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Mergers and Acquisitions: Revisiting the Issue of Value Creation in the New Member States of European Union

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Abstract. *During the last takeover wave in the period of 2001-2009 both the volume and the value of merger and acquisition transactions reached record heights. Nevertheless, the question of whether mergers and acquisitions create surplus value has never been more relevant than during the same period of 2001-2009 as well. It turned out that numerous transactions which were structured during the recent wave destroyed total combined shareholder value instead of increasing it. The general issue of value creation in merger and acquisition transactions is addressed in the study by analyzing a sample consisting of transactions that took place in the New Member States of European Union during the period of 2004-2011. Two important questions surrounding the issue are investigated: the paper examines whether value creation differs in domestic and cross-border transactions and what is the effect of timing of merger and acquisition transactions in terms of economic cycle. There is no evidence found that transactions concluded during crisis period create more value than those at the pre-crisis timeframe. The results of the paper support the conclusions of previous studies by academics that cross-border mergers and acquisitions create more value than domestic transactions.*

Keywords: *Mergers and acquisitions, M&A, Takeovers, Cross-border mergers and acquisitions, Announcement effect.*

Introduction

Although experiencing cyclical patterns and fluctuating greatly, merger and acquisition (hereinafter also referred as “M&A”) activity has shown a clear trend of high growth worldwide since 1960s (Martynova and Renneboog, 2005). Particularly high growth rates of M&A activity have been observed during the last decades when record levels have been reached in terms of both transaction volume and total M&A deal size (Mergermarket, 2011). Thus, M&A market has become an important mechanism of corporate control transfer and has earned lots of attention from many parties, including business professionals, regulators and academics.

However, there is much controversy associated with the rise of M&A market, as the increasing number of transactions is raising important questions. There are reasonings in the academic literature provided that takeovers are damaging to the morale and productivity of organizations and are therefore damaging to the economy in general (Jensen, 1986). At the same time there are significant evidences found that M&A market actions represent productive entrepreneurial activity that improves control and management of assets through allocation of assets to more productive uses (Jensen, 1986).

Addressing the issue of M&A controversy it is worthwhile mentioning that here academics make a clear distinction between local and cross-border M&As. Whereas local M&A transactions are often analyzed in the context of synergies obtained from a merger or takeover transaction (for instance: Damodaran, 2005), possible integration gains or less often competition changes in specific industry (all rather microeconomic questions), scientific literature provides us with vast resources on cross-border M&A activity and its outcomes on both micro- and macroeconomic level.

Cross-border M&A is treated by scientists (Norman et al., 2004) as a part of foreign direct investments (FDI) and thus is usually opposed to investments into new assets - the so called „greenfield“ FDI. Conceptually, these two types of FDI are completely different as greenfield FDI create value by bringing new investment in physical assets. Contrary, M&A not necessarily increase productive capacity due to the fact that cross-border M&A transactions only involve the foreign purchase of existing assets (Norman et al., 2004). Nevertheless, cross-border M&A has been growing much faster than greenfield FDI during the last decades. This shift was partially influenced by privatizations around the globe. Thus, the processes of privatization become another factor contributing much of the controversy to the phenomenon of M&A.

Privatization can be defined as the transfer of ownership and control of State-owned enterprise (Bortolotti et al., 2000) and it has been a major trend for last two decades in transition economies in Eastern and Central Europe and contributed a lot to the surge in M&A activity in the region. However, as privatization is not only economic process but also has an important political dimension (Bortolotti et al., 2000) the countries in Eastern and Central Europe have not avoided disputes over privatization. These disputes in turn have led to increased controversy in public over M&A transactions (a usual form of privatizations in the region) in general.

M&A activities have been a usual form of transactions for almost fifty years in North American and Western European markets (Martynova and Renneboog, 2005). However, in Central and Eastern European countries these transactions have only increased to a significant number in 1990s, after the fall of regimes in the region and sudden shift to market based economies. M&A was greatly fostered in the New Member States of EU coming from the region of Central and Eastern Europe in 2004 when ten new Member States joined the club of EU and thus once again attracted attention of foreign investors.

