's and the business market's reactions. To clarify and to keep the consistency in this thesis, we divide the hypotheses in "a" and "b" sections. Hypotheses labelled "a" refer to the stock market's reactions and hypotheses labelled "b" refer to the business market's reactions.

### 2.8.1 Relating Stock Market Expectations to Business Market Reactions

The main purpose of this study is to evaluate if the stock market is able to predict the reactions of the business market (customers). The interest of this purpose lays in the fact that, even though both markets react directly to M&A activity, business market reactions are real actions (revenue changes), whereas stock market reactions are expectations for the future. As proved, by for example King (2004), the stock market reacts positively on the day of the M&A announcement, but does not provide long-term, stable stock price growth. Accordingly, since customer reactions in terms of revenue changes directly impact companies following M&As, the comparison between stock market and business market reactions are of interest to us.

Combination potential, cross-border M&As, relative size and M&A experience are explanatory factors, with the intention to provide useful information regarding similarities and/or differences in stock market and business market reactions. In order for us to put stock market reactions in direct relation to business market reactions, we pose a hypothesis. This hypothesis outlines the framework for this study, since we in this hypothesis conceptualize the relationship between stock market expectations and business market reactions. We assume the relationship to be positive, implying that the stock market is able to predict future customer reactions following M&As.

***H1:*** *the more positive stock market reactions, the more positive customer sales reaction.*

### 2.8.2 Combination Potential

The combination potential of M&As include the underlying motives of M&As such as different synergies (Gaughan, 2007; Larsson & Finkelstein, 1999). As conceptualized in our article of inspiration, M&As with low combination potential are less likely to realize potential synergies than those with high combination potential (Larsson & Finkelstein, 1999). This implicitly means that M&As involving firms that have significant potential efficiency gains to realize, and that thus have a high combination potential, are likely to be "successful" M&As. By successful M&As, we refer to a creation of value. The stock market should react immediately on great news (high possibility of realizing the synergies and creating value); thus, the stock market should favour a greater combination potential.

***H2a:*** *the more overlapping combination potential, the more positive stock market reaction.*

The business market's reactions involve the customers' reactions, and thus the revenue changes. As stated in the literature review regarding customer involvement in M&As, customers need to be fully involved in the M&A process and understand the motives and implications underlying the M&A. As some studies proved, customers generally view M&As negatively. As for the combination potential, what matters for customers is the change that a merger or acquisition bring. One major motive for M&As is increased market share, and with that, enhanced market power. Logically, enhanced market power means a great ability to control prices, products and whole markets. Thus, the change imposed to customers is indeed significant. Therefore, we suppose that customers are likely to react negatively to M&As with high combination potential.

***H2b:*** *the more overlapping combination potential, the more negative customer sales reaction.*

### 2.8.3 Cross-border M&As

In the article that our study is based on, written by Larsson & Finkelstein (1999), it is proved that cross-border M&As generate greater combination potential than domestic M&As. As stated above, we argue that greater combination potential should yield greater positive stock market reactions. Hence, cross-border M&As should also lead to greater positive stock market reactions.

***H3a:*** *cross-border M&A are positively associated to stock market reactions.*

Cross-border M&As are typically motivated by arguments for external growth and diversification. Because of that, as well as other reasons, cross-border M&As are generally more complex than traditional M&As, implying that the managers need to understand the people involved in the entire process (Collins, 2009). As we argue in the thesis, customers should be seen as being one group of the people highly involved in the process. In order for customers to "accept" (or, to not be negatively affected by) M&A activity, managers need to make sure that the process is transparent and that the goals for the new company are clearly stated (Siegenthaler, 2011). Also, since cross-border M&A activity by definition includes companies in different countries, negative customer reactions might be enforced by, for example, cultural differences. In addition, Anderson, Havila & Salmi (2001) state that companies involved in M&A activity need to focus on all customers, including both existing and new ones. Since cross-border M&As are more complex processes to successfully complete, customers might have a more negative view on cross-border M&As than on domestic M&As.

***H3b****: Cross-border M&A are negatively associated to business market reactions.*

### 2.8.4 Relative Size

Larsson & Finkelstein (1999) are able to prove that greater relative size (acquirer larger than target) increases the combination potential. In addition, we assume that greater combination potential leads

to positive stock market reactions. Therefore, greater relative size should yield greater stock market reactions. In addition, we expect that the stock market assumes that firms that buy smaller firms are more properly equipped to correctly integrate the smaller firm, than firms with a smaller relative size are.

***H4a:*** *the larger relative size of acquirer to target, the more positive stock market reactions.*

With the same argumentation as for the hypothesis regarding relative size and stock market reactions, we expect larger relative size to result in greater business market reactions. Also, customers' reactions, according to former research, strongly depend on if and how much they are integrated in the M&A process. Expectations are, therefore, that acquirers with a larger relative size to the targets are better equipped to handle and integrate the target.

***H4b:*** *the larger relative size of acquirer to target, the more positive business market reactions.*

### 2.8.5 Acquisition Experience

According to previous research regarding the importance and implications of M&A experience on future M&A success, it strongly depends on (1) similarity of firms and (2) how the acquirers choose to manage and use the knowledge gained. Although this seems to be the reality, we interpret the results in a way that, in general, there seems to be some positive correlation between M&A experience and post-acquisition performance.

***H5a:*** *the greater acquisition experience, the more positive stock market reactions.*

Likewise, the business market should presumably act in accordance to the stock market. As an additional argument to why we expect a positive correlation between M&A experience and business market reactions, it is likely that customers gain M&A experience as well. By this we argue that customers, that have been customers of the company for several years, get used to M&A processes. They are likely to think of additional M&As in terms of: " if I have been pleased with the company going through several M&As before, I would most likely be pleased with an additional one".

***H5b:*** *the greater acquisition experience, the more positive business market reactions.*

### 2.8.6 Summary of Framework and Model Building

Figure 2 summarizes our hypotheses, which will be tested in the regression model. In the model, we link combination potential, cross-border M&As, relative size and acquisition experience to both the stock market and the business market. Additionally, we pose a hypothesis regarding the correlation between stock market and business market reactions following M&As. When the arrow from the

independent variable is accompanied with a + the relationship between the variables is expected to be positive. On the contrary, a - represents a negative relationship.

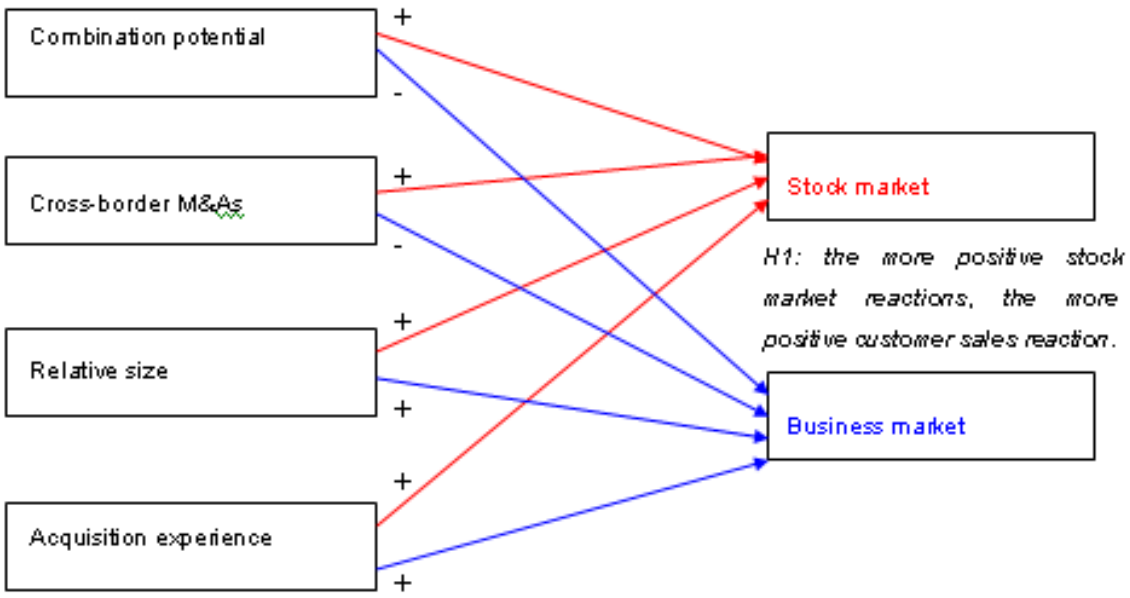


*Figure 2: Model outlining our hypotheses.*

The aim of the model is to clarify and summarize the hypotheses. Firstly, we hypothesize that more similar firms are likely to experience greater share price and business market reactions. Secondly, we hypothesize that the stock market reacts positively towards M&As with firms based in different countries, whereas the business market reacts negatively to M&As with firms based in different countries. Thirdly, we hypothesize that M&As where the relative size of bidder to target is great, both the stock market and the business market react favourably. Lastly, we hypothesize that both the stock market and the business market react positively to M&As where the acquirers have done M&As before.

In addition to explaining the expected correlations between the independent and dependent variables, the model poses a research question with the aim to explain possible similarities and deviations between stock market and business market reactions following M&As.

# 3. Method

*The aim of this chapter is to present the methodology used for the study. The research approach and sample selection are presented and a presentation of the used regression models is done. In addition, we go through how we have chosen to measure the variables.*

## 3.1 Research Approach

The purpose of this study is to see how well the stock market's expectations occur and comport with the business market's reaction, measured in revenue changes, to M&As. In order to make this comparison accurate, financial data is collected, and conclusions are made upon the calculations. Hence, a quantitative research approach is the most suitable one (Bryman & Bell, 2003).

In order to explain the results, theoretical models and previous research are used. From the known theory, hypotheses are formulated and scrutinized and thereafter conclusions are drawn. This is the deductive approach to theory (Bryman & Bell, 2003), since many previous academic studies contribute to explain the results. But the aim of this study is, as mentioned earlier, to examine if there is a relationship between the stock market reactions and the business market reactions to M&As. There is not a large amount of research on this, which means that our study does contribute to the academic research base. By examining the empirical base and providing results in a rather undiscovered area, our study contributes to the general theory formulation in this subject, and therefore, our approach is somewhat inductive (Bryman & Bell, 2003). Conclusively, this study is mostly a deductive approach to theory with some inductive features, which makes it an abductive approach (Wallén, 1996, p 48), where the researchers' strategy is a mix of the two main approaches.

## 3.2 The Event Study

This study is constructed as an event study. This method allows us to measure "the impact of a specific event on the value of a firm" (MacKinlay, 1997, p. 13). In addition, it is assumed that the impact of the event is reflected in the share price and revenues of the acquirers immediately, where it is appropriate to use share prices over the short-term. With the article written by MacKinlay (1997) as a foundation, we describe the steps of our event study.

1) *Event definition:* we aim to capture stock market and business market reactions following M&As, and how these are related to each other (if they coincide or not). Moreover, the event window is different for post-acquisition share prices and post-acquisition revenues. This since the event study

expects share prices to react immediately to M&A news, since the stock market reactions are expectations on future M&A performance. In accordance to this, share prices for the acquirers are measured from the day of the announcement and five days onwards, with the announcement day as day one. However, the business market reaction, that is the changes in revenues, are interesting to measure from the completion day and three years onwards since the revenue changes measure "real actions" taken by customers.

2) *Selection criteria:* To be included in this study, a merger or acquisition should obtain the following criteria:

- Be completed between 1990 and 2007.
- Be a merger or acquisition; not a pure investment.
- Be completed, not cancelled or pending.
- The acquiring firm is Swedish.

The focus of this study is not primarily on changes in share prices; therefore, we do not fully follow the next step in an event study where the expected and abnormal returns are explained. Instead, we have chosen a simpler method of measuring share price movements, which is the percental change from the announcement day.

## 3.3 Sources of Information

In order to accomplish the research results many information sources are used. Most of them are of a secondary character (Bryman & Bell, 2003), where other researchers' data is used and they have formulated theories and articles. The articles that are the base for the theoretical framework in the study are collected from the electronic library of Lund University, LibHub.

Information about M&A activity in Sweden is collected from the database Reuters 3000 Xtra, and financial information about companies, such as revenues and stock prices, is primarily collected from the database DataStream. If needed information is missing in DataStream, we used AffärsData and various homepages in the Internet.

