

Hans-Martin Zademach

Spatial Dynamics in the Markets of M&A

Essays on the Geographical Determination
and Implications of Corporate Takeovers
and Mergers in Germany and Europe



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GELEITWORT

Fusionen und Unternehmenskäufe (Mergers & Acquisitions, abgekürzt M&A) gelten in der Wissenschaft – vor allem aus der Sicht der raumwissenschaftlichen Forschung – als ein immer noch sehr stark vernachlässigter Untersuchungsgegenstand. Dabei kommen in der jüngeren Vergangenheit nationalen und grenzüberschreitenden Unternehmenszusammenschlüssen sowie -übernahmen eine herausragende Bedeutung zu. Das betrifft nicht nur die Fallzahlen, sondern auch die Transaktionsvolumina. Vor allem in den 1990er Jahren und um die Wende ins neue Jahrtausend gab es weltweit einen förmlichen M&A-Boom. Innerhalb der beteiligten Unternehmen lösen Fusionen und Akquisitionen umfangreiche Reorganisationsprozesse aus. Diese wiederum haben beachtliche gesamtwirtschaftliche Auswirkungen. Dabei werden ebenso wirtschaftsräumliche Strukturen und raumspezifische Prozesse deutlich verändert. Regionale Struktureffekte können sich allein schon aus den Veränderungen lokaler Arbeitsmärkte ergeben oder durch den Transfer wissensintensiver Unternehmenseinheiten. Vor allem sog. Mega-Fusionen, wie z.B. die Übernahme von Mannesmann durch Vodafone, lösen in der Regel größere raumstrukturelle Folgewirkungen aus.

Wegen des schwierigen Zugangs zu sensiblen Geschäftsdaten gibt es bis in die allerjüngste Zeit nur ganz wenige wissenschaftliche Untersuchungen auf breiter empirischer Basis; dies gilt insbesondere für regionalwirtschaftliche bzw. wirtschaftsgeographische Analysen. Umso dringlicher besteht gerade hier ein enormer Forschungsbedarf. Mit der vorliegenden Arbeit gelingt es Hans-Martin Zademach, diese Forschungslücke mit detaillierten wissenschaftlichen Analysen ein Stück weit zu schließen. Er legt im Rahmen eines kumulativen Promotionsverfahrens drei von einander unabhängige, in sich geschlossene Papers vor, die alle der o.g. M&A-Thematik zuzuordnen sind. Diese Essays wenden sich dem Themenkreis aus jeweils unterschiedlicher Perspektive zu. Ziel ist es vor allem, M&A-Transaktionen auf verschiedenen Maßstabsebenen hinsichtlich ihrer Distanzabhängigkeit und raumstruktureller Wirkungen zu erforschen und zu bewerten. So werden generell Erkenntnisse darüber gewonnen, welches Gewicht raumspezifische Faktoren bei Fusions- und Akquisitionsvorgängen besitzen und welche Rolle diese bei unternehmensstrategischen Entscheidungen spielen. Mit Hilfe sekundärstatistischer und ergänzender primärstatistischer Untersuchungen werden grundlegende standort- und raumrelevante Fragen, die im Rahmen der wichtig gewordenen M&A-Forschung heute vermehrt auftreten, schlüssig beantwortet: Sind M&A-Prozesse standortunabhängig und quasi

nicht-räumlich? Welche Standortfaktoren bestimmen Übernahmeentscheidungen und worin liegt genau der Einfluss von räumlicher Nähe, welche Bedeutung haben Agglomerationseffekte oder lokalisierte Ressourcen? Seine Antworten bringen die Wissenschaft in diesem Bereich deutlich weiter.

Die drei im Band enthaltenen Beiträge sind von ihrer wissenschaftstheoretischen Fundierung originell und originär, gleichzeitig aber auch sehr sorgfältig angelegt. Sie orientieren sich an der aktuellen Forschungsfront und greifen über die engen Fachgrenzen hinweg. Aus fachmethodologischer Sicht stellt sich in den Beiträgen jeweils auch die Frage, wie sich diese Thematik in den raumwirtschaftlichen bzw. relationalen Forschungsansatz der Wirtschaftsgeographie einbringen lässt und wie möglicherweise eine Integration eben dieser wirtschaftswissenschaftlichen und sozialwissenschaftlichen Perspektive aussehen könnte. Zadernach hat mit seinen Forschungen die mikrotheoretische Fundierung des Faches erweitert und mit seiner Anlehnung an organisationstheoretische Unternehmenskonzeptionen zugleich auch der betriebswirtschaftlichen Perspektive in der Wirtschaftsgeographie verstärkt Bedeutung beigemessen. Indem unterschiedliche Forschungsansätze der Wirtschaftsgeographie zusammengeführt und mit bestehenden Zugängen zur Theorie der Unternehmung verbunden werden, leistet die vorliegende Arbeit einen anspruchsvollen und wichtigen Beitrag zur aktuellen Forschung im Bereich der Wirtschaftsgeographie im Speziellen und den Wirtschaftswissenschaften im Allgemeinen.