Up to now, most of the studies examining the effects of M&A announcements have been focusing on Western European and North American markets. Meanwhile, there were scarce scientific resources on M&A and abnormal returns resulting from these types of transactions in Central and Eastern European countries. In this context author of the paper addresses the general issue of value creation in merger and acquisition transactions by analyzing a sample consisting of transactions that took place in the New Member States of European Union during the period of 2004-2011. Two important questions surrounding the issue are investigated: the paper examines whether value creation differs in domestic and cross-border transactions and what is the effect of timing of merger and acquisition transactions in terms of economic cycle.

The sample of New Member States of EU has been analyzed in the paper: Bulgaria, Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland Romania, Slovakia, Slovenia. The analysis covers 8 year period which starts on 2004.01.01 and ends on 2011.12.31. The start of the time frame has been chosen due to the fact that 2004 was the year marking the significant EU enlargement process when ten New Member States (EU-10) joined EU (Romania and Bulgaria, which together with EU-10 form the EU-12 block of countries which is analyzed in the paper, joined EU in 2007).

There is no evidence found in the investigation presented in the paper that transactions concluded during crisis period create more value than those at the pre-crisis time frame. However, findings of the paper support the conclusions of previous studies by academics that cross-border mergers and acquisitions create more value than domestic transactions.

The paper is organized as follows. Section 2 reviews the empirical evidence on the value creation in merger and acquisition transactions. In section 3, there is analysis' data and methodology presented. Section 4 presents findings of the analysis. Section 5 concludes.

Literature review

The effect of M&A transaction announcement and sequent changes in the target's and bidder's stock prices have been the subject of numerous researches by academics since the end of the 1970s. Great part of these academic studies have been comprehensively summarized by Martynova and Renneboog (2005). Authors of the study investigated empirical evidence on profitability of corporate takeovers and compared it across decades.

Martynova and Renneboog (2005) presented findings that the magnitude of the post-announcement abnormal gains is similar across all takeover waves. However, the abnormal returns are significantly different across the decades. Changes in insider trading and takeover regulation introduced in the US may have contributed to these changes. Overall, Martynova and Renneboog (2005) report that post announcement variations in returns are determined by significant differences related to attitude towards the bid (hostile versus friendly), legal environment of both bidder and target, means of payment, type of bid (tender offer etc). For instance, target shareholders in successful but initially hostile M&As are offered higher premiums than those in friendly M&As. When a hostile bid is made, the target share price immediately incorporates the expectation that opposition to the bid may lead to upward revisions of the offer price.

Although majority of the studies analysing the creation of value in M&A transactions include the investigation of M&A announcement returns of both – acquirer and target, however, the clear separation is made and different patterns prevail in acquirer and target returns. For this reason, scientific literature evidence on acquirer and target returns resulting from M&A transactions will be summarized separately in further paragraphs.

As far as the acquirer's returns are concerned, the preliminary results of literature review are contradictory. Whereas Langetieg (1978), Dodd (1980), and more recently Chang (1998) as well as Mitchell and Stafford (2000) report that the acquirer's shareholders sustain losses, Asquith (1983) and Eckbö (1983) found positive abnormal returns of 0.2% and 0.1%. Analysing the studies carried out during the last three decades it can be concluded that these have failed to answer the question of acquirer returs in a unianimous way. For instance, Martynova and Renneboog (2005) summarizing the findings of 17 prior studies state the fact that these are split almost evenly between positive and negative acquirer returns. The authors add that when the value creation effects in different M&A waves and over a longer time windows of one or two months surrounding the announcement are considered, the acquirers' abnormal returns are significantly positive (3.2 to 5.0%) for the third takeover wave (which lasted from 1950s to 1973), significantly negative (-1.0% to -1.4%) for the fourth M&A wave (1981 to 1989), and close to zero in case of the fifth wave (1993 to 2001).

As conclusive argument in the literature analysis of acquirer gains can be a research performed by Andrade et al. (2001) reporting that a great portion of both positive and negative returns are statistically insignificant. However, there is one contrargument in the case of acquirer gains, namely the transactions where developed-market acquirers gain control of developed market targets: evidence presented in the paper of Chari et al. (2004) show that developed-market acquirers experience a statistically significant gain of 2.4% when they announce M&A transactions in emerging markets. This outcome is very important for the further research of this paper as it gives a clue for possible reasearch direction: the New Member States of EU are considered as transition economies with economic growth rates which are close to those observed in emerging markets.