## 3.4 Definitions

Several terms are used in this study. In order to facilitate the understanding of the thesis, it is important to clarify what we mean with the definitions.

- The term *stock market* refers simply to the changes in share prices and the market's reactions to and expectations on the company's M&A activity.

- The term *business market* refers to the revenue changes caused by the costumers' reactions to the company's M&A activity.

## 3.5 Sample Selection

The sample for this thesis includes completed M&As during a time period of 18 years; from 1990 to 2007. This longer time frame is chosen to cover for the both financial crises and for boom years. For example, we avoid the recent financial crisis of 2008. Several former studies have chosen this longer time frame. For example, Croci, Petmezas & Vagenas-Nanos (2010) chose the time period of 1990 to 2005 when they studied M&A performance and managerial overconfidence in low and high market valuations times. Likewise, Finkelstein & Haleblian (2001) chose a time period of 21 years when studying the post-acquisition performance related to acquisition experience. The reason that the period ends at 2007 and not 2011 is that the aim of the study is to scrutinize the effects of the acquisition on a more long-term basis, and we believe that after some years the effects and potential synergies have materialized both on the stock market and the business market.

Initially, our plan was to include M&As performed in four distinct industries (health care, materials, industrials and financials). However, due to the lack of information, particularly on revenues for the targets, we decided during the data collection process to skip the industry analysis and only focus on the sample as a whole. Because of that, our sample consists of M&As performed in these four industries. Since the industries indeed are different from each other, we do not see this as problematic; however, it is important to keep this in mind throughout the results chapter and, in particular, the chapter containing the analysis.

## 3.6 Sample Data

Our sample consists of M&As between 1990 and 2007, where at least the acquirer is a Swedish company. After having cleared for targets with insufficient information (for example: when a target is a part of a company, such as "eight properties in Lund"), the first sample consists of 660 M&As. Following this, however, we were forced to exclude some M&As due to lack of sufficient information regarding target's revenues (the primary reasons), acquirer's revenues and/or acquirer's share price. We experienced most problems with deriving revenues for the target prior to the merger or acquisitions, when it was foreign and/or unlisted. However, to derive revenues for targets when revenues were not visible in DataStream, we used the database Affärsdatabasen. In addition to this database, we searched various web pages for this information (mainly home pages of acquiring companies and articles regarding the particular M&As). This search for revenues was time consuming; however, we were by this method able to "rescue" the sample of becoming too small.

After having cleared for these issues, we were left with a sample of 216 M&As. In figures 3 and 4 below, we show the division between the industries of the first versus the second sample.

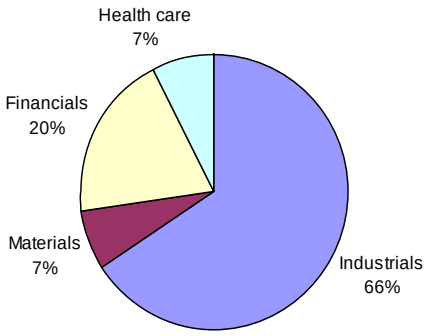


*Figure 3: Industries in our first sample.*

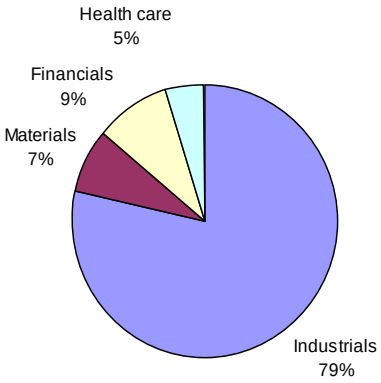


*Figure 4: Industries in our second sample.*

Moreover, from this second sample, we were forced to clear for M&As were the target's revenues are not consolidated into the acquirer's revenues.

Furthermore, we were forced to make an additional, and indeed necessary, clearing for acquisitions. In our sample (the sample with 216 M&As) there are M&As where the acquirer made one or more additional M&As from the completion day to the three years onwards, where we examine the revenue changes. This means that the observed revenue changes are caused by both the synergy realization from the examined acquisition, and also from the revenues of the M&As that we were not able to collect data for. Therefore, in order to clear for these acquisitions were the revenue changes for the acquirer are unreasonably high, and probably caused by other acquisitions made after the completion date during the examined period, we plotted the revenue change for the first year after the acquisition in figure 5. The y-axis represents the revenue change as a percentage (acquirer's revenues one year after the acquisition / the combined revenues of the target and acquirer one year prior to the acquisition), and the x-axis represents the percentage of the sample with that revenue change. The plot in figure 5 shows a breaking point at about 60 % (the vertical line), and therefore this value is chosen to clear the sample for abnormal increases in revenues. Hence, all M&As where the increase in revenues is more than 60 % the first year after the acquisition, are considered as extreme values and removed from the sample.

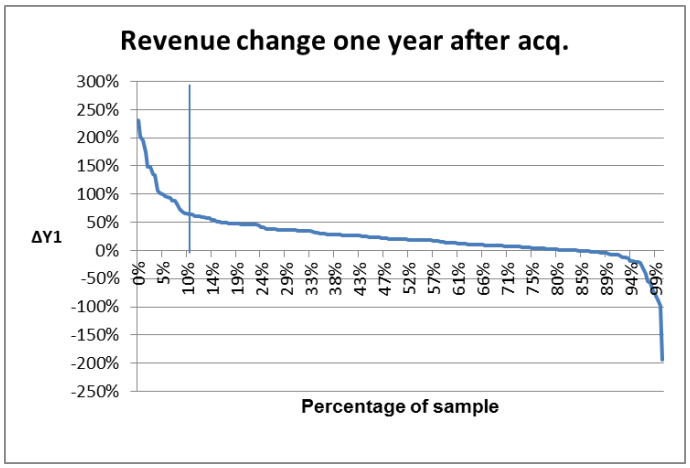


*Figure 5: Revenue changes as a function of the sample.*

However, this was not our initial though to solve this data problem. We argue that it would have been more appropriate to look through annual reports and financial information for companies that made several M&As in this time period. This would allow us to find out in which sector of every acquirer that the M&As where made, and, thus, derive annual revenue changes per sector. In that way, by dividing both revenues and M&As per company in sectors, we had been able to determine which revenue changes that were direct consequences to which M&As. However, due to time constraints, we did not see this method as viable for the thesis, and therefore choose the above mentioned method, even if it might be a bit general.

In addition, we recognized two revenue changes where the returns were more than -70 % the first year after the merger or acquisition. These extreme values were excluded from the sample since we argue that, if we included these two extreme values, the results would be deceptive. After these corrections, we ended up with a final sample of 176 shown in figure 6. For more information about the details of our final sample, please go to appendices 3 and 4.

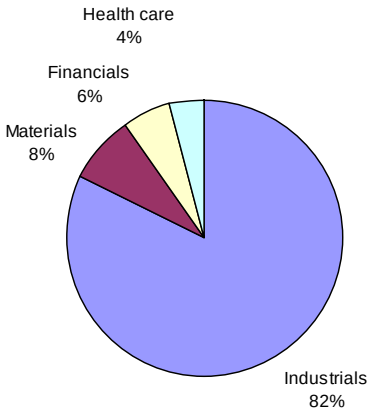


*Figure 6: Industries in our third and final sample.*

## 3.7 Variables

### 3.7.1 Dependent Variables

This study contains two dependent variables; *share price* and *revenues.* These variables are measured, respectively, by changes in share price (stock market reactions) and revenues (business market reactions) as percentages.

#### *3.7.1.1 Share Price*

Post-acquisition changes in acquirers' share prices are usually measured using *abnormal returns* (Rosen, 2006; Petmezas, 2009: Tuch & Sullivan, 2006). This term is defined as the difference between expected returns (future share price without the event of a merger or acquisition) and actual performance of the stock (following the merger or acquisition). However, since share price change not is the primary factor in this study, we have chosen to measure them simply as the change in stock price during the five day period after the announcement day, compared with one day before the announcement day.

#### *3.7.1.2 Revenues*

Revenues are measured as the difference between the revenues before the merger or acquisition and after the completed process. Revenues before M&As is measured by adding up the acquirer's and target's revenues before the consolidation, whereas revenues after M&As is measured as the acquirer's revenues after the consolidation (including the target's revenues). This way of measuring customer reactions is similar to the one used by Capron & Hulland (1999). They measure post-acquisition customer reactions in terms of profitability and market share. As stated, we adopt the revenue measure; however, due to time constraints we do not include the measurement of market share.

For acquirers, we derive revenues from the year before the acquisition to the year of the acquisition along with the following three years. For the targets, it is appropriate for us to collect the pre-acquisition revenues in order for us to add these revenues to the acquirers' pre-acquisition revenues. Initially, our intention was to take an average of the both acquirer's and target's revenues three years before the announcement of the merger or acquisition. The major argument behind this decision was to clear for annual fluctuation due to external conditions. However, which is more thoroughly explained in the sample selection part, we had a hard time deriving pre-acquisition revenues. Therefore, we were forced to skip this way of measuring revenues, and, hence, we compare post-acquisition revenues with the sum of acquirer's and target's revenues one year before the acquisition.

Additionally, when annuals accounts are made during the time frame from January to May, these accounts are set to represent the previous year (e.g.: if annuals accounts are done 1st of May 2005, these accounts represent 2004). On the other hand, if annual accounts are made during the time frame from June to December, these accounts are set to represent the same year's accounts (e.g.: if annuals accounts are done 1st of September 2005, these accounts represent 2005).

### 3.7.2 Independent Variables

Below follows a presentation of which variables are considered as independent and how they are measured.

#### *3.7.2.1 Combination Potential*

Larsson & Finkelstein (1999, p. 10) measured combination potential in terms of four variables: "*similarity of marketing operations* (e.g., geographic markets, customer groups, and industries); *similarity of production operations* (e.g., types of input, process, and product); *complementarity of marketing operations* (e.g., possible transfer of marketing capabilities to new markets or new products); and *complementarity of production operations* (e.g., possible vertical economies by transferring production capabilities)". As a clarification, the aim of this measurement is to divide combination potential into similarities and complementarities. Capron & Hulland (1999) studied "market similarity", which indeed is similar to the term used by Larsson & Finkelstein (1999). They measure "market similarity" using a scoring model from one to five including geographical market similarity, similarity in types of customers and lastly if the firms were direct rivals.

We measure combination potential according to industry similarity. Following that measurement, a scoring model is used, where firms within the same industries are given the code 1, whereas firms within different industries are given the code 0. The reason to this measurement is that it is an effective and correct way to incorporate industry similarity. However, if we had more time to spend in this thesis, we could indeed have evaluated combination potential also in terms of complementarity. This would have been more correct in accordance with Larsson & Finkelstein (1999). Although excluding complementarity, we include industry similarity in a way where we achieve the aim of this thesis; to evaluate if combination potential plays a particular role in the value creation in M&As, and whether or not there is a difference between stock market and business market reactions.

#### *3.7.2.2 Cross-border M&As*

Following Larsson & Finkelstein (1999), we use codes when measuring cross-border M&As as well. M&As where the target firms is based in a different country than the acquirer, who is Swedish, are thus are cross-border M&As, and they are given the code 1. On the contrary, firms with the same home country are not cross-border M&As and are given the code 0.

#### *3.7.2.3 Relative Size*

Relative size has been measured in various ways in former research. Measurements used include, for example, annual sales (Larsson & Finkelstein, 1999; Capron & Hulland, 1999), market valuations (Rosen, 2006), number of employees (Liu, 2010) and value of assets (Finkelstein & Haleblian, 2002). We have decided to measure relative size in terms of annual sales, as used in the article of inspiration for this thesis (Larsson & Finkelstein, 1999). In accordance with those authors, relative size is conceptualized as "the ratio of annual sales of acquired firm to the annual sales of acquiring firm in the year of (or prior to) the legal combination" (Larsson & Finkelstein, 1999, p. 21). They also developed a method for calculating the relative size when annual sales are not available for the target, bidder or both firms. We adopt this method, which is "if sales are not available, use total assets; if they are also not available, use total number of employees). [5-point scale from very low (<10%) = 1 to very high (>67%) = 5.]" (Larsson & Finkelstein, 1999, p.21). We adopt this method of measuring relative size; however, we conceptualize relative size in terms of acquirer's revenues divided by target's revenues one year prior to the merger.