Der Herausgeber

München, im November 2005

PREFACE

The contribution in hand results from my time as research and teaching assistant at the Institute of Economic Geography in the Munich School of Management, Ludwig-Maximilians-University. First of all, I express my gratitude to my appreciated professor and supervisor Hans-Dieter Haas for his constant advice and inspiration. Probably not despite, but by virtue of our sometimes rather controversial content-specific views leading to a series of fruitful debates, he invariably personified a consistently critical instance and therefore an irreplaceable guide for my personal development as young academic. Professor Arnold Picot is thanked for taking over the co-report as well as his support and incitements throughout the whole project. I could benefit from the spirited and gratefully acknowledged attitude towards the novel of a cumulative doctoral thesis of both of them.

Likewise, I am deeply indebted to Andrés Rodríguez-Pose as an additional prime intellectual mentor. Since completing my studies in his MSc-programme in 2001, he became more than a colleague and scholarly companion for me, but simply a friend. Here in Munich, I am grateful to all colleagues at the Institute of Economic Geography, most notably Johannes, Martin, Karl and Daniel. All of them represented constructive commentators and became much valued mates which acted in exactly that way.

Special thanks are also due to German higher education policies not to be omitted here. Lacking all the turbulences while compiling this work, its completion would definitively have taken another good deal of time. Tailwind, on the other hand, came from the anonymous referees providing a positive appraisal of the first, already submitted paper as well as Förderverein Kurt Fordan für herausragende Begabungen and the German Research Foundation DFG. In excess of the monetary sponsorship, I am grateful to the latter institution for the important mental back-up signalled through the agreement on the proposal for a greater research project, parts of which are reflected in this collection.

Without the help of Steffen Mezger and Peter Germonpre (“I owe you something, bro’s”) who gave access to sensitive M&A data the research could not have been conducted. The same is true with regard to the experts interviewed – I am thankful to all of them for the time and efforts they devoted to the project. My current collegiate assistants Julius, Manuel and Philipp as well as ‘Hadschi’ and Matthias as former back staff are acknowledged for their altruistic endeavours, including their outstanding en-

gagement for the discipline and the future of the Institute and its diploma-programme – aiming always to remember how much can be learned from them, in fact, I am indebted to all our economic geography students, especially ‘my’ graduates, of whom I wish to mention Petzi, Tom, Pat and Matthias by name. Sincere thanks also to Adala, Vassilis and Beniad for being exciting conversation partners during my several stays in London as well as the fellow students of the MBR-programme, most notably Hannes and Caro as indispensable combatants in our ‘campaigns’ in the last month. Franz Eder is thanked for his great quality work on the maps as well as for the kind help he and his colleague Heinz Sladkowski gave on all research projects conducted during my time at the Institute.

I finally want to ask my friends Champi, Mathias and the two Robert Hubers along all the ones not explicitly mentioned here to accept my apologies for certainly having disregarded them too heavily when finishing this piece of work and express my deepest gratitude to my family for all their backing, affirmations and sunshine.

Munich, October 2004

Hans-Martin Zademach

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LIST OF ABBREVIATIONS

EFTA	European Free Trade Association
EU	European Union
EMU	European Monetary Union
FDI	Foreign Direct Investment
ICT	Information and Communication Technologies
GDP	Gross Domestic Product
M&A	Mergers and Acquisitions
MNC	Multinational Corporations
OECD	Organisation for Economic Co-operation and Development
OLS	Ordinary Least Square
R&D	Research and Development
SEM	Single European Market
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organisation

1 INTRODUCTION

High levels of mergers and acquisitions (M&As) have been a characteristic of the global economy in the 1990s and at the turn of the millennium. This wave of M&As did not only lead to important modifications in the structure of businesses, but also triggered thorough restructuring processes in the location of corporate control and economic decision-making. The spatial implications of corporate takeovers and mergers as well as their location-specific or contextual determination, however, represent profoundly neglected topics in economic geographical research. On an empirical basis, the contribution in hand intends to explore these issues for Germany and Europe.

1.1 Sketching the conceptual formulation – M&As as a 'non-spatial' phenomenon out of place?

Corporations are increasingly engaged in takeover and merger activities in order to enter new markets. The accumulation of M&A transactions since the mid 1980s has been accompanied by profiled restructuring processes of the corporate landscape, alongside partly substantial reactions of international financial markets (cf. Gugler et al. 2003; Böhmer and Löffler 1999; Loughran and Vij 1997; Gerke et al. 1995, Healy 1992, amongst others). Territorial displacement and relocation of corporate control and decision-making functions on the microeconomic level represent further important consequences of the latest wave of M&As. By means of their ramifications on the spatial organisation of production, the coalescence of two firms or the absorption of one corporation by another one sustainably shape a nation's texture of corporate locations.