When returns of a target in M&A transactions are analyzed, majority of empirical studies find significant returns at the event or around the event of announcement of a transaction. As Martynova and Renneboog (2005) reports after examining numerous studies in the field of M&A announcememnt returns, for all meger waves stock prices of target firms significantly increase at and around the announcement of a bid. Moreover, findings of the authors show that the magnitude of the post-announcement abnormal returns is similar when analyzing different takeover waves.

Different other authors in their separate studies also support the conclusion that target's returns are positive and statistically significant: Jensen and Ruback (1983) after reviewing 13 studies on the abnormal returns around M&A announcements found that the average abnormal returns to target firms' shareholders are of 30% and 20% for the successful tender offers and mergers, respectively. Eckbö (1983) also reports material positive cumulative average abnormal returns on the announcement day and the subsequent day. Dodd and Ruback (1977) examined abnormal returns around the time of a M&A transaction announcement and found that shareholders of target earned positive and significant gains. Asquith and Kim (1982) analyzed returns to stock holders of target firms around the date of the initial announcement or completion of a merger and summarized their findings stating that the shareholders of target firms increased their wealth as a result of the transaction.

Having reviewed the scientific evidences on returns incurred by both acquirers and targets a parallel question of distribution of gains can be answered. Relying on previously discussed evidences and following the more explicit observations on distribution of wealth created in M&A transactions by Jensen and Ruback (1983), Andrade et al. (2001) it can be concluded that the biggest share of the combined returns from M&A transactions is accrued by target's shareholders leaving no (in case of domestic M&A transactions) or smaller proportion (in case of cross-border M&As) of gains for the shareholders of the acquiring firms (Chari et al., 2004).

Another factor which needs to be considered when analysing abnormal returns resulting from M&A transactions ist the level of control acquired during a transaction. Chari et al. (2004) examined the question of shareholder wealth creation in case of majority control acquistion. The results show that the magnitude of value creation increases when acquirer gains majority control of target in comparison to the results for the full sample of the study of the authors. The average total combined acquirer and target announcement return is 5.89% in market- adjusted terms over the three-week window and is significantly higher when compared to transactions where the acquirer does not gain majority control. An average joint value increase is even twice as high if a prior relationship between both of the parties of a transaction (the acquirer and the target) exists: the average total combined returns in case of acquisition of majority control in the context of existing prior relationship between the acquirer and the target stands at 12.8%. According to the reasoning presented in the study of Chari et al. (2004), acquisition of majority control is even more important in emerging economies with low developed capital markets and poor protection of the minority shareholder rights.

Going further into analysis of factors which have material effect on additional value creation in M&A transactions, the choice of the payment method is often highlighted by academics as crucial aspect. Antoniou and Zhao (2004) find that the bidder's returns are lower when the operation is financed with stocks. Travlos (1987) shows negative abnormal returns when the acquisition is financed with stocks and zero or positive abnormal returns when the acquisition is financed with cash.

Another important factor included in numerous studies is the strategy behind the acquisition: are the acquirers diversifying their activities and investing into new areas or the target is active in the same industry and acquisition is aimed at exploiting synergies or alternatively expanding internationally. Martynova and Renneboog (2005) find significant positive abnormal returns for the acquirers announcing industry-related acquisitions and insignificant returns of the acquirers announcing diversifying acquisitions. Chari et al. (2004) reports that in case of diversification strategy in M&A transaction total combined returns are not significantly affected by an announcement.

Economic cycles constitute another very important factor determining M&A activity and having effect on returns generated by M&A transactions. During downturn periods, managers and stockholders turn to more risk-adverse position and set higher cost of capital than it is during growth periods (Chevalier and Redor, 2005). As Lubatkin and O'Neill (1987) conclude, these changes result in decreased number of M&A transactions during the times of economic downturn. However, the decrease in number of transactions does not necessarily mean that also the decrease in quality of the transactions should take place simultaneously. Quite contrary, universal logic offers another conclusion stating that smaller number of transactions, higher risk-adversity of deal-makers as well as higher cost of capital required should result in transactions which are less opportunistic and have clear strategy of value creation. However, previous studies do not clearly answer the question whether value creation resulting from M&A transactions differs in economic growth and downturn periods.