#### *3.7.2.4 M&A Experience*

M&A experience is measured in number of acquisitions made. M&A experience is usually measured in this way (Peng & Fang, 2010; Haleblian & Finkelstein, 1999; Laamanen & Keil, 2008). Also, Liu (2010) developed a scoring model from 1-5, where 5 was very often and 1 represented never, when analysing knowledge acquisition. Accordingly, we have developed a scoring model to measure M&A experience during our time period (1990-2007). M&A experience is measured in number of M&As, and the model allows us to divide acquirers in three groups:

- If the acquirer has made 0-2 M&As, it is given the score **0** (= no),
- If the acquirer has made 3-9 M&As, it is given the score **1** and (= little),
- If the acquirer has made 10 or more M&As, it is given the score **2** (= yes).

The number of M&As refers to M&As made during the whole examined period (1990-2007).

### 3.7.3 Summary of Measurement of Variables

Table 2 summarizes how the variables used in the study are measured.

| Variable | How we measure it |
|---|---|
| ***Dependent variables*** | |
| Share price | Movements from one day prior to announcement day and five days onwards |
| Revenues | Changes from completion year and three years onwards |
| ***Independent variables*** | |
| Combination potential | 1 = same industry<br>0 = different industries |
| Cross-border | 1 = different countries<br>0 = same country |
| Relative size | Acquirer's sales divided by target's sales<br>(acquirer X times bigger than target) |
| M&A experience | 0 = 0-2 M&As<br>1= 3-9 M&As<br>more 2 = than 10 M&As |

*Table 3: Summary of the variables and the way of measuring them.*

## 3.8 Multiple Regression Analysis

The determination of the correlation between the different factors is done through multiple regression analysis (Körner & Wahlgren, 2009). In linear multiple regression analysis there are two or more independent/explaining variables that determine the function of the dependent variable according to equation:

$$y = a + b_1 x_1 + b_2 x_2 + \cdots + b_n x_n \qquad (1)$$

where y=the dependent variable, a=constant, $b_1$=coefficient 1, $x_1$=independent variable 1, $b_2$=coefficient 2, $x_2$=independent variable 2, n = the number of independent variables. Multiple regression analysis is also one of the methods used in our article of inspiration, Larson & Finkelstein (1999).

### 3.8.1 Regression models

13 regression models are done, they are presented in appendix 1. In regressions 1-5 the revenue changes in year one to three are inserted as explanatory/independent variables, whereas the stock price reaction day one to five is the dependent variable. This is done in order to see if there is a correlation between the revenue change up to three years after the completion of the acquisition, and the stock market reaction up to five days after the announcement day. Five additional regressions are made (regressions 6-10) where the explanatory/independent variables (combination potential, cross-border M&A, relative size, and acquisition experience) are inserted as predictors and the dependent variable is the stock price reaction day one to five. Finally, three more regressions are done (regression 11-13) with the same independent variables as predictors and the revenue changes up to year three as the dependent variable.

## 3.9 Methodological Issues

Below follows a discussion regarding methodological issues such as validity and reliability.

### 3.9.1 Validity

Validity is concerned with the appropriateness of the data collected and results analysed, and whether the findings are in line with what was intended to study (Saunders, 2009). Also, validity can be divided into internal and external validity. Internal validity is concerned with if the study examines what it was set out to study, whereas external validity refers to the degree of generalizability (Bryman & Bell, 2007). As for the internal validity of our data, one factor that decreases the validity of this essay is the, sometimes insufficient, information. Of course, this problem might have led to a biased result, since we only could include targets where we found revenues (mainly bigger, listed firms). However, by our extensive efforts to derive more information via other information sources than databases, we were able increase the sample, both the number of the M&As included and the spread within it (based on for example experience or relative size).

Additionally, the reliability of the databases could be an issue that decreases the validity. Foremost, it is possible that not all M&As that occurred in the chosen time period and with the chosen criteria, are actually included in Reuters 3000 Xtra. We became aware of this problem when we searched for additional information regarding targets' revenues on acquirers' web pages. As for this database, we also question the fact the announcement day and the completion day sometimes was the same. If the announcement date is not correct, it will give us the wrong stock price reaction in our models. However, we do not have any choice than to trust the database. Most likely, this issue has not lead to any major miscalculations. If miscalculations have occurred, those will most likely concern the measurement of the share price movements (taking the wrong share prices). Moreover, the trustworthiness of DataStream and Affärsdatabasen could also be questioned; however, we do not have any objections against those databases.

How we measure each variable also affects the internal validity. We constantly refer to other studies and articles that have used the methods and measurements that we have adopted; therefore, we argue that our measurements are correct and well-established. One critical aspect is the measurement of customer reactions in terms of revenue changes. This is critical since revenue changes most likely include changes due to other internal or external circumstances (such as improved marketing or a general market regression). Thus, by measuring customer reactions in this way, we do not perfectly capture the revenue changes due to a particular merger or acquisition. Also, as explained in the sample selection, we exclude abnormal revenue changes (those over 60 %), with an aim to clear for acquirers that made several acquisitions that we were not able to find any information on. However, a possible threat against the validity of this study, is the method (figure 5)

used when clearing for the acquirers that made several M&As during the following three years that we measure revenue changes for. This method might be too general and maybe not that accurate.

One issue that might affect whether the study actually measures what it is intended to measure concerns the data collected. As will be more thoroughly explained in the results chapter, the data consists of much more M&As with combination potential than without combination potential, and much more cross-border M&As than domestic M&As. This, of course, questions the validity of the data collected. On the other hand, we are aware of this fact and analyse the results accordingly.

As for external validity, the degree to which we are able to generalize our results, is affected negatively by the choice of industries. As we explained in the sector regarding data selection and sample, we have four industries included in our sample. Unfortunately, the sample is highly biased towards firms within industrials. This implies that we do not have the ability to fully generalize to other industries or to a market as a whole. Different industries do indeed have different characteristics, both in financials and in the way they conduct M&As.

### 3.9.2 Reliability

Reliability refers to the consistency of the gathered results (Kvale, 1996) and to the consistency of the analysis, data collection and methods used (Saunders, 2009). Also, high reliability is achieved when the researchers participate with the least subjective approach as possible (Bryman & Bell, 2007). Saunders et al. (2009) suggest three questions that can be evaluated in order to determine the level of reliability in this thesis: "(1) will the measures yield the same results on other occasions? (2) will similar observations be reached by other observers? and (3) is there transparency in how sense was made from raw data?" (Saunders, 2009 p.156).

Indeed, one factor that lowers the reliability if this study is the difficulty of retrieving correct and valuable information regarding mainly targets' revenues. This problem led us to collect information about revenues from other databases and various web pages on the internet. On one hand, this method increased both the validity and the reliability of the study since we were able to increase the sample; however, it also decreased the reliability since many sources were used to retrieve the same information from different companies.

More precisely, this discussion of lowered reliability is in fact answering question number two posed by Saunders (2009). There is a risk that other observers reach other results, since it is possible that other researchers find sufficient information for other targets. Although this could be seen as problematic, we are also increasing the reliability since we are extending the sample data.

Accordingly, to answer question two, our rather high sample data increases the likelihood that the study will yield the same results on other occasions.

Following the discussion above, there is a risk that the “human factor” yields incorrect results. By this we mean that typing errors always can occur; however, we did all that stood in our power to minimize this risk. Mainly, we took advantage of the fact that we are two researchers, and consistently checked each other’s work.

To answer question three, regarding how sense is made from the data, we have continuously referred to well-established theory and made sure that the hypotheses were based on former research.

# 4. Results

*This chapter starts with descriptive statistics where we go through the correlations between the variables in this sample. Following that, we present the regressions and state which hypotheses we are able to accept and reject.*

## 4.1 Descriptive Statistics

The sample consists of 176 M&As made by companies in Sweden. Below follows a table with the presentation of the independent variables; combination potential, cross-border M&As, experience and relative size. As can be seen in the table 3, the majority of the acquisitions are within the same industry, cross-border and made by experienced acquirers. The median acquirer is about 65 times larger than its targets, and this is an interesting observation when compared to the average relative size, which is much larger. Moreover, of the target companies, 54 are Swedish whereas the rest are based in other countries, the majority of them being based in the United States (23), Finland (13), United Kingdom (11), Norway (11) and Denmark (10) (see appendix 4 for all countries).

| | Combination potential | | Cross-border | | | Experience | | | | Relative size | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **No** | 18 | 10% | 54 | 31% | | **No** | 11 | 6% | | **Max** | 974 |
| **Yes** | 158 | 90% | 122 | 69% | | **Little** | 61 | 35% | | **Min** | 0,6 |
| | | | | | | **Yes** | 104 | 59% | | **Average** | 149 |
| Total | *176* | | *176* | | | | *176* | | | **Median** | 65 |

*Table 3: Presentation of the frequency of the independent variables*.

Table 4 describes the dependent variables; the change in revenues three years after the acquisition, and the change in stock price five days after the announcement day. The difference between the median and the average in revenues is substantially larger for the acquirer than for the target before the acquisition. The average increase in revenues is substantial, whereas the average increase in acquirer's stock price after the announcement date is low or insignificant, which is in accordance with Jakobsen & Voetmann (2003).

| (MSEK) | Target's sales | Acquirer's sales | T's and A's rev. prior to acq. | Change in revenues ΔY1 | ΔY2 | ΔY3 | Change in stock price D1 | D2 | D3 | D4 | D5 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Max** | 37 671 | 183 625 | 184 465 | 59% | 143% | 248% | 15% | 18% | 20% | 16% | 18% |
| **Average** | 1 230 | 25 869 | 26 605 | 18% | 24% | 31% | 1% | 1% | 1% | 1% | 1% |
| **Median** | 146 | 14 218 | 15 478 | 18% | 16% | 21% | 0% | 1% | 1% | 1% | 1% |
| **Min** | 8 | 24 | 39 | -58% | -64% | -65% | -9% | -8% | -8% | -11% | -11% |
| **Std.dev.** | 3 880 | 31 698 | 30 245 | 21% | 34% | 42% | 3% | 4% | 4% | 4% | 4% |

*Table 4: Descriptive statistics for the dependent variables*.

## 4.2 Correlations Between the Variables

An interesting observation shown in table 5 is that there is a significant correlation between the independent variables experience and cross-border M&A and experience and relative size. However, this is probably not at major issue, since it is normal behaviour for experienced companies to make acquisitions abroad. Also, the more acquisitions a company makes, the larger it becomes, and therefore the relative size probably increases. Moreover, experience is significantly correlated to the revenue changes after the acquisition, probably because experienced companies realize revenues at a higher pace. Additionally, there is a weak negative, statistically significant, correlation between relative size and the change in stock prices day two to four.

| Correlations of variables* | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Variable** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10** | **11** |
| **1** | Combination potential | | | | | | | | | | | |
| **2** | Cross-border M&A | 0,019 | | | | | | | | | | |
| **3** | Relative size | -0,049 | 0,142 | | | | | | | | | |
| **4** | Experience | 0,046 | ***0,232*** | ***0,375*** | | | | | | | | |
| **5** | Revenue ΔY1 | 0,137 | -0,039 | -0,001 | ***0,166*** | | | | | | | |
| **6** | Revenue ΔY2 | 0,117 | -0,108 | -0,025 | ***0,211*** | ***0,736*** | | | | | | |
| **7** | Revenue ΔY3 | 0,070 | -0,045 | -0,008 | ***0,246*** | ***0,583*** | ***0,846*** | | | | | |
| **8** | Stock price D1 | -0,033 | 0,022 | -0,101 | 0 | -0,081 | 0,002 | 0,059 | | | | |
| **9** | Stock price D2 | -0,068 | -0,021 | ***-0,186*** | -0,022 | -0,019 | 0,034 | 0,050 | ***0,690*** | | | |
| **10** | Stock price D3 | -0,103 | -0,016 | ***-0,172*** | 0,008 | -0,006 | 0,051 | 0,079 | ***0,564*** | ***0,872*** | | |
| **11** | Stock price D4 | -0,087 | -0,020 | ***-0,197*** | -0,042 | 0,016 | 0,060 | 0,071 | ***0,560*** | ***0,800*** | ***0,855*** | |
| **12** | Stock price D5 | -0,075 | -0,092 | ***-0,201*** | -0,046 | 0,006 | 0,054 | 0,077 | ***0,472*** | ***0,726*** | ***0,777*** | ***0,870*** |
| * Correlations in ***bold font*** are significant at $p < 0,05$. n=176 | | | | | | | | | | | | |

*Table 5: Correlations between the variables.*

## 4.3 Regression Results

The significance of the regression results is presented below, and also the results of the regression.

