Preface

Most literature research argues that Merger&Acquisitions (M&As) is one of the mechanisms by which companies gain access to new resources, increase revenues, efficiency and cost reducing. Many multinational companies around the world today are the result of M&A between two or more companies.

Strategists argue that mergers and acquisitions main issues relate to the strategy taken by companies. However, manager's ultimate goal, based on economic rationality, is the maximization of shareholder value. So, one expects to see companies making decisions to have increase shareholders' wealth.

In view of this, every deal should realize, positive results in terms of value, although to varying degrees and either directly or in the long term. Instead, recent studies have found a high failure rate, regardless of sector, country, or historical phase.

Whereas the adverse effects that acquisition failure have on the system, academic literature, but also stakeholders and policy makers, have investigated this phenomenon, by highlighting also some irrational motivations that can push management to promote an operation, to which is added their poor planning skills. It should also be observed that, despite these failures, there are well-structured companies that promote M&A, thanks to which they have reached international size and success speedily. With these strategies, some sectors and countries' economies have undergone far-reaching changes.

In this historical phase, in which the market has contracted "time to market" of innovation development, where technological start-ups are rejuvenating the international market, the economy revolves around 4.0, the achievement of certain leadership positions necessarily moves through external growths. The market, in fact, is questioning if it is surfing the seventh wave.

New emerging countries, therefore, are driving their growth mainly through M&A operations to shorten times and competitive gaps. In some sectors and for some companies, in fact, the corporate acquisitions have become part of the ordinariness of managing, preserving their extraordinary nature in relation to the complexity of the process and the vastness of the key factors.

The global regulatory system and tax differential play their role both as factors of attractiveness or deterrent.

The debate is again focused on the complexity of the process that must necessarily integrate all the different factors, especially among practitioners. Literature on M&A

is extensive and "cyclically" the discussion has been fuelled by new contributions. Anyway, the more debated question regarding the strategic profile of acquisitions and their contribution on the value creation process periodically claimed the interests of scholars but also entrepreneurs and policy makers.

The literature on the subject, as already mentioned, is extensive and authoritative: this book fits within this debate with some peculiarities by focusing on the Strengths, Opportunities, Weaknesses and Threats of a successful deal, so that it has a real strategic value.

In detail, Chapter 1 is dedicated to the introduction of the leit-motif of the book: the strategic relevance of M&A and its key factors. The analysis of their cyclic trend is developed to highlight the various strategic lens that inspired the companies in acquisition activity, according to economic, regulatory and fiscal historical dimensions. When the analysis issue is a strategic dimension, under a corporate finance perspective it behoves to focus on performance effects, and more generally on value creation process.

In the first chapter, we have discussed the strategic significance of the acquisition investment. As an investment, we focused on its implication in terms of effects on performance and on failure risk.

In connection with this, in the second chapter, the aim is to deepen the study of the different drivers that the acquisition team has to tune together in the complex evaluation process that a successful deal requires. Using the strategic tool, SWOT analysis, we study the different Strengths, Weaknesses, Opportunities and Threats always under the value creation perspective. Between the Strengths, a particular focus is on the evaluation process, with all the implications in terms of synergies evaluation and financial structure management.

Chapter 3 opens a window on some "serial acquirers" that consider M&A the strategic base of their wealth creation mission. With the presentation of the case studies, the aim is to draw the attention on the strategic dimension of the corporate acquisition behaviour.

In the Appendix 1 and 2, the debate moves to the lens of operations, with a focus on the normative and tax determinants. Appendix 1, in particular, gives a real practitioners vision on the limits and opportunities in Italian low for merger and acquisition strategies. In it, Francesco Greggio, experienced acquisition advisor, draws the attention to the merger process that the Italian Commercial Law has provided for the merger processing and its implications.

In the Appendix 2, with Gino Reolon, Colonel of Guardia di Finanza (fiscal police), it is interesting to compare the strategic priority of the drivers according to a different observation angle. He highlights that merger and acquisition are operations intrinsically linked to international tax planning. However, tax planning is a determining factor for acquisition strategy success and in some transactions the fiscal implications could have managed with strong professionalism.

In summary, the main objective of this book is to tune together academic and empirical perspectives, that recognize the strategic vision of the M&A as a value creation tool.