Moeller at al. (2005) investigated impact of economic cycles on the shareholder's wealth. Findings of the authors show that one of the most significant periods of loss in M&A transactions has been recorded between 1998 and 2001.

Chari at al. (2004) tested, whether such to downturn periods specific factors as the presence of liquidity-constrained or financially distressed targets and increase in the bargaining power of acquirers in M&A transactions have an effect on cross-border M&A activity. It was initially assumed that the aforementioned factors should lead to greater gains by acquirer and target in cross-border M&A activity. However, the findings of the test were statistically insignificant.

Having reviewed the impact of economic cycles another important issue, namely, the M&A cycles and their effect on target and acquirer shareholders return has to be dealt with. Harford (2003) highlights the fact that total combined M&A transaction returns taking place in periods other than the upward moving part of a takeover wave are usually significantly lower. It is also reported that the highest combined M&A gains are realized at the beginning of a takeover wave. Moeller et al. (2005) confirms the aforementioned fact with evidence showing that the takeovers with the biggest losses occurred during the second half of the 1993 to 2001wave.

Summarizing empirical evidences on the issue of value creation in M&A transactions should be noted that results of literature review are in many cases contradictory. However, some common patters have been found: at the moment of the announcement stock market reaction creates additional wealth, but most of the gains fall to the shareholders of target companies. When historic data is analyzed, magnitude of the gains and their distribution between acquirer and target differ a lot across the M&A waves. Differences also occur due to certain aspects of specific transactions, e.g. payment method, the level of control acquired, strategy (diversification versus synergy) of a transaction, geographic focus (emerging versus developed market targets), economic cycle phase at the date of transaction announcement etc.

Data and methodology

The analysis part of the paper is based on data retrieved from the following databases: transaction data has been obtained from Mergermarket, BVdep Amadeus, Bloomberg and Reuters databases, whereas the main sources to retrieve stock market data have been Bloomberg, Reuters and the webpages of local stock exchanges of the countries included in the sample. The data covers all public M&A transactions involving at least 4% ownership of the target company. The sample of New Member States of EU includes twelve countries from the region of Central and Eastern Europe, namely: Bulgaria, Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland Romania, Slovakia, and Slovenia. The analysis covers 8 year period which starts on 2004.01.01 and ends on 2011.12.31. The start of the time frame has been chosen due to the fact that 2004 was the year marking the significant EU enlargement process when ten New Member States (EU-10) joined EU (Romania and Bulgaria which together with EU-10 form the EU-12 block of countries which is analyzed in the paper joined EU in 2007).

On each specific transaction the following data has been collected: the date on which the transaction was announced, the date on which the transaction became effective, target and acquirer name, country of domicile, industry sector. If such information has been publicly disclosed, the following information has been also collected: percentage of shares acquired, percentage of shares owned before the transaction, value of a transaction. Once the list of M&A transactions has been available, the aforementioned information has been supplemented with stock price information data extracted from Bloomberg (Reuters and the local stock exchanges have been chosen as a secondary source of information in case Bloomberg does not provide such information). Returns are denominated in the local currency. Total average combined gain resulting from M&A transaction is calculated as market capitalization weighted average.

The database compiled by the author of the paper covers 747 M&A transactions that involved a publicly traded target from the New Member States of EU. After eliminating those transactions the stock market price data of which was not available and those transactions which do not qualify for the further analysis (in most cases because of smaller transaction than 4% of shares of a company) 283 transactions were included into the final sample. The structure of the sample according to target and acquirer location is provided in Table 1.

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Table 1. Breakdown of M&A transactions in EU-12 during the period of 2004-2011

Target location structure		
Country	**Total number of transactions registered**	**Transactions included in the sample**
Bulgaria	58	38
Cyprus	108	51
Czech Republic	8	6
Estonia	25	11
Hungary	81	28
Latvia	3	2
Lithuania	101	19
Malta	12	7
Poland	266	67
Romania	52	32
Slovakia	4	3
Slovenia	29	19
In total	**747**	**283**
Acquirer location structure		
Region	**Total number of transactions registered**	**Transactions included in the sample**
EU-15	178	96
EU-12	47	21
Non-EU acquirer	82	24
Local acquirer	440	142
In total	**747**	**283**