### 4.3.1 Significance of the Regression Models

13 regressions are made and they are all presented thoroughly in appendix 1. Table 6 presents the first five regressions, which measure the relationship between the revenue changes year one to three as explanatory variables, and the stock price day one to five as the dependent variable. However, the F-value for these regressions is low and they are not statistically significant. The strongest regression model is regression 1 with the stock price day one as the dependent variable.

| | *Dependent variables* | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Stock change D1** | | **Stock change D2** | | **Stock change D3** | | **Stock change D4** | | **Stock change D5** | |
| **$R^2$** | 0,024 | | 0,006 | | 0,01 | | 0,007 | | 0,008 | |
| **F** | 1,388 | | 0,374 | | 0,603 | | 0,375 | | 0,472 | |
| **p** | 0,248 | | 0,772 | | 0,614 | | 0,771 | | 0,703 | |
| ***Explanatory variables*** | **Coefficient** | **p** | **Coefficient** | **p** | **Coefficient** | **p** | **Coefficient** | **p** | **Coefficient** | **p** |
| **Rev. change ΔY1** | -0,021 | 0,147 | -0,015 | 0,417 | -0,016 | 0,455 | -0,011 | 0,617 | -0,014 | 0,574 |
| **Rev. change ΔY2** | -0,002 | 0,858 | 0,005 | 0,763 | 0,002 | 0,933 | 0,006 | 0,777 | 0,002 | 0,934 |
| **Rev. change ΔY3** | 0,011 | 0,209 | 0,005 | 0,681 | 0,011 | 0,419 | 0,006 | 0,663 | 0,011 | 0,480 |

*Table 6: Regression results, revenue changes vs. stock price changes.*

Thereafter five more regressions are made, presented in table 7, where the explanatory/independent variables are combination potential, cross-border M&As, experience and relative size, and the dependent variable is the stock price day one to five. These regressions are stronger with a higher F-value, and regressions 7-10 are weakly statistically significant at p <0 ,10.

| | *Dependent variables* | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Stock change D1** | | **Stock change D2** | | **Stock change D3** | | **Stock change D4** | | **Stock change D5** | |
| **$R^2$** | 0,014 | | 0,044 | | 0,05 | | 0,05 | | 0,054 | |
| **F** | 0,624 | | 1,954 | | 2,232 | | 2,253 | | 2,447 | |
| **p** | 0,646 | | ***0,104*** | | ***0,068*** | | ***0,065*** | | ***0,048*** | |
| ***Explanatory variables*** | **Coefficient** | **p** | **Coefficient** | **p** | **Coefficient** | **p** | **Coefficient** | **p** | **Coefficient** | **p** |
| **Experience** | 0,177 | 0,631 | 0,357 | 0,453 | 0,614 | 0,250 | 0,292 | 0,587 | 0,407 | 0,498 |
| **Cross-border M&A** | 0,178 | 0,696 | -0,029 | 0,960 | -0,050 | 0,940 | 0,021 | 0,974 | -0,706 | 0,344 |
| **Relative Size** | -0,002 | 0,139 | -0,004 | ***0,009*** | -0,004 | ***0,009*** | -0,004 | ***0,007*** | -0,005 | ***0,008*** |
| **Combination Potential** | -0,369 | 0,586 | -0,939 | 0,283 | -1,539 | 0,118 | -1,317 | 0,184 | -1,279 | 0,248 |
| Regressions in ***bold font*** are statistically significant att p < 0 ,10 | | | | | | | | | | |

*Table 7: Regression results, independent variables vs. stock price changes.*

Three additional regressions are made, presented in table 8, where the independent variables are the same (combination potential, cross-border M&As, experience and relative size) and the dependent variable is the change in revenues year one to three. Regression 11-13 have acceptable F-values and are all statistically significant at p<0,05, the weakest one being regression 11 with p=0,049, whereas regression 12 and 13 are significant at p<0,01 (p=0,002 respectively p=0,004).

| | *Dependent variables* | | | | | |
|---|---|---|---|---|---|---|
| | **Rev. Change ΔY1** | | **Rev. Change ΔY2** | | **Rev. Change ΔY3** | |
| **$R^2$** | 0,054 | | 0,091 | | 0,085 | |
| **F** | 2,442 | | 4,305 | | 3,974 | |
| **p** | ***0,049*** | | ***0,002*** | | ***0,004*** | |
| ***Explanatory variables*** | **Coefficient** | **p** | **Coefficient** | **p** | **Coefficient** | **p** |
| **Experience** | 6,886 | ***0,015*** | 15,521 | ***0,001*** | 21,285 | ***0,000*** |
| **Cross-border M&A** | -3,652 | 0,296 | -11,764 | ***0,033*** | -9,430 | 0,174 |
| **Relative Size** | -0,006 | 0,471 | -0,017 | 0,196 | -0,022 | 0,181 |
| **Combination Potential** | 8,771 | ***0,091*** | 11,295 | 0,166 | 7,293 | 0,478 |
| Regressions in ***bold font*** are statistically significant att p < 0 ,10 | | | | | | |

*Table 8: Regression results, independent variables vs. stock price changes.*

Conclusively, our models can be considered as being sufficient for our analysis and good enough for the aim of this thesis, except regression 1-5, which are not significant.

### 4.3.2 Stock Market Expectation vs. Business Market Reaction

In regressions 1-5, presented in table 6, where the explanatory variables are the revenue changes year one to three, and the dependent variable is the stock market reaction, the B-coefficient shifts around zero, which means that the stock market is not able to predict the revenue changes, and therefore the costumer sales reaction. This relationship is strongest the first day after the announcement date. Hence, there is no relationship between the stock markets' expectations and the business markets reaction, however, this fact is not statistically significant. Therefore, hypothesis 1, *the more positive stock market reactions, the more positive customer sales reaction,* is not accepted.

Additionally, figure 7 also confirms the lacking relationship between stock market reaction after the announcement day, and revenue changes after the merger or acquisition. The only distinguishing pattern is that during the fifth day, the stock prices are more dispersed. In appendix 2 the diagrams for revenue changes in year two and three are presented.

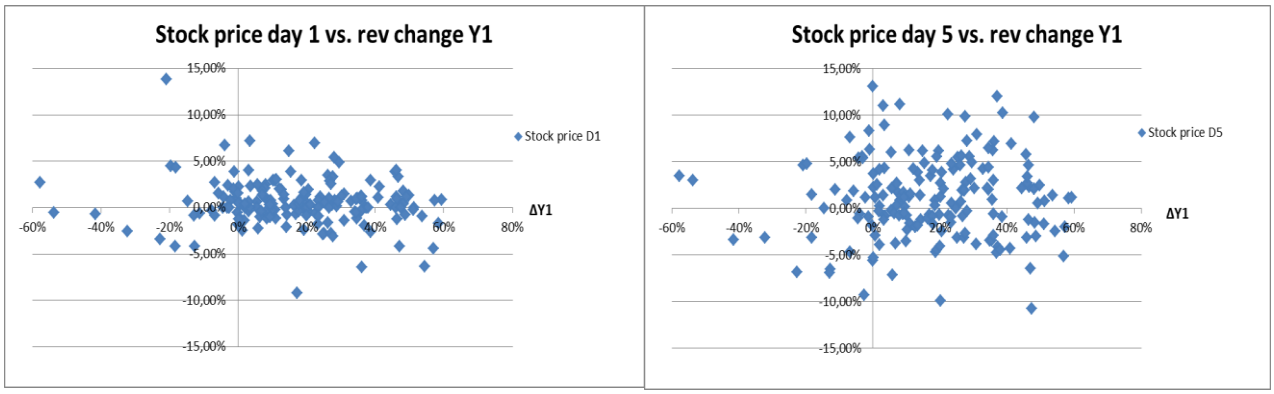


*Figure 7: The revenue change year one vs the stock price day 1 and day 5.*

### 4.3.3 Combination Potential

The B-coefficient for the factor combination potential in all the regressions 6-10 (table 7) – with the independent variables vs. stock price – is negative, although not statistically significant. This means that combination potential has a negative effect on the stock price. This relationship is strongest in day three after the announcement date, where the p-value is the lowest, 0,118. Hence, hypothesis 2a, *the more overlapping combination potential, the more positive stock market reaction*, is rejected.

In regressions 11-13 (table 8), where the dependent variable is the change in revenues, there is a positive relation between the combination potential and the customer sales reaction. This relation is

weakly statistically significant at p<0,10 for year one (p=0,09), but not for year two and three (p=0,17 respectively p=0,47). This means that hypothesis 2b, *the more overlapping combination potential, the more negative customer sales reaction*, is rejected.

### 4.3.4 Cross-border M&As

Regressions 6-10 (table 7), where the dependent variable is the stock price, show that the b-coefficient for the factor cross-border shifts around zero, and this is not statistically significant at all. Hence, there is no relation between the stock market reaction and if the acquisition is cross-border, which leads us to the conclusion that hypothesis 3a, *cross-border M&A are positively associated to stock market reactions*, is rejected.

Regressions 11-13 (table 8), where the dependent variable is the sales reaction, show a negative b-coefficient for the variable cross-border for all the three years. This means that there is a negative relation between the change in revenues and if the acquisition is cross-border. This relationship is statistically significant at p<0,05 for year two (p=0,03), and the p-value for year three is also quite low, 0,17. But since this negative relationship is statistically significant only for one year, we cannot accept hypothesis 3b, *cross-border M&A are negatively associated to business market reactions*, and therefore, have to reject it.

### 4.3.5 Relative Size

Regressions 6-10 (table 7), where the dependent variable is the stock market reaction, show a b-coefficient for the factor relative size of approximately zero. Hence, the relative size of the acquirer compared to the target, has no effect at all on the share price after the announcement day, and this is statistically significant at p<0,01 for the stock reaction in day two (p=0,009), three (p=0,009), four (p=0,007), and five (p=0,008), but not day one(p=0,139). Therefore, hypothesis 4a, *the greater relative size of acquirer to target, the more positive stock market reaction*, is rejected.

Regressions 11-13 (table 8), where the dependent variable is the customer sales reaction, show a b-coefficient for relative size of approximately zero as well, however this is not statistically significant. Again, this means that the relative size of the acquirer compared to the target doesn't affect the revenue changes, however this is not statistically significant. Therefore, hypothesis 4b, *the greater relative size of acquirer to target, the more positive business market reactions*, is not accepted.

### 4.3.5 Acquisition Experience

In regressions 6-10 (table 7), where the dependent variable is the stock market reaction, the b-coefficient for the independent factor experience is weakly positive, close to zero. The experience of the acquirer seems to have a slightly positive effect on the stock price after the announcement day, but this relationship is not statistically significant at all, and no conclusions can be drawn. Therefore,

hypothesis 5b, *the greater acquisition experience, the more positive stock market reactions*, is rejected.

However, acquisition experience seems to have a large effect on the business market. The b-coefficient is high and it increases in year two and three after the acquisition (see regressions 11-13 in table 8), which means that the acquisition experience has a higher effect on the revenues and costumer sales reaction in the second and third year. This relationship is statistically significant at p<0,05 for the first year (p=0,015), and at p<0,01 for the second (p=0,001) and third year (p=0,000). This leads us to the acceptance of hypothesis 5b, *the greater acquisition experience, the more positive business market reactions*.

## 4.4 Summary of Results

Figure 8 shows the results in a summarized form, and it visualizes how the independent factors – combination potential, cross-border M&As, relative size, and acquisition experience – affect the stock markets' expectations and the business markets' reactions to M&As, according to our results. The signs within brackets show what we thought the relationship looked like in the hypothesis building represented in figure 2.