Notes on Contributors

Francesco Greggio is partner of RQR & Partners. His field of expertise within the firm RQR & Partners concern mainly corporate taxation, taxation of groups, extraordinary corporate financial transactions and assistance concerning Vat. He also hold the position as judicial liquidator appointed by the court within arrangements before bankruptcy and he is appointed as an official receiver by the bankruptcy court in relation to the insolvency procedure. He collaborates with Corporate Finance Advanced course, at the Department of Economia and Management at the University of Pisa.

Gino Reolon is a Colonel in the *Guardia di Finanza* (Italian Revenue Protection Force) at the Inter-Regional Headquarters in Florence.

He is qualified in forensics, enrolled on the Register of Accounting Auditors, and is a Business and Economics graduate. He is a Corporate Finance expert for the post-graduate course in Banking, Corporate Finance and Financial Markets at the Department of Economia and Management at the University of Pisa.

Throughout his career in the *Guardia di Finanza*, he has earned numerous accolades and awards in recognition of his achievements, and has gained extensive experience in Judiciary and Revenue Protection Police investigations in the financial sector.

Chapter 1 M&A as a value creation strategy

SUMMARY: 1.1. Merger&Acquisition strategy: definitions and study approaches. – 1.2. M&A cyclic trend. – 1.3. Performance, value creation and failure risk. – 1.3.1. Market performance. – 1.3.2. Accounting based analysis. – 1.3.3. M&A effect on failure risk.

1.1. *Merger&Acquisition strategy: definitions and study approaches*

As the history of many multinationals, or FTSE 100 companies, would attest, Merger and Acquisitions (M&As) have been the cornerstone of the growth strategy of many firms and have influenced competitive and industry dynamics globally across sectors (Hill and Jones, 2009; Lynch, 2006).

The merger is defined *as a combination of the assets of two (or more) previously separate companies into a new legal entity* (Faulkner *et al.*, (2012), pag. 374) and all or one ceases to exist legally.

According to DePamphilis (2012), an *acquisition* occurs when one company takes a controlling ownership interest in another firm, a legal subsidiary business, or selected assets, such as a manufacturing facility [1].

Many multinational companies today are the result of acquisitions between two or more companies (Arnold, 2013).

This phenomenon was promoted directly by the market and it has been common corporate practice for more of a century.

Undoubtedly, corporate acquisition is one of the more debated issues. In a vast amount of literature, researchers have made a variety of contradictory assumptions and empirical studies were unable to provide clear evidence of different aspects of M&A strategies (Krishnakumar and Seth, 2012), by highlighting an essential "multi-dimensional eterogeneity" (Zollo and Singh, 2004).

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[1] The differences between Merger and Acquisition are essentially under the legal perspective, especially in some European countries. In line with Conca (2010), in Italy, for example, commercial law provides two different definitions, without any complementarity. In the Anglo-Saxon system, however, merger and acquisition has the same regulations, with the same the economic perspective. In this book, the merger and acquisitions are analysed under the common acronym M&A, drawing the attention to the distinctions where it's necessary.

After the seminal work of McKinsey (1929), in which he discussed the effects and implications of mergers, in 60 years M&A has also captured the attention of the academy study. The first studies have focused the scholars attention on the challenges of managing the acquisitions (Kitching, 1967; Mace and Montgomery, 1962), while Ansoff (1965) has launched the debate on the role of M&As as strategic moves.

In the 70's, the acquisition strategical and financial implications opened new themes in management literature, which is still debated. With the first important failures of integrations, the studies, in fact, enriched the list of critical factors with the human side management, by showing evidence that employee reactions and culture dimension could thwart the efforts of every decision-making process, especially if cross-border (Borys *et al.*, 1989; Birkinshaw *et al.*, 2000; Faulkner, *et al.*, 2012). In the 1990's, with growth in terms of the importance of European acquisition activity, the cultural dimension and the knowledge management became the critical lens to the success of the deals (Cartwright *et al.*, 1998).

In essence, with the first studies of the 60's M&A gradually became a defined field of study and institutionalized itself, by drawing the attention of scholars, practitioners and politicians.

Today, the field attracts hundreds of researchers worldwide, who remain, by and large, split as to whether the topic of M&A is to be viewed from a finance, strategy, managerial or human perspectives (Birkinshaw *et al.*, 2000; Faulkner *et al.*, 2012; Larsson and Finkelstein, 1999).

According to Carwright *et al.* (2012), M&A research is more focused on specific "themes" than theory development. In their review research on articles on M&A, in the period 1963-2009, they found process management and strategy as the two major and more widely debated themes.