As one can see from Table 1, approximately one third of the total number of transactions in EU-12 during the period of analysis fell to Poland, which is not surprising result as Poland is the biggest economy in the EU-12 country group. However, a conclusion that the biggest economies are represented with the largest number of transactions cannot be drawn, as the number of M&A transactions in other biggest economies of EU-12 is much lower and such countries as Cyprus and Lithuania show higher volume of transactions. On acquirer side it should be noted that the vast majority of transactions were intra-EU M&As, as only 82 transactions out of 747 in total sample were transactions with a non-EU country on acquirer side. Going further a trend is observed that local M&As prevail versus cross-border M&As (440 out of 747). In terms of cross-border M&As majority of acquirers came from EU-15 which is not a surprising fact bearing in mind the economic integration inside the EU block of countries and more specifically one of the four essential freedoms of EU – free movement of capital.

The breakdown of the transactions included in the sample according to the year of M&A transaction is provided in Figure 1.

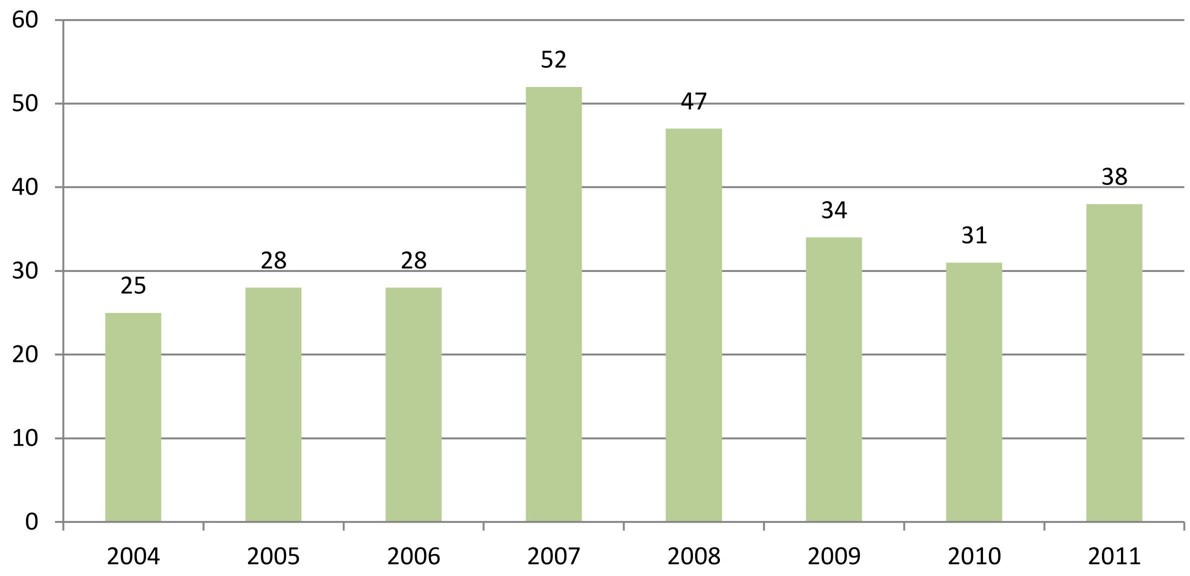

Figure 1. The breakdown of the transactions included in the sample according to the year of announcement

Information reflected in Figure 1 corresponds to the worldwide M&A cycles: the number of transactions has been constantly growing until the peak in 2007, downward trend prevailed until 2010 when the M&A activity in EU-12 reverted and already in 2010 showed clear signs of recovery.

Analysis of the sample has been based on the assumption of market efficiency. If we assume that markets are efficient, stock prices and their alterations provide us with an efficient metric to evaluate the fundamentals of a company. As a result, the fluctuations in company's stock prices after M&A transaction announcement objectively capture the effect of M&A transaction on its value. This approach comes from event studies and has been firstly introduced in by Fama et al. (1969) and since then has been widely employed by academics analyzing wealth creation process in M&A transactions. The approach has a limitation, as it only deals with stock market reaction and does not include factual realization of the value over time, e.g. it does not answer the question of whether the value creation assumed by the stock market was in reality materialized by increased financial results of the companies involved in a specific M&A transaction. However, event studies' approach is considered to be reliable in statistical terms (Andrade et al., 2001) and offers useful insights: on the date when M&A transaction is made public, alterations in stock market prices gives us valuable information about the value creation as a result of the transaction and gains or possible losses from the transaction to the acquirer and target respectively. Additionally total combined returns can be calculated as well.