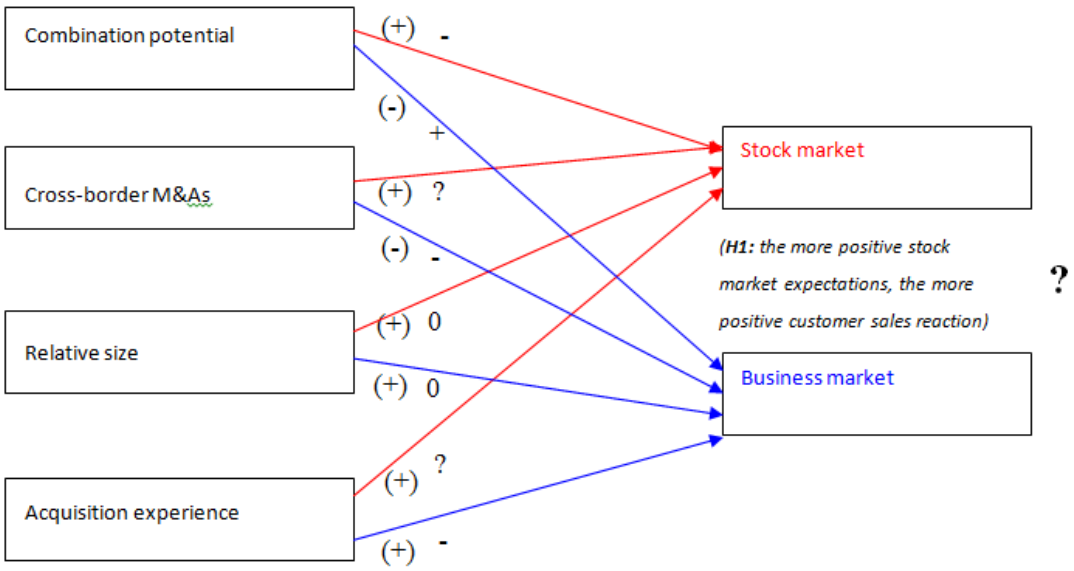


*Figure 8: The framework according to our results.*

# 5. Analysis

*In this chapter, we discuss the implications of our results. In detail, we pose explanations to the rejection and acceptance of our hypotheses. In the end of this chapter, we provide the updated version of the model outlining our hypotheses.*

## 5.1 Relating Stock Market Expectations to Business Market Reactions

We hypothesized that the stock market is able to predict customer reactions. This hypothesis is the result of our purpose; whether or not the stock market is able to predict the business market reactions following M&As. However, our results suggest that there is no relationship between these two variables, and we are, therefore, not able to correctly answer this question. This result is in line with other studies that found no significant increase in share price after announcement date. However, we do not support the results of this study completely, since there logically ought to be a relationship between the stock market's expectations and customers' reaction. In other words, it is non-arguable that stock market investors discuss and predict possible revenue changes three years after the merger or acquisition. Also, since we examined such a long period of time the "hot" merger years (Rosen, 2006) are offset. However, when it comes to the share price movements, our study confirms the results of other studies, for example Jakobsen & Voetmann (2003), who state that the stock returns for acquirers are small or insignificant during the days following the announcement date.

We pose some explanations to why we were not able to demonstrate a relationship between share price changes and business market reactions. First, one explanation is related to the discussion above regarding acquirers' share price movements. Since the increase in stock returns in our sample is around 1 %, it is statistically difficult to find a relationship. Also, regarding the sample, we stated in the validity part that we are unsure if we have measured share price at the correct dates (if the announcement dates are incorrectly stated). If we have taken the wrong share prices, it is possible that the correct share prices would have given us a result containing a relationship between stock market and business market expectations. Although this could be the case, the share price movements in our result are still confirmed in former research.

## 5.2 Combination Potential

### 5.2.1 Stock Market

We expected the stock market to react positively on more overlapping combination potential between the acquirer and the target. However, we were not able to prove this relationship. On the other hand, the relationship between combination potential and the acquirer's share price is negative (although not statistically significant, rather a trend). Moreover, this relationship is strongest in day three. One explanation to this trend could be found in the fact that we hypothesize that the stock market is able to predict customer reactions, together with the expected result that customers react negatively towards more overlapping combination potential. Thus, if the combination potential is high, revenues should, according to the theory underpinning our hypothesis, be negatively affected. This means that the stock market should be able to predict these negative revenue changes, leading to the fact that greater combination leads to negative share price changes.

Although the above mentioned arguments might be explaining our results, we still need to reflect upon the fact that this hypothesis was rejected and the fact that we showed a trend that was contradicted to our expectation. As a reflection, it is clear that the combination potential in our sample is biased towards more M&As with industry similarity and less M&As with industry dissimilarity. Therefore, much weight is given to the M&As with industry dissimilarity, potentially biasing the sample.

### 5.2.2 Business Market

We expected the business market to react negatively towards more overlapping combination potential between the acquirer and the target. However, the results regarding this hypothesis point in the very opposite direction. This means that we found a positive relationship between combination potential and revenue movements. Former studies have shown that M&As may allow firms to capture more revenues through a greater market power (Öberg, 2008; Gaughan, 2007). As we hypothesized, this would potentially lead to more negative customer reactions. On the contrary, however, we see a trend towards positive customer reactions. Former research also concludes that customers have a negative approach towards changes, implicitly meaning that customers are critical aspects in the integration process of one firm into another firm. Also, customers are likely to react negatively on M&As if the process is complex and if the companies are not integrated enough (Anderson, Havila & Salmi, 2001). As an explanations to the trend we found, it is likely that customers favour a merger or acquisition between companies that are more alike (greater combination potential), so that the change is smaller. Greater combination potential also implies that customers are familiar with the products, services and probably also the brand of the target. Because of those similarities, customers could act favourably to greater combination potential, and, following the

positive trend we found between combination potential and revenue changes, this reaction seems to outcompete the possible negative effects of increased market power.

## 5.3 Cross-border M&As

### 5.3.1 Stock Market

According to our study, there is no visible relationship between share price and whether the merger or acquisition is cross-border. Previously, cross-border M&As have been connected to combination potential, in terms of relatedness versus unrelatedness (Santos, 2008). Based on the sample in that study, the author concludes that related cross-border M&As create an insignificant value creation. As stated above, the relation between combination potential and the acquirer's share price is negative. Therefore, with Santos (2008) studies as background, it is possible that the stock market values the relatedness more than the cross-border factor, leading to a non-existing relationship.

Moreover, we find another explanation to the fact that we do not find any significant relationship between cross-border M&As and share price, if we go back to the statement that share prices represent the expectations of the stock market. Accordingly, even though M&As logically will create value through going abroad, the stock market might not believe in these potential synergies. For example, cross-border M&As are often believed to create shareholder value through synergies not available in the domestic country (Zhu, 2010; Seth, Song & Pettit, 2000). Managers might indeed be confident in these synergy realizations; however, the stock market might not be that convinced in the managers' ability to create value.

### 5.3.2 Business Market

Our results indicate that there is a negative relationship between revenue movements and the cross-border factor. This relationship is only statistically significant in year two, leading to the rejection of the hypothesis. However, we provide a trend where customers seem to react negatively towards cross-border M&As. First of all, in accordance to the hypothesis building and former research, cross-border M&As are more complex than domestic ones (Collins, 2009). Also, as clarified before, customers do not favour changes and complex processes. According to that, it is instinctively clear that customers would react negatively towards cross-border M&As.

## 5.4 Relative Size

### 5.4.1 Stock Market

According to our results, there is no relationship between relative size and the stock market's reactions, and this fact is statistically significant for all days except for day one. One former study, performed by Finkelstein & Haleblian (2002), also came to this conclusion. Actually, former research is dispersed in this area, since different researchers have shown different results; there are studies

that indicate a positive relationship between relative size and share price reactions, and there are others that indicate the opposite. We suggest three things: (1) the stock market is not at all interested in relative size, (2) they are interested in relative size measured in other variables than turnover, or (3) other variables are more important for the stock market than relative size.

### 5.4.2 Business Market

As with the stock market reactions and relative size, there is no relationship between relative size and the business market reaction. That is, relative size does not affect the customer sales reaction. However, this is not significant. Yet again, possible explanations could be the same as for stock market reactions and relative size.

## 5.5 M&A Experience

### 5.5.1 Stock Market

Our results point towards a positive trend between stock market reactions and M&A experience; however, this is not significant. According to former research, included in our literature review, M&A experience does not simply lead to applying that knowledge and achieving a greater value creation, as illustrated in figure 1 (Finkelstein & Haleblian, 1999). This way of arguing could possibly be applied in this result; firms with experience might not have taken advantage of the knowledge gained or created any significant value for shareholders, and the stock market does not, therefore, expect the companies to perform in the future M&As either. Furthermore, it is likely that the stock market lacks in confidence for companies with historical M&A experience. As Finkelstein & Haleblian (1999) argue, some firms do try to apply empirical M&A experience; however, they do it in the wrong manner. For example, the stock market might expect certain companies to generalize dissimilar experiences, possibly leading to value destruction.

### 5.5.2 Business Market

As for the relation between business market reactions and M&A experience, we are able to prove a positive, statistically significant, relationship. Most likely, this is due to the logical fact that customers to firms that continuously do M&As get used to the process. Also, in contrast to the argumentation regarding stock market expectations and M&A experience, this could mean that customers are confident in that the companies use the experience correctly. If so, these two results together imply that the stock market is not, or to a little degree, able to predict the actions taken by the business market.

# 6. Conclusion

*This chapter serves to conclude our thesis. First, we summarize our main findings and reconnect to the purpose of this thesis. Lastly, we explain the limitations of the study and finish off with some suggestions for further research.*

## 6.1 Summary of our Findings

Given our results, we are not able to provide an answer to the main question posed in this research; if the stock market is able to predict the reactions of the customers. However, we do not pose any explanation to the non-significant relationship since we indeed argue that there should be a relationship between these two variables. Rather, we discuss possible sources of error to why we are not able to provide evidence for this relationship. Anyhow, our results demonstrate several trends between share price versus revenues and our independent variables. Firstly, share price seems to be negatively related to combination potential and positively related to M&A experience. Secondly, we do not find a relationship between share price and cross-border M&A. And thirdly, we establish that there is no relationship between share price and relative size. For our other dependent variable, revenue changes, we conclude that revenue changes seems to be positively related to combination potential and M&A experience, whereas it is negatively related to cross-border M&A. Moreover, we do not find a relationship between revenue changes and relative size.

Following these results, we are unable to say anything, statistically proven, regarding the stock market's ability to predict customer reactions. However, we have found implications that the stock market is not able to predict customer reactions in regards to combination potential. On the other hand, the stock market is not, or only slightly, able to predict the actions taken by customers.

## 6.4 Limitations

One limitation with this thesis is the fact that we have four specific independent variables to explain stock market expectations and business market reactions. Of course, there are other variables (such as organizational integration, management attitudes and employee resistance) that might have a different or greater explanatory value to our main purpose. Accordingly, it is possible that the stock market values other variables than our four chosen factors, when the investors predict customer reactions. Thus, one limitation of this study is that we might not capture the full picture of the relationship between stock market expectations and customer reactions.

A second limitation concerns the way we measure customer reactions. As explained before, we only incorporate revenue changes, and disregard factors such as brand awareness and customer satisfaction. We were aware of these limitations from the beginning, and describe reasons to why we do this demarcation. Nevertheless, this way of measuring customer reactions still pose a limitation to this study since we do not integrate the full picture of customer reactions.

Furthermore, our study is restricted to acquirers based in Sweden. Although we see this as an advantage of the thesis, we still understand that the hypotheses are based on former studies conducted in other parts of the world. If Swedish firms, investors and customer act differently from actors in other countries, this provides a limitation for this study. Accordingly, one limitation could be the lack of generalizability to foreign markets and firms (if one believe that Swedish firms are different from foreign firms).

## 6.4 Further Research Suggestions

We would like to suggest some future research topics. First of all, it would be interesting to build upon this research to include additional variables in customer reactions. For example, customer reactions could also be measured in brand awareness and customer satisfaction. In addition, as recognized when analysing the results, other variables than the four included in this study may have a greater explanatory value. This would be interesting since we were unable to prove that the stock market is able to (or unable to) predict the reactions of the business market.