About a third of papers focuses on M&A management matters, with more attention on integration management, human side and resource management, corporate governance, cultural issues, knowledge related perspective. More of 60% of the studies analyse the strategic perspective, with a prevalence regards on performance of M&A and the importance of an evaluation process of the deal.

Corporate acquisition strategy needs an in-dept managerial decision-making to evaluate many aspects: the types of economic activities carried out by the parties and the form of operation (horizontal, vertical mergers and conglomerate); domestic and cross-border deals; the modes (friendly mergers or aggressive takeovers); the ownership and those who make decisions (managers or shareholders); the forms of financing (debt, equity, cash flows). All of these aspects, indeed, open up several debates. Some authors, for example, have highlighted the strategic influence of the method of payment (Linn and Switzer, 2000; Chatterjee and Kuenzi, 2001); others have discussed the critical role of corporate governance on the success of the deal, especially after the 90's (Basu *et al.*, 2009; Caprio *et al.*, 2011; Mariani *et al.*, 2015). In several studies, the focus is on the relation between the operations and the surrounding market. Wong and Cheng (2009), on the other hand, have reached various results for different analyzed markets, often showing important contradictory considerations. Furthemore, most research argues that corporate acquisition is one of the mechanisms by which companies gain access to new resources through redeployment, increase revenues, efficiency and costs reduction (§ 2).

Another of the discussion topics, in the Finance and Industrial Economy studies, that have arisen since the end of the 60's, is the relationship between stock market cycles, or economic trends, and M&A activity. Nelson (1959, 1966) was the first scholar that hypotisized a relation between merger activity and share prices, and other studies show the same results (Melicher *et al.*, 1983; Geroski, 1984; Clarke and Ioannidis, 1996; Mitchell and Mulherin, 1996; Cartwright and Schoenberg, 2006; Martynova and Renneboog, 2006).

Also if the M&As have a recent history and need of an efficient financial market, they have represented an economic phenomenon of very large dimensions in the last part of the century. Thomson Reuters recorded a total of 752,000 deals around the world from 1985 to the end of 2012, demonstrating the enormous scale of this phenomenon. It is typical of the Anglo-Saxon countries which traditionally have more evolved financial markets. Over the last several decades, they have also had a significant increase also in the rest of Europe. In the last few years, this phenomenon has assumed a wordwide dimension, with Asia and Africa that have become strategic players in acquisition activity. Moreover, Gaughan (2002) and other scholars have emphasized that M&A typically occurred in cyclical patterns, merger waves: periods of intense merger activity have been followed by intervening periods of fewer mergers.

1.2. *M&A cyclic trend*

As previously anticipated, in literature it is common knowledge that M&A activity is cyclic (*merger waves*) and that acquisitions reveal a positive correlation between values and S&P 500 index.

Reid (1968, p. 15) define waves as "periods of time characterized by relatively large numbers of mergers reported simultaneously in many industries", where this activity intensifies at an increasing rate and then declines rapidly. Merger and acquisition waves are periods of intense acquisition activities closed with a significant drop of the activity regressing to a pre-wave dimension (Carow *et al.*, 2004; McNamara *et al.*, 2008; Faulkner *et al.*, 2012). Every wave has a specific market connotation, some warnings and a strategy, that becomes a "pressing" for every company. In a competitive market, the acquisition strategy, indeed, could become a must. Sometimes it develops into an imitative behaviour: or you buy or another company buys you!

The merger waves analysis is especially observed in the USA market, historically more efficient and innovative, but the phenomenon has gradually involved worldwide companies.

Traditionally, economists have described six waves, but some recent studies have discovered some signals for the seventh one (tab. 1 Waves). While the starting date of the waves could be different in various studies, there is convergence in the conclusion. The waves change direction because of important financial and historical events (Lipton, 2006).