The transfer of knowledge-intensive business units or changes of local labour markets represent examples for the mechanisms how the continuous high number of transactions in recent years and their often substantial volumes impact on regional production systems. These effects are particularly significant in the event of so-called megamergers such as between Daimler-Benz and Chrysler, for instance, or acquisitions in the dimension of Time Warner (taken over by AOL) or Vodafone-Mannesmann. Within the scope of the acquisition of Aventis – this corporate group arose only in 1999 from a merger of Hoechst and Rhône-Poulenc – by its French competitor Sanofi-

Synthélabo (accredited by the European Commission Directorate-General for Competition in April 2004), it is likewise worried about 9.000 jobs in the Rhine-Main-Area and the drain of its biotechnological know-how to France. On a regular basis, firms referred to as global players act in this manner as multiple buyers; the German electronic group Siemens, for example, undertook worldwide fourteen major acquisitions between 2000 and 2003 alone.

While the literature on the evaluation of companies, on the proceedings or the termination of an M&A transaction, on critical factors of success, pre- and post-merger integration management, the managing of trans- or cross-cultural mergers and so forth multiplied in a hardly manageable manner over the last decade (for an overview, see e.g. Gaughan 2002, Weston et al. 2001 or Jansen 2000), comprehensive and comparative studies focussing on M&As from the specific point of view of spatial sciences are markedly rare. Markusen (2001: 2) points to this disregard in particular explicitness, when asking

“why recent developments of enormous economic geographical impact such as ... corporate mergers receive such short shrift.”

A possible cause for this neglect might be the presumption that spatial systems are not associated with M&As. The first resulting implication, namely that the effects of connected organisational restructuring processes on the intra-firm level do not affect a firm's location region, is yet not maintainable and sufficiently disproved by empirical studies (see Ashcroft and Love 1993 as one example). On the other hand, a negation of an association between M&As and space would imply that the geographical perspective provides no additional explanatory power to the question why companies do acquire a certain target. In the light of recent studies on M&As, which focused most notably on particular ‘big’ and – especially in terms of media coverage – ‘sensational’ mergers and related to cost and revenue oriented motives, at first, this appears to be plausible.

The significant share of M&A transactions, where marketing and distribution goals represent the key motives or the decisive incentives for a merger or an acquisition (e.g. Jansen 2001: 27), however, contradicts this line of argumentation. Suchlike strategic decisions on the subject of market positioning, as to aim for the raise of market shares abroad via a cross-border merger for instance, are characterised by significant spatial constituents (like the evaluation and selection of certain target markets in terms of a corporate regional strategy or the aim to access a certain ‘milieu’) to which sufficient attention has hitherto not been paid. Against this background, it is essential to apprehend M&A transactions in their entirety and complexity, thus examining the phe-

nomenon e.g. in terms of tall accounts. Therein lies yet another research-pragmatic reason for the neglect of M&As as topic of investigation. As access to data – in this field often utterly sensitive – is very limited, capacious quantitative examinations on corporate takeovers have rarely been possible (Chapman and Edmond 2000; Sachwald 1994).

The few cases of M&A-related investigations in spatial sciences discuss either individual case studies or have an explicit industry focus. In fact, these studies brought forward valuable insights on the reasons why companies engage in a merger, probable internal post-merger effects, or consequential processes of industry restructuring. Furthermore, they gave first indications for M&As indeed affecting space- and place-specific structures and economic systems, like a nation's metropolitan hierarchy or regional disparities (cf. Green 1990), and that corporate takeovers thus impact on more than intra-firm management functions, organisational structures and hierarchies, reporting measures, controlling systems and the like.

The inverse direction of the causal relationship between M&As and 'spaces and places' (Yeung 2001a), i.e. the relevance of space-related attributes as influencing variables in M&A processes, represents an almost completely ignored research topic. The present contribution addresses this issue along with the spatial implications of M&As. Consequently it aims to explore the extent to which location factors determine M&A processes or, in other words, the question of what exactly the leverage effects of geographical proximity, agglomeration economies or localised resources and competencies are when it comes to M&A decision-making. Hence, the twofold aim of the study can be summarised as follows:

- First, to display the implications of M&As, most notably in terms of the shifts and displacement of corporate control they provoke; and
- second, to identify the factors that may explain the detected levels and patterns and the extent to which location factors determine takeover activities and thus firms engaging in M&As.