Following that discussion, one could also replicate this study with the difference that revenue could be measured for more years and more thoroughly, meaning that one could clear for inflation and other external circumstances.

Also, both former research and this study confirm that relative size is an unimportant variable in this matter. However, some other studies argue that relative size does matter, but it seems to be difficult to decide in which direction it matters. Accordingly, it would be interesting to further study explicitly relative size with an aim to determine exactly in which situations relative size matters and affect both the stock market's expectations but also customer reaction.

Furthermore, one interesting aspect is the restriction of countries. For example, future research could study whether there is a difference between developed and developing countries or not.

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## Databases

DataStream

Reuters 3000 Xtra

Affärsdatabasen

# Appendices

## Appendix 1

Presentation of linear multiple regressions

### Regressions 1-5: revenue changes vs. stock price

**Regression 1: revenue changes vs. stock price day 1**

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | ,154[a] | ,024 | ,007 | 2,68843 |

a. Predictors: (Constant), ΔY1, ΔY2, ΔY3

**ANOVA[b]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 30,096 | 3 | 10,032 | 1,388 | ,248[a] |
| | Residual | 1243,154 | 172 | 7,228 | | |
| | Total | 1273,250 | 175 | | | |

a. Predictors: (Constant), ΔY1, ΔY2, ΔY3

b. Dependent Variable: D1

**Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | ,696 | ,273 | | 2,554 | ,012 |
| | ΔY1 | -,021 | ,014 | -,163 | -1,456 | ,147 |
| | ΔY2 | -,002 | ,014 | -,030 | -,179 | ,858 |
| | ΔY3 | ,011 | ,009 | ,180 | 1,262 | ,209 |

a. Dependent Variable: D1

**Regression 2: revenue changes vs.stock price day 2**

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | ,080[a] | ,006 | -,011 | 3,55071 |

a. Predictors: (Constant), ΔY1, ΔY2, ΔY3

**ANOVA[b]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 14,141 | 3 | 4,714 | ,374 | ,772[a] |
| | Residual | 2168,496 | 172 | 12,608 | | |
| | Total | 2182,636 | 175 | | | |

a. Predictors: (Constant), ΔY1, ΔY2, ΔY3

b. Dependent Variable: D2

**Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 1,284 | ,360 | | 3,566 | ,000 |
| | ΔY1 | -,015 | ,019 | -,092 | -,814 | ,417 |
| | ΔY2 | ,005 | ,018 | ,052 | ,302 | ,763 |
| | ΔY3 | ,005 | ,012 | ,059 | ,412 | ,681 |

a. Dependent Variable: D2

**Regression 3: revenue changes vs. stock price day 3**

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | ,102[a] | ,010 | -,007 | 3,98804 |

a. Predictors: (Constant), ΔY1, ΔY2, ΔY3

**ANOVA[b]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 28,784 | 3 | 9,595 | ,603 | ,614[a] |
| | Residual | 2735,574 | 172 | 15,904 | | |
| | Total | 2764,358 | 175 | | | |

a. Predictors: (Constant), ΔY1, ΔY2, ΔY3

b. Dependent Variable: D3

**Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 1,306 | ,404 | | 3,230 | ,001 |
| | ΔY1 | -,016 | ,021 | -,084 | -,749 | ,455 |
| | ΔY2 | ,002 | ,020 | ,014 | ,084 | ,933 |
| | ΔY3 | ,011 | ,013 | ,116 | ,809 | ,419 |

a. Dependent Variable: D3

## Regression 4: revenue changes vs.stock price day 4

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | ,081[a] | ,007 | -,011 | 4,03552 |

a. Predictors: (Constant), ΔY1, ΔY2, ΔY3

**ANOVA[b]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 18,333 | 3 | 6,111 | ,375 | ,771[a] |
| | Residual | 2801,099 | 172 | 16,285 | | |
| | Total | 2819,432 | 175 | | | |

a. Predictors: (Constant), ΔY1, ΔY2, ΔY3

b. Dependent Variable: D4

**Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 1,060 | ,409 | | 2,592 | ,010 |
| | ΔY1 | -,011 | ,022 | -,057 | -,502 | ,617 |
| | ΔY2 | ,006 | ,021 | ,049 | ,283 | ,777 |
| | ΔY3 | ,006 | ,014 | ,063 | ,437 | ,663 |

a. Dependent Variable: D4

## Regression 5: revenue changes vs.stock price day 5

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | ,090[a] | ,008 | -,009 | 4,51273 |

a. Predictors: (Constant), ΔY1, ΔY2, ΔY3

**ANOVA[b]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 28,807 | 3 | 9,602 | ,472 | ,703[a] |
| | Residual | 3502,733 | 172 | 20,365 | | |
| | Total | 3531,540 | 175 | | | |

a. Predictors: (Constant), ΔY1, ΔY2, ΔY3

b. Dependent Variable: D5

**Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 1,035 | ,457 | | 2,263 | ,025 |
| | ΔY1 | -,014 | ,024 | -,063 | -,563 | ,574 |
| | ΔY2 | ,002 | ,023 | ,014 | ,084 | ,934 |
| | ΔY3 | ,011 | ,015 | ,102 | ,708 | ,480 |

a. Dependent Variable: D5

## Regressions 6-10: independent variables vs. stock price

### Regression 6: independent variables vs. stock price day 1

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | ,120[a] | ,014 | -,009 | 2,70903 |

a. Predictors: (Constant), Combpot, Crossborder, RelSize, Experience

**ANOVA[b]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 18,309 | 4 | 4,577 | ,624 | ,646[a] |
| | Residual | 1254,941 | 171 | 7,339 | | |
| | Total | 1273,250 | 175 | | | |

a. Predictors: (Constant), Combpot, Crossborder, RelSize, Experience

b. Dependent Variable: D1

**Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | ,802 | ,822 | | ,976 | ,331 |
| | Experience | ,177 | ,368 | ,040 | ,482 | ,631 |
| | Crossborder | ,178 | ,456 | ,031 | ,391 | ,696 |
| | RelSize | -,002 | ,001 | -,122 | -1,488 | ,139 |
| | Combpot | -,369 | ,676 | -,042 | -,546 | ,586 |

a. Dependent Variable: D1

**Regression 7: independent variables vs. stock price day 2**

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | ,209[a] | ,044 | ,021 | 3,49373 |

a. Predictors: (Constant), Combpot, Crossborder, RelSize, Experience

**ANOVA[b]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 95,383 | 4 | 23,846 | 1,954 | ,104[a] |
| | Residual | 2087,253 | 171 | 12,206 | | |
| | Total | 2182,636 | 175 | | | |

a. Predictors: (Constant), Combpot, Crossborder, RelSize, Experience

b. Dependent Variable: D2

**Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 2,160 | 1,061 | | 2,036 | ,043 |
| | Experience | ,357 | ,475 | ,062 | ,753 | ,453 |
| | Crossborder | -,029 | ,588 | -,004 | -,050 | ,960 |
| | RelSize | -,004 | ,001 | -,213 | -2,624 | ,009 |
| | Combpot | -,939 | ,872 | -,081 | -1,077 | ,283 |

a. Dependent Variable: D2

**Regression 8: independent variables vs. stock price day 3**

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | ,223[a] | ,050 | ,027 | 3,91966 |

a. Predictors: (Constant), Combpot, Crossborder, RelSize, Experience

**ANOVA[b]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 137,162 | 4 | 34,290 | 2,232 | ,068[a] |
| | Residual | 2627,196 | 171 | 15,364 | | |
| | Total | 2764,358 | 175 | | | |

a. Predictors: (Constant), Combpot, Crossborder, RelSize, Experience

b. Dependent Variable: D3

**Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 2,496 | 1,190 | | 2,097 | ,037 |
| | Experience | ,614 | ,532 | ,095 | 1,153 | ,250 |
| | Crossborder | -,050 | ,660 | -,006 | -,075 | ,940 |
| | RelSize | -,004 | ,002 | -,213 | -2,634 | ,009 |
| | Combpot | -1,539 | ,979 | -,118 | -1,572 | ,118 |

a. Dependent Variable: D3

## Regression 9: independent variables vs. stock price day 4

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | ,224[a] | ,050 | ,028 | 3,95759 |

a. Predictors: (Constant), Combpot, Crossborder, RelSize, Experience

**ANOVA[b]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 141,145 | 4 | 35,286 | 2,253 | ,065[a] |
| | Residual | 2678,287 | 171 | 15,662 | | |
| | Total | 2819,432 | 175 | | | |

a. Predictors: (Constant), Combpot, Crossborder, RelSize, Experience

b. Dependent Variable: D4

**Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 2,555 | 1,202 | | 2,127 | ,035 |
| | Experience | ,292 | ,538 | ,045 | ,544 | ,587 |
| | Crossborder | ,021 | ,666 | ,002 | ,032 | ,974 |
| | RelSize | -,004 | ,002 | -,219 | -2,717 | ,007 |
| | Combpot | -1,317 | ,988 | -,100 | -1,333 | ,184 |

a. Dependent Variable: D4

## Regression 10: independent variables vs. stock price day 5

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | ,233[a] | ,054 | ,032 | 4,41973 |

a. Predictors: (Constant), Combpot, Crossborder, RelSize, Experience

**ANOVA[b]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 191,230 | 4 | 47,808 | 2,447 | ,048[a] |
| | Residual | 3340,309 | 171 | 19,534 | | |
| | Total | 3531,540 | 175 | | | |

a. Predictors: (Constant), Combpot, Crossborder, RelSize, Experience

b. Dependent Variable: D5

**Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 2,898 | 1,342 | | 2,159 | ,032 |
| | Experience | ,407 | ,600 | ,056 | ,678 | ,498 |
| | Crossborder | -,706 | ,744 | -,073 | -,948 | ,344 |
| | RelSize | -,005 | ,002 | -,216 | -2,684 | ,008 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | Combpot | -1,279 | 1,104 | -,086 | -1,158 | ,248 |

a. Dependent Variable: D5

## Regressions 11-13: independent variables vs. revenue changes

### Regression 11: independent variables vs. revenue change year 1

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | ,232[a] | ,054 | ,032 | 20,68507 |

a. Predictors: (Constant), Combpot, Crossborder, RelSize, Experience

**ANOVA[b]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 4179,667 | 4 | 1044,917 | 2,442 | ,049[a] |
| | Residual | 73166,129 | 171 | 427,872 | | |
| | Total | 77345,795 | 175 | | | |

a. Predictors: (Constant), Combpot, Crossborder, RelSize, Experience

b. Dependent Variable: ΔY1

**Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 2,558 | 6,280 | | ,407 | ,684 |
| | Experience | 6,886 | 2,810 | ,201 | 2,451 | ,015 |
| | Crossborder | -3,652 | 3,483 | -,080 | -1,049 | ,296 |
| | RelSize | -,006 | ,008 | -,058 | -,723 | ,471 |
| | Combpot | 8,771 | 5,165 | ,127 | 1,698 | ,091 |

a. Dependent Variable: ΔY1

**Regression 12: independent variables vs. revenue change year 2**

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | ,302[a] | ,091 | ,070 | 32,51504 |

a. Predictors: (Constant), Combpot, Crossborder, RelSize, Experience

**ANOVA[b]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 18207,518 | 4 | 4551,879 | 4,305 | ,002[a] |
| | Residual | 180785,931 | 171 | 1057,228 | | |
| | Total | 198993,449 | 175 | | | |

a. Predictors: (Constant), Combpot, Crossborder, RelSize, Experience

b. Dependent Variable: ΔY2

**Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | ,669 | 9,872 | | ,068 | ,946 |
| | Experience | 15,521 | 4,417 | ,282 | 3,514 | ,001 |
| | Crossborder | -11,764 | 5,475 | -,161 | -2,149 | ,033 |
| | RelSize | -,017 | ,013 | -,103 | -1,299 | ,196 |
| | Combpot | 11,295 | 8,119 | ,102 | 1,391 | ,166 |

a. Dependent Variable: ΔY2

**Regression 13: independent variables vs. revenue change year 3**

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | ,292[a] | ,085 | ,064 | 41,04530 |