Daily stock market prices have been employed to calculate two types of returns for the acquirer and target companies (total combined returns have been also calculated in three different ways). The first parameter is the raw return over the relevant time frame of 5 trading days around (5 days before and 5 days after, 11 days in total) the transaction announcement. The second metric applied is the cumulative abnormal returns.

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Following Chari at al. (2004) cumulative abnormal returns have been calculated using the following market model:

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it} . \qquad (1)$$

The coefficients α_i and β_i in the model are estimated for each specific company over a one-year interval starting eighteen months prior to the announced acquisition and ending six months before the announcement (as it has been offered by Chari at al. (2004)). The coefficients are then employed to calculate the estimated returns in the time frame of the M&A announcement. The abnormal return is derived calculating the difference between the actual return and the estimated return for the time frame of the announcement.

Findings of the study

Based on the previous studies reviewed in the literature part of the paper it can be concluded that M&A transactions create additional value in terms of total combined value for both acquirer and target. This also holds true for the target, which according to some studies (Jensen and Ruback, 1983; Andrade et al., 2001) gains the lion's share from a transaction. However, there is a lot of controversy involved when acquirer's gains are concerned.

The summarized data of the sample presented in Table 2 verifies the findings of other studies and reports that M&A transactions create additional value in terms of total combined value for both acquirer and target. In fact, in case of EU-12 countries total average combined gain resulting from M&A transaction is equal to 3,34% (in terms of market capitalization weighted average) or 2,81% if one takes median as more accurate metric to evaluate the sample. As the findings of majority of other studies in the field show, major part of return is accrued by the target (6,63% change of stock price on average versus 2,72% in case of acquirer).

Further findings reflected in Table 2 show that cross-border M&A transactions create more value than the same transactions taking place inside the country: in all the groups of foreign acquirers (EU-15, EU-12, non-EU) average total combined return is greater compared to the same metric of local acquirer group. This is an important finding as on one hand it confirms the results of other academic authors on the other answers one of the major questions raised in this paper, namely, whether cross-domestic M&As are creating additional value as compared to domestic transactions.

Another finding noticed in the summary statistics of the sample reported in Table 2 is that all investors engaged in M&A transactions can be lined up in an order according to performance of their targets after the announcement of M&A transaction. Following conclusions can be drawn (due to high variations which result from low number of non-EU and EU-12 acquirer subsamples and few one-off transactions in these groups, averages do not show objective view and in this case median is taken as the main metric to draw conclusive statements): most welcomed investors come from EU-15 (target's share price increases on average 5,03%-6,17% after the announcement) followed by non-EU acquirers (4,79%), local acquirers (3,27%) and EU-12 acquirers (2,07%).

Table 2. Average returns in M&A transactions in EU-12 during the period of 2004-2011

	Total combined return	**Acquirer return**	**Target return**
Complete sample			
Average	3,34%	2,72%	6,63%
Median	2,81%	1,76%	4,49%
N	283	283	283
EU-15 acquirer group			
Average	2,85%	2,32%	6,17%
Median	2,33%	1,75%	5,03%
N	96	96	96
EU-12 acquirer group			
Average	4,49%	2,89%	11,42%
Median	2,01%	2,00%	2,07%
N	21	21	21
Non-EU acquirer group			
Average	3,65%	2,44%	11,70%
Median	1,89%	0,66%	4,79%
N	24	24	24
Local acquirer group			
Average	2,45%	2,01%	4,52%
Median	1,32%	1,06%	3,27%
N	142	142	142

The standard regression model is used to test whether the various characteristics of M&A transactions would affect the total combined CAR (cumulative abnormal returns). Below there is provided standard regression specification employed for further analysis:

$$CAR_{t1t2} = \alpha_i + \beta_i D_i + \gamma \sum CV_j + \mu_i \qquad (2)$$

CAR_{t1t2} represents cumulative abnormal return from day t_1 to day t_2 , intercept α_0 measures the magnitude of the average announcement return over the time frame, D is a dummy variable taking a value of 1 or 0, CV_j represents control variables, μ_i represents error terms.