1.2 Organisation and structure of compilation

The compilation in hand follows the Munich School of Management's regulations of a cumulative doctoral thesis; accordingly, it contains three main chapters. In that way, the chapters represent self-contained and independent essays, each of which is

premeditated as autonomous, stand-alone academic piece of work.¹ Their common ground is constituted by the interest and intention to discuss the role of context dependant determinants in corporate mergers or takeovers and the impacts and implications of M&As on spatial structures.²

To begin with, the next chapter³ addresses the interconnections between M&As, economic development and urban regions in Germany. Using three standardized indices representing the relative quantity of takeovers in each German *Regierungsbezirk*, the section initially demonstrates that the recent wave of M&As has resulted in a major concentration of firms and economic activity in the main metropoli of the economy. The chapter then turns to the dynamics of M&A and investigates the flows of transactions in a series of maps. By means of regression analysis, indicators for the general level of agglomeration (i.e. regional GDP and population) and the concentration of political power in the region are identified as main drivers of the geographical concentration of firms. The results also indicate that investment in R&D, the general level of education, or unemployment, when considered in combination with agglomeration indicators, play a negligible role in determining M&A flows. With respect to the geographical distance between a merging or acquiring firm and its target, the results are twofold. While, when estimated on its own, distance has a very weak or – depending on cases – insignificant association with the territorial distribution of M&A activity, proximity appears to play a distinctive role in the geography of M&As in Germany when estimated in conjunction with agglomeration.

The subsequent third chapter explores the thorough reshuffling in the location of economic decision-making through M&As in Germany over the last decade with particular attention being paid to industry-specific transformations. The chapter argues that corporate takeovers have to be conceived as relational processes that show distinctly varying patterns and peculiarities according to their industry characteristics,

¹ All three chapters were also submitted to peer-reviewed/refereed journals. In part, the manuscripts have already been accepted for publication.

² Though constituency was a central task when completing the compilation, this form of organizing a doctoral thesis may inevitably lead to a certain amount of overlap. The reader is respectfully asked to indulge suchlike intersections, which most notably occur in the context of methodological considerations.

³ As primal piece of research, this chapter is based on a working paper that meanwhile has been published in *Urban Studies*. Please note, however, that a noticeably different version is given here.

but also depend on their local and institutional contexts. In order to identify the logic behind changes in the location of corporate control and decision-making, the presence of economies of proximity and agglomeration, the degree of metropolitan interconnectivity (or ‘archipelago economies’), the concentration of economic activity in large urban metropolitan areas, and the role played by geographical distance in M&As are analysed across ten different industrial sectors. The results signify that a simple ‘old’ vs. ‘new economy’ dichotomy is not sufficient to explain the identified changes in the location of economic decision-making and activity across sectors and that the developed classification framework offers more differentiated insights on the dynamics in the German markets of M&As in the 1990s.

Based on the same dataset, the M&A Review database, both the second and the third chapter are limited to the case of Germany. The succeeding fourth section puts its emphasis on the European scale and addresses cross-border transaction in a more explicit manner. It rests upon the encompassing record of M&A activities in Europe by the financial service provider Mergermarket which covers every M&A transaction involving a European firm with an enterprise value of over Euro 5 million from 1998 onwards, as well as on interview-based research at the firm level conducted in London, Copenhagen and selected German sites.

Against the background of economic integration, the fourth chapter examines corporate takeover and merger activities involving firms located in the EU25 and the four EFTA countries between 1998 and 2003, an important period of changes before and after the creation of the European Monetary Union (EMU) and immediately before the Eastern enlargement. First, it identifies the strongest and weakest European economies within the international ‘trade’ of corporate control in Europe. Thanks to the financial details provided by the Mergermarket data it became possible to consider both the simple counts of events and the respective deal values in this step of the investigation, a novelty in economic geographical research on M&As on the aggregate level. Through the combination of insights from the qualitative research with regression analysis and by means of controlling for the size and economic significance of each transaction, following, the chapter demonstrates the extent to which the spatial perspective sheds light onto the factors that may explain the detected levels and patterns of corporate takeovers across Europe. The results denote that access to new and core markets, effects of geographical proximity as well as access to ‘localised capabilities’ (approximated via patents per capita as output of a skilled and innovative labour and favourable institutional endowments) represent key drivers in the European M&A economy; institutional affiliations, like the deepened process of European integration,

assessments of country risk or linguistic barriers, but also structural factors like e.g. unemployment rates, indeed appear – at least at the intra-European scale – less influential and thus long-term anticipated and already internalised by the market. Albeit the analyses remain in most parts on the aggregated macro-level, conceptualising the firm in micro-theoretical terms as bundle of competencies seeking for the internalisation of localised capabilities can be shown as a promising approach in research on firms and M&As which is relevant not only from the economic geographical viewpoint.

A brief final section provides a final consolidation of the three pieces of work and concludes by underlining the main observations resulting from the hitherto conducted investigations and indicating the study's key contributions to the existing literature.