a. Predictors: (Constant), Combpot, Crossborder, RelSize, Experience

**ANOVA[b]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 26777,216 | 4 | 6694,304 | 3,974 | ,004[a] |
| | Residual | 288086,580 | 171 | 1684,717 | | |
| | Total | 314863,795 | 175 | | | |

a. Predictors: (Constant), Combpot, Crossborder, RelSize, Experience

b. Dependent Variable: ΔY2

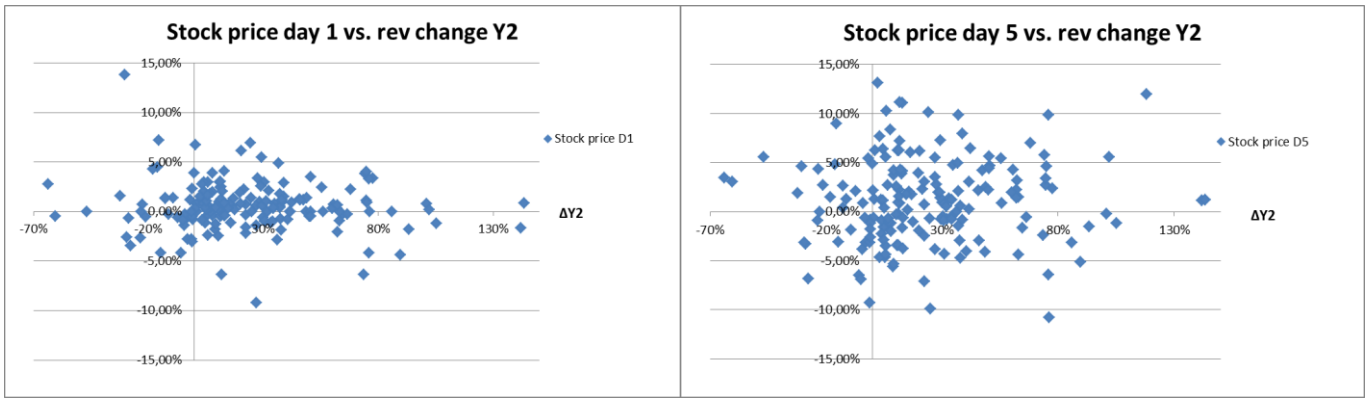
**Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 1,709 | 12,462 | | ,137 | ,891 |
| | Experience | 21,285 | 5,575 | ,308 | 3,818 | ,000 |
| | Crossborder | -9,430 | 6,911 | -,103 | -1,364 | ,174 |
| | RelSize | -,022 | ,016 | -,106 | -1,343 | ,181 |
| | Combpot | 7,293 | 10,249 | ,052 | ,712 | ,478 |

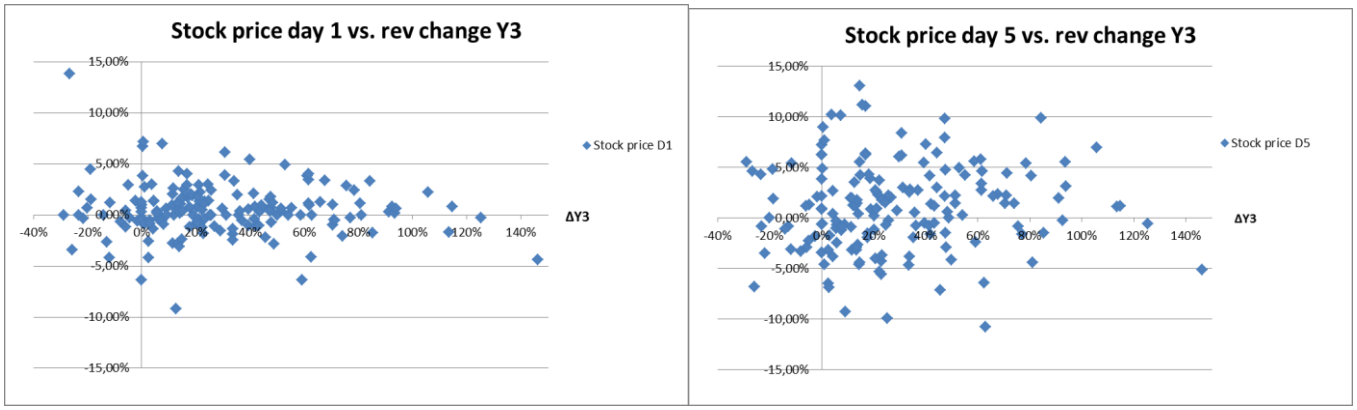
a. Dependent Variable: ΔY3

## Appendix 2

The stock price change vs. the revenue change plotted in diagrams.




The stock price change day 1 and day 5 after the announcement day plotted against the revenue change *two* years after the acquisition.




The stock price change day 1 and day 5 after the announcement day plotted against the revenue change *three* years after the acquisition.

## Appendix 3

List of all M&As in the sample:

| Announcement Date | Completion Date | Acquirer | Target | Target country |
|---|---|---|---|---|
| 1993-04-02 | 1993-06-23 | NCC AB | Nordiska Kompaniet Ab | Sweden |
| 1995-01-01 | 1995-01-01 | SCA AB | Pwa Papierwerke Waldhof Aschaffenburg Ag, 75 % | Germany |
| 1995-01-03 | 1995-01-03 | LATOUR INVESTMENT 'B' | Swegon AB | Sweden |
| 1995-07-14 | 1995-07-14 | Getinge Industrier AB | Arjo Ab | Sweden |
| 1995-09-01 | 1995-09-01 | Peab AB | Fagbygg Ab | Norway |
| 1995-12-13 | 1995-12-13 | Assa Abloy AB | Essex Holdings Inc | United States |
| 1996-01-01 | 1996-01-01 | Securitas AB | LA Ronde De Nuit | France |
| 1996-01-01 | 1996-01-01 | Sandvik AB | Avesta Calamo | Sweden |
| 1996-05-13 | 1996-07-27 | Getinge Industrier AB | MDT Corp | United States |
| 1996-06-01 | 1996-06-01 | Skanska AB | Skane Gripen Ab | Sweden |
| 1996-08-01 | 1996-08-01 | Skanska AB | Piren | Sweden |
| 1996-12-01 | 1996-12-01 | SCA AB | Cochis | Italy |
| 1996-12-12 | 1996-12-19 | Svenska Handelsbanken AB | Stadshypotek AB | Sweden |
| 1997-02-18 | 1997-02-18 | NCC AB | Siab | Sweden |
| 1997-07-01 | 1997-07-01 | Skanska AB | Goinge Mekaniska | Sweden |
| 1997-10-01 | 1997-10-01 | SEB 'A' | Trygg Hansa | Sweden |
| 1998-04-01 | 1998-04-01 | Assa Abloy AB | Urbis | Romania |
| 1998-08-01 | 1998-08-01 | Volvo AB | Kopsch | Germany |
| 1999-02-01 | 1999-02-01 | SCA AB | Danapak Papemballage | Denmark |
| 1999-02-22 | 1999-03-26 | Securitas AB | Pinkertons Inc | United States |
| 1999-03-01 | 1999-03-01 | Skanska AB | Sade Ingenieria Y Construcciones Sa | Argentina |
| 1999-04-01 | 1999-04-01 | Profilgruppen | Bergstroms Metal | Sweden |
| 1999-04-21 | 2000-02-10 | Gunnebo AB | Fichet-Bauche SA | France |
| 1999-05-03 | | Svenska Handelsbanken AB | Bergensbanken ASA | Norway |
| 1999-06-01 | 1999-06-01 | Skanska AB | Alex J Etkin Inc | United States |
| 1999-06-28 | 1999-07-29 | Atlas Copco AB | Rental Service Corp | United States |
| 1999-07-01 | 1999-07-01 | Scania AB | Norsk Scania | Norway |
| 1999-08-01 | 1999-08-01 | SCA AB | Nicollet | France |
| 1999-10-01 | 1999-10-01 | SEB 'A' | BfG Bank AG | Germany |
| 1999-10-01 | 1999-10-01 | SCA AB | Len Pak | Ireland |
| 1999-11-01 | 1999-11-01 | SCA AB | Danisco Pack | Denmark |
| 1999-11-01 | 1999-11-01 | SCA AB | Nisa | Portugal |

| | | | | |
|---|---|---|---|---|
| 1999-11-16 | 2000-02-25 | Saab AB | Celsius AB | United Kingdom |
| 2000-02-01 | 2000-02-01 | Cardo AB | PC Henderson Ireland Ltd | Ireland |
| 2000-04-01 | 2000-04-01 | Peab AB | Anjo Entreprenad | Sweden |
| 2000-08-01 | 2000-08-01 | Gunnebo AB | Chubb Safes | United Kingdom |
| 2000-09-01 | 2000-09-01 | Atlas Copco AB | Hobic Bit Industries Corporation | Canada |
| 2000-11-17 | 2000-11-17 | Getinge Industrier AB | Maquet AG | Germany |
| 2001-01-22 | 2001-03-09 | SCA AB | Tuscarora Inc | United States |
| 2001-04-11 | 2001-05-14 | Svenska Handelsbanken AB | Midtbank A/S | Denmark |
| 2001-04-27 | 2001-04-27 | Gunnebo AB | CS Security | France |
| 2001-05-02 | 2001-05-02 | Atlas Copco AB | Masons Holdings Ltd. | United Kingdom |
| 2001-05-23 | 2001-05-23 | Peab AB | Totalentreprenoren AS | Norway |
| 2001-06-05 | 2001-06-05 | Sandvik AB | Bafco Mineria y Servicios SA | Chile |
| 2001-08-24 | 2001-08-24 | SCA AB | ISC Inc | United States |
| 2001-09-07 | | Saab AB | Aerotechtelub AB | Sweden |
| 2002-01-07 | 2002-01-07 | Cardo AB | Amber Doors Holdings Ltd | United Kingdom |
| 2002-01-25 | 2002-01-25 | Sweco AB | Scanpipe Consulting AB | Sweden |
| 2002-02-19 | 2002-03-28 | SCA AB | Cartoinvest S.p.A. | Italy |
| 2002-02-22 | 2002-02-22 | Saab AB | Combitech Systems AB | Sweden |
| 2002-04-03 | 2002-04-03 | Assa Abloy AB | Initial | France |
| 2002-04-18 | 2002-04-18 | Atlas Copco AB | Liuzhou Tech Machinery Co., Ltd. | China |
| 2002-04-29 | 2002-07-01 | Assa Abloy AB | Besam AB | Sweden |
| 2002-05-07 | 2002-11-30 | Nordea AB | LG Petrobank SA | Poland |
| 2002-07-01 | 2002-07-01 | Munters AB | System-und Verfahrenstechnik GmbH | Germany |
| 2002-07-03 | 2002-07-03 | Munters AB | Aerotech Inc | United States |
| 2002-07-17 | 2002-07-17 | Intrum Justitia AB | Stirling Park Ltd | United Kingdom |
| 2002-08-29 | 2002-10-02 | Skanska AB | Yeager Construction Company Inc | United States |
| 2002-09-04 | 2002-09-04 | Alfa Laval AB | Danish Separation Systems AS | Denmark |
| 2002-09-10 | 2005-04-21 | Sandvik AB | Walter AG | Germany |
| 2002-10-04 | 2002-10-04 | Securitas AB | CGS Customer Ground Services SA | Switzerland |
| 2003-01-09 | 2003-01-09 | Intrum Justitia AB | Jean Riou Contentieux + Compagnie Francaise de Recouvrement Commerciaux | France |
| 2003-01-14 | 2003-01-14 | Assa Abloy AB | Interlock AG | Switzerland |
| 2003-01-27 | 2003-01-27 | Nibe Industrier AB | Danotherm Electric A/S | Denmark |
| 2003-01-31 | 2003-02-18 | Alfa Laval AB | Toftejorg A/S | Denmark |
| 2003-02-21 | | NCC AB | Anjobygg AB | Sweden |
| 2003-03-01 | 2003-03-01 | G&L Beijer AB | BOLTHi Svenska AB | Sweden |
| 2003-03-18 | 2003-04-04 | Atlas Copco AB | DreBo Werkzeugfabrik GmbH | Germany |