Table 3. Regressions: Controlling stake, economic downturn, domestic and cross-border transactions

Variable	**1**	**2**	**3**	**4**	**5**
Intercept	0,027 (10%)	0,003 (10%)	-0,002	0,002	0,002
D1: Controlling stake		0,043 (5%)			
D2: Economic downturn			0,021		
D3: Domestic transaction				0,020 (10%)	
D4: Cross-border transaction					0,028 (5%)

Table 3 presents the results of regressions where the dependent variable is total combined CAR during the time frame of 5 trading days around (5 days before and 5 days after, 11 days in total) the transaction announcement. Mean coefficient estimates are reported by also denoting statistical significance in brackets (in case of statistically insignificant estimates nothing is denoted next to the estimates). The coefficient estimate on the constant equals to

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0,027 in the first column and is statistically significant at the 10% level, thus enabling us to draw a conclusion that total combined returns increase significantly in the time frame of 11 days around M&A announcement. D1 estimate which denotes controlling stake acquired stands at 0,043 and is significant at 5% level. It reports that acquisition of controlling stake increases total combined CAR by 4,3% during analyzed time frame of 11 days.

Dummy variable D2 representing transactions taking place during economic downturn having the value of 0,021 lacks statistical significance. Further estimates D3 and D4 (representing domestic and cross-border transactions respectively) are both statistically significant. However, cross-border transactions create more value (2,8%) at the higher statistical significance level (5%) as compared to domestic transactions (2% CAR increase at 10% significance). This finding conforms to the results observed while analyzing Table 2.

The question of what is the effect of timing of merger and acquisition transactions in terms of economic cycle addressed in Table 4, where value creation in pre-crisis, crisis and post-crisis periods is being analyzed and compared.

Table 4. Regressions: M&A returns during different economic cycle phases

Variable	**1**	**2**	**3**	**4**	**5**	**6**
Intercept	0,004 (10%)	-0,002	0,001	0,002	0,001	0,003
D5: 2004-2007	0,037 (5%)			0,015		
D6: 2008-2009		0,021			0,016 (10%)	
D7: 2010-2011			0,052 (10%)			0,021 (10%)
D1: Controlling stake				0,027 (10%)	0,028 (10%)	0,019

Results of regressions presented in Table 4 report that 11 day CAR of M&A transactions that took place during the pre-crisis period of 2004-2007 stands at 3,7% compared to 2,1% of crisis transactions (2007-2008) and 5,2% of post-crisis transactions (2010-2011). Crisis estimate being the lowest is also statistically insignificant whereas pre-crisis and post-crisis estimates are both significant. However, the level of significance changes, when next to timing additional variable representing controlling stake is added. Then all of the regressions become significant thus stating the fact that also crisis transactions generate high returns, but only in cases where controlling stake is acquired. This can be explained by the fact that acquisitions where majority stake is acquired are much more welcomed during the crisis period due to the fact that majority owners are expected to have not only willingness but also needed capacities to ensure effective operations of targets, especially troubled ones.

Conclusions

As discussed in the paper, there is a lot of controversy involved when investigating M&A activity around the globe. At the very center of the debates surrounding M&A transactions, there is the question arising whether mergers and acquisitions result in surplus value creation. This question has also been addressed in the paper with specific focus on value creation differences in domestic and cross-border transactions as well as the effect of timing of merger and acquisition transactions in terms of economic cycle.

A sample consisting of transactions that took place in the New Member States of European Union during the period of 2004-2011 has been chosen for the study. The block of countries analyzed in the paper has a short history of M&A activity and thus has not been covered in previous studies.

The conclusion of previous studies by scientists that cross-border mergers and acquisitions create more value than domestic transactions has been supported in the paper. Based on the sample results, major part of gains from M&A transactions in EU-12 fell to target. In addition, there was no evidence found that transactions concluded during crisis period create more value than those at the pre-crisis time frame. According to performance of their targets after the announcement of M&A transaction investors engaged in M&A transactions can be lined up in the following order: most welcomed investors come from EU-15 followed by non-EU acquirers, local country acquirers and EU-12 acquirers.

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