Tab. 1. – The waves

PERIOD	COUNTRIES	VALUE (in $Billion)	NUMBER OF DEALS	STRATEGY	MOTIVATIONS	ENVIRONMENTAL ANTECEDENTS	COLLAPSE EVENTS	INDUSTRIES	MODES OF PAYMENT	SYSTEM EF-FECTS	PERFORMAN-CE EFFECTS
1-wave											
1897-1904	USA	6.9	3012	Horizontal con-solidations, to realize monopoly situation	Economy of scale, drive for efficiency in production	Lack of antitrust rego-lamentation, westward migration	Fraudolent financing, crash of the equity market 1903-1905, Sherman Antitrust Act	Metals, tra-sportation, mining and oil	Cash	Creation giant Firm, changes in technolo-gy, economic espan-sion, legislation, stock exchanges activity	CAR 12%-18%
2-wave											
1916-1929	USA	7.3	4828	Vertical merger, Increasing indu-stry concentra-tion, to realize oligopoly	Economy of scale and scope	Restrictive antitrust regolamentation	Stock market crash of 1929 and Calyton Act	Petrolium, primary metall industries, automotive	Stock	Creation of vertical integration of medi-um companies	CAR 15% for the target but no effects for bidder sharholders
3-wave											
1955-1969	USA, UK, EU	46	ND	Conglomerate era	Managerial interest, diversification, false apparence on the market	Exploiting efficiency of internal capital alloca-tion markets, economy prosperity, Celler-Kafauver Act, Agency theory	Oil crisis, crash con-glomerate stocks	All sectors	Stock	Leverage stress, bidder medium firm and small firms with different line of business, Bootstrap game	Positive effects for targer firms. For bidder: posi-tive effect at announcement, in long term insig-nificant
4-wave											
1980-1989	USA, UK, EU, ASIA	618	9617	Rentrechment era, specializa-tion, corporate in-ternazionalization	Elimination of con-glomerate structure and inefficiencies, cut-costs	Antitrust lower pres-sure, deregulation of financial market, eco-nomy prosperity, finan-cial engineering tools	RJR Nabisco failure, junk bond collapse, bank system crisis	Bank system	Cash	Leverage buy out, hostyle takeover, corporate raiders, junk bonds, bustup takeover	Positive effects for targer firms. Bidder results only in related acquisition
5-wave											
1992-2000	USA, UK, EU, ASIA	4.500	31.152	International expansion, cross-border	Globalization, de-regulation, privatiza-tion, synergies	IT revolution, deregula-tion, reduction trade barriers, trend privati-zation	Tech Bubble (2000), finan-cial scandals (Enron, Worldcom)	ICT, commu-nication, inter-net, banks, me-dia, luxury, utilities	Stock	Mega-deal, global deal, corporate governance mecha-nisms	Positive effects only for target shareholders
6-wave											
2003-2009	USA, UK, EU, ASIA	20.700	277.451	Rebirth of lever-age	Financial aim, glob-alization of Deri-vates Securities, private equity	Federal Reserve low interests policy, liquidi-ty availability	Subprime mortgages	Financial Services	Cash	Private equity, shareholder attivism, corporate governan-ce control	Poor returns for bidders. Some positive effects for targets
7-wave											
2014-?	USA, UK, EU, ASIA, AFRICA	(1) 11.679	130.967	Global leaders, corporate reorga-nisations, interna-tional monopoly	Rational aims, costs cutting, new techno-logies, new com-petitive vantagies	Understimated targets worldwide, private equity and financial investors	(2)	TLC, pharma and banking , hi-tech sector, media	Cash/stock	(2)	(2)

(1) Value and numbers of deals in the period 2014-2016.

(2) Information non available.

The waves start with the reaction to operating environments, such as a new innovation, new tecnologies, commodity prices, the need to find a new competitive advantage, a particular law and fiscal system and deregulation. The acquisition propensity may be increased also in a market in recession, with the opportunity for the companies to buy underestimated targets (Granata and Chirico, 2010). In line with agency theory scholars, the deviant management behaviour is recognized as another trigger for acquisitions (Bruner, 2004).

Lipton (2006) has also shown some questionable reasons for promoting an acquisition: the need to create monopoly or oligopoly positions, the conqueror obsession of the manager (*corporate raiders*) to have a bigger company to manage, with more private benefits.

Gugler *et al.* (2012) gave evidence, also, that stock market booms and merger waves are both driven by increases in optimism in the financial markets. They underlined that optimism in financial markets explains the volume of assets acquired through mergers in a period.

In every decision-making process it is, indeed, very important to know the environment in which the operations could evolve and the critical drivers to manage. Unlike Shughart and Tollison studies (1984), in which it is suggested that M&A could be random. Moreover, according to other recent scholars, merger waves represented periods of non-random spikes in acquisition activities (Harford, 2005, McNamara *et al.*, 2008). Thus recent research has provided strong compelling empirical evidence supporting the common belief that acquisition occur in waves.