| | | | | |
|---|---|---|---|---|
| 2003-03-31 | 2003-03-31 | Getinge Industrier AB | Copharm BV | Netherlands |
| 2003-04-01 | 2003-04-01 | Hoganas AB | SCM Metal Products Inc | United States |
| 2003-04-07 | 2003-04-14 | Trelleborg AB | ETU GmbH | Germany |
| 2003-05-22 | 2003-06-25 | Getinge Industrier AB | Jostra AG | Germany |
| 2003-06-10 | 2003-07-01 | Assa Abloy AB | Metget AB | Sweden |
| 2003-07-21 | 2003-10-01 | Trelleborg AB | Polymer Sealing Solutions Ltd | United Kingdom |
| 2003-08-27 | 2003-08-27 | Peab AB | Seicon Oy | Finland |
| 2003-10-03 | 2003-10-03 | Alfa Laval AB | bioKinetics | United States |
| 2003-10-31 | 2003-10-31 | Trelleborg AB | DJ Profiles Ltd | United Kingdom |
| 2003-11-04 | 2003-11-04 | Gunnebo AB | Kubon AG | Germany |
| 2003-11-28 | 2003-11-28 | Addtech AB | Stig Wahlstrom AB | Sweden |
| 2003-12-01 | 2004-01-07 | Trelleborg AB | Metzeler Automotive Hose Systems GmbH | Germany |
| 2003-12-17 | 2003-12-17 | Poolia AB | Parker Bridge Recruitment Ltd | United Kingdom |
| 2003-12-22 | 2003-12-22 | SCA AB | Vincor Group | Netherlands |
| 2004-02-13 | 2004-02-13 | Peab AB | Siljan Anlaggning AB | Sweden |
| 2004-02-19 | 2004-05-06 | Atlas Copco AB | Ingersoll-Rand Drilling Solutions | United States |
| 2004-03-25 | 2004-05-19 | SCA AB | Sancella [and others] | Australia |
| 2004-03-30 | 2004-06-22 | Atlas Copco AB | Guimera SA [and others] | Spain |
| 2004-04-26 | 2004-08-27 | ORESUND INVESTMENT | Custos AB | Sweden |
| 2004-07-27 | 2005-08-16 | Atlas Copco AB | Baker Hughes Mining Tools | United States |
| 2004-09-22 | 2004-09-22 | Getinge AB | BHM Medical Inc | Canada |
| 2004-11-04 | 2004-11-04 | Trelleborg AB | Ecoboard | United States |
| 2005-03-18 | 2005-06-06 | Biotage AB | Argonaut Technologies Inc | United States |
| 2005-08-02 | 2005-08-02 | Nibe Industrier AB | Northstar A/S | Norway |
| 2005-08-08 | 2005-08-08 | OEM International AB | Telfa AB | Sweden |
| 2005-08-16 | 2005-08-16 | Atlas Copco AB | Rotex Oy | Finland |
| 2005-08-17 | 2006-01-31 | Atlas Copco AB | Scanrotor Global AB | Sweden |
| 2005-09-19 | 2005-09-19 | Trelleborg AB | Cimap Roues Industrielles SAS | France |
| 2005-09-23 | 2006-03-06 | Alfa Laval AB | Tranter PHE Inc | United States |
| 2005-10-04 | 2005-10-04 | Midway Holding AB | Onrox AB | Sweden |
| 2005-10-07 | 2005-10-07 | Securitas AB | Hamilton Pacific LP | United States |
| 2005-11-17 | 2005-11-17 | Indutrade AB | Puwimex Oy | Finland |
| 2005-11-30 | 2005-12-01 | Indutrade AB | Saniflex AB | Sweden |
| 2005-12-05 | 2005-12-05 | BTS Group | Business Game Factory Ltd | Finland |
| 2005-12-15 | 2005-12-15 | Securitas AB | BLACK STAR | Spain |

| | | | | |
|---|---|---|---|---|
| 2005-12-21 | 2006-01-20 | Trelleborg AB | CRP Group | United Kingdom |
| 2005-12-23 | 2006-02-01 | Fabege AB | Tornet Fastighets AB | Sweden |
| 2005-12-27 | 2006-01-03 | Trelleborg AB | Elastomer Compounding s r o | Czech Republic |
| 2006-01-27 | 2006-01-27 | Indutrade AB | Robota AB | Sweden |
| 2006-02-06 | 2006-02-06 | Trelleborg AB | EPG Inc | United States |
| 2006-02-17 | 2006-02-27 | Cardo AB | Combursa | Spain |
| 2006-03-17 | 2006-03-17 | Sweco AB | CM-Urakointi Oy | Finland |
| 2006-04-07 | 2006-04-07 | Aros Quality Group | Lasertool Partner AB | Sweden |
| 2006-04-10 | 2006-04-10 | Assa Abloy AB | Baron Metal Industries Inc | Canada |
| 2006-04-12 | 2006-04-12 | OEM International AB | EIG spol s ro | Czech Republic |
| 2006-04-25 | 2006-04-25 | Indutrade AB | Gedevelop AB | Sweden |
| 2006-05-16 | 2006-05-16 | Assa Abloy AB | Schwab & Partner GmbH | Austria |
| 2006-05-22 | 2006-08-29 | SKF AB | Economos Austria GmbH | Austria |
| 2006-06-02 | 2006-06-02 | Indutrade AB | Prp-Plastic Oy | Finland |
| 2006-06-08 | 2006-06-08 | XANO Industri AB | Fredriksons Verkstads AB | Sweden |
| 2006-06-09 | 2006-06-09 | Indutrade AB | Tribotec AB | Sweden |
| 2006-06-12 | 2006-06-12 | Saab AB | Ericsson Microwave System AB | Sweden |
| 2006-06-15 | 2006-06-15 | Indutrade AB | Spinova AB | Sweden |
| 2006-08-04 | 2006-09-25 | BTS Group | Real Learning Co + Advantage Performance Group | United States |
| 2006-08-25 | 2006-08-25 | Addtech Ab | Specma Drives AB | Sweden |
| 2006-09-08 | 2006-09-08 | Hexagon AB | Mikrofyn A/S | Denmark |
| 2006-09-18 | 2006-10-03 | Sandvik AB | Implementos Mineros SA | Chile |
| 2006-09-25 | 2006-10-31 | Trelleborg AB | Reeves Brothers Inc | United States |
| 2006-09-27 | 2006-09-27 | Intellecta AB | Rewir | Sweden |
| 2006-10-13 | 2006-10-13 | Bong Ljungdahl AB | VOET international | Netherlands |
| 2006-11-09 | 2006-11-09 | Proffice AB | Plus4You | Sweden |
| 2006-11-16 | 2006-11-16 | Peab AB | Nybyggarna i Nerike AB | Sweden |
| 2006-11-20 | 2006-11-20 | Munters AB | Sial SpA | Italy |
| 2006-11-22 | 2006-12-01 | Addtech Ab | Gevea Holding AB | Sweden |
| 2006-12-14 | 2006-12-14 | Indutrade AB | ES Hydagent AB | Sweden |
| 2007-01-02 | 2007-01-02 | XANO Industri AB | Varnamo Industri AB | Sweden |
| 2007-01-02 | 2007-01-02 | Indutrade AB | AB Axelvalves | Sweden |
| 2007-01-11 | 2007-01-11 | SKF AB | Preventive Maintenance Company Inc | United States |
| 2007-01-15 | 2007-01-15 | Hexagon AB | Svensk ByggnadsGeodesi AB | Sweden |
| 2007-01-16 | 2007-02-15 | Aros Quality Group | Ovansjo Plast & Verktyg AB | Sweden |
| 2007-01-23 | 2007-01-23 | OEM International AB | Crouzet AB | Sweden |
| 2007-02-01 | 2007-02-01 | Assa Abloy AB | Pemko Manufacturing Co | United States |
| 2007-02-05 | 2007-05-31 | Atlas Copco AB | Dynapac AB | Sweden |

| | | | | |
|---|---|---|---|---|
| 2007-02-12 | 2007-05-09 | Duroc AB | Swedish Tool Holding AB | Sweden |
| 2007-02-16 | 2007-02-16 | Indutrade AB | SAV DANMARK | Denmark |
| 2007-02-26 | 2007-04-11 | SKF AB | ABBA Linear Tech Co Ltd | Taiwan |
| 2007-02-28 | 2007-02-28 | Sandvik AB | Hydramatic Engineering Pty Ltd | Australia |
| 2007-03-01 | 2007-03-01 | Midway Holding AB | Hallman-Sporrong AB | Sweden |
| 2007-03-07 | 2007-03-07 | Drillcon AB | Suomen Malmi | Finland |
| 2007-03-07 | 2007-03-07 | Indutrade AB | Sigurd Sorum | Norway |
| 2007-03-15 | 2007-03-15 | Assa Abloy AB | Integrated Engineering | Netherlands |
| 2007-03-29 | 2007-03-29 | Addtech Ab | Metric Industrial Oy | Finland |
| 2007-04-04 | 2007-04-03 | B&B Tools AB | K Antinluoma Oy | Finland |
| 2007-04-16 | 2007-04-01 | G&L Beijer AB | DEM Production AB | Sweden |
| 2007-04-24 | 2007-05-31 | Sandvik AB | Extec Screens and Crushers Ltd | United Kingdom |
| 2007-04-24 | 2007-05-31 | Sandvik AB | Fintec Crushing and Screening Ltd | United Kingdom |
| 2007-05-03 | 2007-07-18 | SSAB Svenskt Stal AB | IPSCO Inc | Canada |
| 2007-05-04 | 2007-05-04 | Indutrade AB | Carrab Industri AB | Sweden |
| 2007-05-16 | 2007-05-16 | Indutrade AB | Aluflex System AB | Sweden |
| 2007-05-22 | 2007-05-22 | Hexagon AB | Transmetal as | Turkey |
| 2007-06-01 | 2007-06-01 | B&B Tools AB | Turun Kumikeskus Oy | Finland |
| 2007-06-01 | 2007-06-01 | G&L Beijer AB | Clima Sverige AB | Sweden |
| 2007-06-01 | 2007-06-01 | B&B Tools AB | Tuontipalvelu Tapani Jelkanen Oy + Ruuvijoki Oy | Finland |
| 2007-06-18 | 2007-06-18 | Addtech Ab | LabRobot Products AB | Sweden |
| 2007-06-21 | 2007-06-21 | SKF AB | Baker Instruments Co Inc | United States |
| 2007-06-28 | 2007-06-28 | Munters AB | Turbovent Environment A/S + Turbovent Agro A/S | Denmark |
| 2007-07-05 | 2007-07-04 | B&B Tools AB | Suomen Kumicenter Oy | Finland |
| 2007-07-27 | 2007-12-27 | SKF AB | S2M | France |
| 2007-09-04 | 2007-09-04 | OEM International AB | MPX Electra ApS | Denmark |
| 2007-09-06 | 2007-10-19 | Securitas AB | Seguridad Cono Sur SA | Argentina |
| 2007-09-26 | 2007-10-29 | Trelleborg AB | Solid Service Group | Australia |
| 2007-10-08 | 2007-11-27 | Hexagon AB | NovAtel Inc | Canada: Market: USA |
| 2007-10-12 | 2007-10-12 | CTT Systems AB | Broderna Ingemar och Bo Mekaniska AB | Sweden |
| 2007-10-22 | 2007-12-11 | Bure Equity AB | Academedia AB | Sweden |
| 2007-10-25 | 2007-10-25 | G&L Beijer AB | Uniechemie BV | Netherlands |
| 2007-11-06 | 2007-11-06 | XANO Industri AB | Rotosplast AS | Estonia |
| 2007-11-23 | 2007-12-01 | Securitas AB | Forza SA | Peru |
| 2007-11-30 | 2007-12-03 | B&B Tools AB | Vasa Parts Oy | Finland |

## Appendix 4

List of all countries in the sample:

| Countries | | |
|---|---|---|
| Argentina | Finland | Portugal |
| Australia | France | Romania |
| Austria | Germany | Spain |
| Canada | Ireland | Sweden |
| Chile | Italy | Switzerland |
| China | Netherlands | Taiwan |
| Czech Republic | Norway | Turkey |
| Denmark | Peru | United Kingdom |
| Estonia | Poland | United States |