In the context of finance, it is likely that many errors that occurred in earlier periods will reoccur. Understanding history can help the companies to identify the proximity to a new wave of M&A.

It's important, therefore, to investigate if we are riding the wave or if we risk to be swept out by the wave.

DePamphilis (2012) argues that stock market rewards the companies forerunners, while pays lower prices for the target firms that come into play after.

So, we have to study the preceding events to plan the deal: the first step of the corporate acquisition analysis is just the definition of the environment background, especially about the deal feasablity, the structure and financial implications.

The First Wave (1897-1904)

The first wave, the Great Merger Wave, has involved essentially US companies that were driven to realize monopoly situations and to reach more efficiency, especially in the production activities. From historical analysis, there were some warnings factors in the system that fostered the acquisition propensity, such as lack of antitrust regulation and westward migration. This wave was characterized by horizontal consolidation to realize economies of scale, especially in capital-intensive industries, such as metals, transportation, mining and oil. There were operations essentially relied on cash-setted, with positive effects on the economic system and on performance. The Great Merger wave produced the development of giant firms, radical changes in technology, economic expansion, new legislation and evolution of industrial stock exchanges (Martynova and Renneboog, 2008).

Baneerjje and Eckard (1998) have demonstrated some positive effects on performance, founding Cumulative Abnormal Returns of the 12-18% (CARs).

The good trend was shocked by fraudolent financing that produced a crash of the equity market in 1903-1905. The decision of the Supreme Court to give full application of the Sherman Antitrust Act to the horizontal mergers was a real collapse event.

The first wave, as anticipated, was played in the US economy. A few English companies did however promote some operations, especially in traditional industries, in order to *rationalize production*. *They aimed at* reducing costs, by implementing internal and external *economies of scale* to *stand up to the competition* of the USA (Capasso, 1990).

The Second Wave (1916-1929)

The negative effects of the previous wave and the new anti-trust regulation fuelled different strategies. The companies promoted vertical mergers, with the aim of increasing industry concentration and realizing an oligopoly situation. The medium firms were the actors of the second wave. They wanted to obtain economy of scale and scope, by creating value in a vertical organization, avoiding therefore anti-trust restrictions. It was the wave of petrolium and primary metal industries, but the most important event was the development of automotive industry, such as Ford Motor Company, that was the precursor of a fully vertical integration.

In contrast to the previous period, the M&As of the second wave was financed mainly with stocks.

The studies about the performance effects of the acquisition activity reveal essentially positive effects for the targets, with CARs of the 15%, while bidder shareholders were unable to obtain results.

The end of the wave was tragic. The stock market crash of 1929 produced dramatic defaults of big companies and the general fall of the system, with the beginning of the Great Depression.

The first two waves were dominated to US companies. In the period 1920-1929, at European level, only Great Britain companies showed a weak interest for acquisition activity, mainly with the aim of horizontal consolidations (Ceddaha, 2007), favored by the antitrust regulation. English politicians have traditionally left companies to get on with merging and acquiring unhindered. In the same period, fascist concentration policy encouraged the larger Italian companies to promote some first acquisitions. After the 1929 collapse, some industrial groups bought underevaluated small firms in default with the support of IRI [2], that created the system of governament partecipation.

The Third Wave (1955-1969)

The third wave was promoted by an economy prosperity in USA. European companies begin to play a strategic role in the worldwide M&A activity.

To contrast antitrust laws, with the Celler-Kafauver Act, and the general legal constraints that obstruct the concentration, the medium companies moved the attention to conglomeration acquisition strategy (Rumelt *et al.*, 1994; Weston Weaver, 2001).

With the development of public companies and the growth of the corporate capitalism in the USA, a process of separation of ownership and control occurred.

The exploiting efficiency of internal capital allocation markets and management self-interest gave a great boost to acquisitions (Scherer, 1986). The manager, buying medium and small firms, with different lines of business, realized a large growth in the market, involving all industries.

According to modern portfolio theory, the aim of the bidder is to satisfy the portfolio diversification, to reduce specific risk.

The manager recognizes that to conglomerate acquisition could be a real wealth creation for shareholders, who are handing over power to management. The corporate acquisition complexity requires high professionalization, so the managers become indispensable to the company (Shleifer and Vishny, 1989).

The manager, on the other hand, began to see acquisition as a driver for gaining private benefits (Jensen, 1986; Tosi *et al.*, 2000). So they promoted M&As also with false appearance of economic gains (*bootstrape game*, § 4). These produced progressive increasing of target prices, so to finance the acquisitions there was an increasing leverage of the conglomerates. After a few years, when the companies stop mergers and expansions, earnings per share will decrease and the stock price along with it. This result, with the excessive leverage, has triggered the market collapse of 1969.

The economic effects of this wave are contradictory. Some scholars (Hubbard and Palia, 1999) higlighted positive CARs for bidders, recognizing the benefit of diversification. Other evidence has shown positive effects for targets only and with an insignificant long term profitability for the bidders (Ravenscraft *et al.*, 1987). Shleifer and Vishny (1989), indeed, show a positive effect at announcement for the bidders, but insignificant in the long term.

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[2] IRI, the Institute for Industrial Reconstruction, set up in 1933 and closed in 2000, was a holding company that regulated public industries and banking.

With the collapse of the system a lot of conglomerations revisited the core business, selling the previously acquired targets, declaring the failure of diversification policy. The stock collapse and the oil crisis of 1973 forced the market to develop more caution, especially in managing leverage and in corporate governance.

The main European continental countries, Germany and France, come into play only after the Second World War. For these countries, the real first M&A wave was in the late 60's. The European propensity activity was promoted by an important external growth both obtaining a consolidation position in domestic markets and reaching a critical mass for international competitiveness.

Regarding Great Bretain, the English government has played an active role first in *post-war reconstruction* and then for *industrial restructuring* (IRC) [3].

Anyway, because of weak anti-trust regulation the conglomerate acquisitions in Great Britain were less popular compared to USA trend.

The poor performances of these operations and the Monopolies and Merger Commission restrictive policies against horizontal concentrations, have provoked acquisition strategy changes (Capasso, 1990).

In Italy, as in France, there was less acquisition activity as the result of the dampening impact of domestic factors. In Italy, in particular, some important market conditions and political strings attached should be mentioned. The first most important brake to M&As activity, in this historical period, was the low development of the Italian stock market, mostly due to a significant State interference. In 1965, Italian law has been modified by reducing taxation on corporate acquisitions. The Italian State interference in the capital of the companies, both in direct way and through banks or state bodies, imposed a political reason in acquisition strategy. This market distortion has hindered the development of competitive dynamics of Italian companies and the birth of a real market for corporate control. The few transactions took place off-exchange, without any speculative activity. So this wave didn't have the impact like in the US market.

The Fourth Wave (1980-1989)

This wave is characterized by the introduction of a lot of innovations for the system, especially of financial tools (high yield bonds). The negative performance of the previous wave gave the start to hostile takeovers of the 80's (Fray *et al.*, 1985), with a new skill, the *corporate raiders* and the birth of investment banks (Lipton, 2006). The M&As frenzy involved larger companies, both as bidders and targets, in the same line of industries, with a specialization strategy. It is the wave of the mega-mergers (fig. 1).

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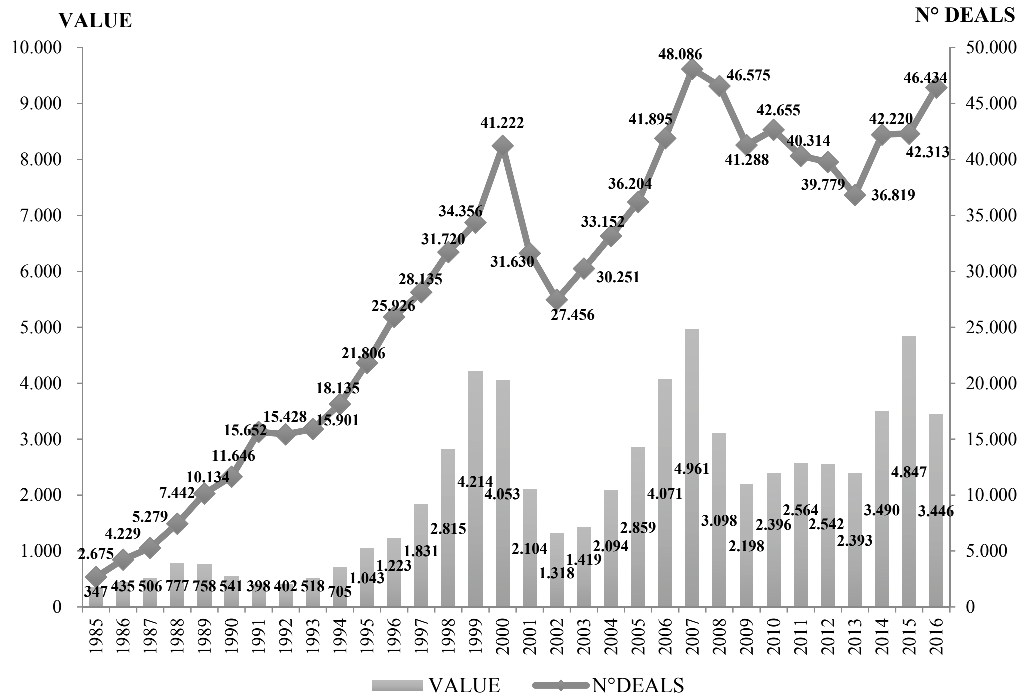
[3] Industrial Reorganization Corporation (IRC) had an active role in M&A in GB.

Fig. 1. – Worldwide M&A trend in the period 1985-2016



The aim of elimination of conglomerate structures and inefficiencies gave impulse to specialization strategy: in the groups more "deadwoods" were disinvested (Baghat *et al.*, 1990). The companies promoted more international expansion to widen new markets: the multinational corporate is the further competitive phenomenon (Smith, 1991). The companies look for the new market share in wealthy and fast-growing countries, especially to cut costs by outsourcing production to low-wage economies.

The US companies acquire targets in Europe, Canada and in Asia, but for the first time foreign bidders promoted more takovers of american companies. The cross-border activities explodes.

Together with the hostile takeover, the 80's christend two other new aggressive phenomena: the Leverage Buy Out (LBO) and Bustup takeover. With the need to eliminate conglomerate structure inefficiences, some conglomerates began to divest unrelated acquisitions made in 1980 (*Bustup takeover*-Ravenscraft *et al.*, 1987).

The LBO model introduced the opportunity to acquire a company mainly through borrowing, with the target's cash flow as collateral used to secure and repay the borrowed money. LBO produced a more strategical role of the bank system. With the support of the banks, managers power increased with the opportunity of MBO (*management buy out*). In this wave, the cash financing prevailed.

In the Reagan era, because of the financial market deregulation, the bank system introduced a lot of new financial tools to finance the acquisitions, which financial investors welcomed.

Another innovation of this wave, infact, was the birth of financial investors and fringe players with an essential speculative and aggessive aim (Stearns and Allan, 1996).

With some LBO failures (RJR Nabisco), the merger activity tapered off in line with an economic slowdown. The junk bonds real nature emerged and the bank system was invaded by a general lack of confidence, with new regulatory acts.

As regard economic effects, in this period there are light and shadow in the studies, with controversial findings. The studies of Morck *et al.* (1990) show the bidders good results only in related acquisitions, while Healy *et al.* (1992) found general positive effects for target firms only.

The reports of the European Commission reflect an increased percentage of M&As among enterprises from different member states of the EEC and also the fact that, at the end of the 80's, many European firms were acquired by foreign firms, especially American (European Commission, 1999).

According to the European Commission (1996), if during the period 1985-1987 the value of mergers and acquisitions that involved the European companies accounted for 20% of the world total, the share rose to 43% in the period 1991-1993.

The European stock market was still relatively small, without excesses of speculation. In Europe, the majority of the share capital is under the control of a few shareholders, so the stock market will negotiate exclusively minority blocks. The bidder companies continue to be bigger than the targets.

The high yields, as a main source of M&A financing, did not find any interest in European acquisitions.

European companies have promoted operations under an industrial vision. Even European companies have focused on their core business, with lateral or horizontal integration and geographic diversification. Especially the EU has prompted firms to find new competitive advantages especially abroad (Capasso, 1990).

In the second half of the 80's, the development of mergers and acquisitions reached the dimension of a real process for Italian company development. Some special conditions of the Italian financial and industrial system were responsible for the delay of a corporate acquisition strategy development.

The restricted liquidity of the companies, due over-indebtedness accumulated during the period of rapid development of the 60's and worsened by underfunding problems of the crisis of the 70's, which was an important brake for acquisition activity in Italy (fig. 2). The underdeveloped Italian stock market, with the traditional Italian entrepreneurs aversion to open the shareholder base, have slowed mergers financed by exchange of