The banking relationship's role in the choice of the target's advisor in mergers and acquisitions

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This version: September 2008

Abstract

We analyze the factors influencing the target companies' choice of bank advisor in mergers and acquisitions. We first examine the choice of hiring an advisor, which is non-trivial as in our sample target companies do not hire an advisor in one-third of transactions. We also analyze the choice to hire, as advisor, a bank with a strong prior relationship with the company (i.e. the main bank). Using data on 473 European M&A transactions completed in the 1994–2003 period, we find evidence that the decision to hire an advisor depends on three main factors: i) the intensity of the previous banking relationship, ii) the reputation of the *bidder* company's advisor, and iii) the complexity of the deal. We also investigate the impact of a bank advisor on shareholders' wealth. We find that the abnormal return of target companies' shareholders increases with the intensity of the previous banking relationship, thus indicating a "certification role" of investment banks.

Keywords: Relationship banking, investment banking, mergers, acquisitions
JEL Classification Numbers: G21

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The authors wish to thank Giacomo Nocera, Henri Servaes and Angelo Russo for useful comments and suggestions. Some of the work on this paper was completed when Giuliano Iannotta was visiting the Division of Research and Statistics of the Federal Reserve Board, whose hospitality is gratefully acknowledged. The views expressed in this paper are those of the authors and do not necessarily reflect those of the Board of Governors, or members of its staff. All errors remain those of the authors.

1 . INTRODUCTION

During the last decades, M&A activity increased noticeably, generating a relevant amount of business for the investment banking industry. Investment banks are hired by the merger participants (both the bidder and the target firm) as financial advisors in order to help them to navigate through the acquisition process. For this service, they charge an advisory fee. It is well known among investment banks that in an M&A transaction it is better to be sell side; that is, an investment bank will normally seek to be the financial advisor of the target company rather than of the bidder. This preference is generated by the relevance in the typical fee arrangement of a component contingent upon the successful completion of the deal (the so-called success fee). While the closing price is uncertain throughout the sale process, it is quite sure that the target company will be sold. As a consequence, once an investment bank receives a mandate from the target, it can be reasonably certain that it will gain the success fee. In contrast, the bidder's financial advisor cannot rely on such an expectation: indeed, even though it is quite sure that the target will be sold, the acquirer's identity is uncertain.[1] Regardless of investment banks' preferences, since they make relevant profits acting as targets' advisors, it is reasonable to assume that they fulfill an important role in the sale process: at least as important as the one fulfilled by the bidder's advisors.

Academic literature on the advisor choice in mergers and acquisition has mainly investigated two issues: i) the factors affecting the choice of the advisors and their effect on the shareholders' wealth and ii) the determinants of advisory fees and their impact on the transaction outcome.

As far as the first branch is concerned, while there are several papers concerning the effects of advisor choice on the buy side of an acquisition, almost no attention has been paid to the sell side of the deal, that is, to the factors driving the choice of an investment bank by the *target* firm.

[1] This is especially the case when the sale is in the form of an auction.

Moreover, little attention has been paid to the effect of the banking relationship on both the choice of the advisor and shareholders' wealth. Bowers and Miller (1990) examine the choice of the investment bank in M&As, finding that investment banks' reputation affects shareholder returns. They find evidence supporting the idea that more reputed investment banks have better expertise in identifying firms for which an acquisition would produce greater economic benefits. When these first-tier investment banks (including First Boston, Goldman Sachs, Merrill Lynch, Morgan Stanley, and Salomon Brothers) are hired by either counterpart, the total wealth gains are larger. However, in their work, they focus on the effect of investment banks' reputation on the shareholders' wealth, while they don't look at the factors driving the choice of the investment bank. Servaes and Zenner (1996) examine this issue and find that bidders are more likely to hire an advisor when the transaction is more complex and it suffers from information asymmetry, thus proving banks' ability in information production. Nevertheless, their results suggest that the presence of an advisor (as opposed to in-house staff) seems not to affect the return to the bidder's shareholders around the deal announcement. Kale et al. (2003) investigate the role of financial advisors in tender offers, documenting that when a firm (either bidder or target) employs a more reputed financial advisor, it enjoys a greater wealth increase. More recently, Allen et al. (2004) investigated the role of commercial banks (as opposed to investment banks) as advisors to M&A participants (both bidders and targets). They argue that commercial banks have a comparative advantage in serving as M&A advisors for their customers (especially those with a prior lending relationship), because they can provide a certification effect. The potential conflict of interest arising from a bank acting as both merger advisor and lender might countervail the certification effect. They measure the certification effect in terms of shareholders' return, finding supporting evidence of a net certification effect for target firms only. However, they find that the more

intense the lending relationship with the bidder, the greater the likelihood that a commercial bank will be chosen as merger advisor.

As far as the second branch of literature is concerned, Hunter and Walker (1990) find that most merger fee contracts include a payment contingent on the completion of the merger. This contractual structure provides an incentive to the advisor, which results in larger merger gains. McLaughlin (1992) uses several measures of tender offer outcome to evaluate the effects of different fee contracts, providing evidence that the fee structure does influence the offer final outcome. Rau (2000) investigates the factors affecting the market share for investment banks advising bidders in mergers and tender offers, finding that that the incentive fee structure charged by investment banks is positively related to their market shares and to the percentage of deals completed by the bank in the past, but it is unrelated to the post-acquisition performance of a bidder the bank has advised in the past. He also finds that more reputed investment banks charge higher portions of their fees contingent on the successful completion of the deal. Saunders and Srinivasan (2001) find that bidders pay higher advisory fees to investment banks with whom they have had a continuing relationship, measured in terms of prior debt, equity, and M&A transactions. They document that bidders are more likely to switch if their advisor is not a top-tier investment bank, but switching does not produce any significant difference in the shareholders' return. Finally, Hunter and Jagtiani (2003) empirically investigate the factors affecting the probability and the speed of a successful deal completion, the fees charged by investment banks to both bidders and targets, and post-merger gains realized by the bidders. They find that more reputed investment banks result in a more likely and faster deal completion. A higher portion of fees contingent on the deal completion also helps in speeding up the process, while a prior bidder relationship with its advisor seems not to influence the time to deal closing. They also document that larger fees are associated with larger post-merger gains.

This paper focuses on the target's choice of the financial advisor and is in the spirit of the first branch of literature, in that it investigates the factors affecting the choice of the advisors in M&A transactions. It also examines whether financial advisors influence the wealth of the target's shareholders at announcement. This study extends the existing literature as it looks at the inter-temporal relationship among advisors and client firms. In particular, we identify the bank with which a firm has the strongest relationship (i.e. the main bank) and try to answer three questions. First, does a more intense relationship with the main bank result in a higher likelihood of hiring an advisor? Second, conditional on hiring an advisor, does a close previous relationship with the main bank increase the likelihood of hiring that particular bank? Finally, does choosing an advisor with a strong prior relationship result in higher abnormal returns to the target's shareholders on the announcement date?

We find evidence that the target's decision to use an investment bank is not influenced by the tightness of its relationship with its main bank. Nonetheless, we find that, conditional on hiring an advisor, the probability of choosing the main bank increases with the intensity of the relationship. Consistently with previous literature on the choice of bank advisors on the buy side, we find that the complexity of the deal also positively affects the likelihood of hiring an advisor on the sell side. We also find that the probability of hiring an advisor on the sell side is positively influenced by the reputation of the *bidder*'*s* advisor.

Looking at the effect of the banking relationship on the wealth of the target's shareholders, we find that hiring an advisor with a strong prior relationship significantly increases the average cumulated abnormal return up to forty days after the announcement of the deal.

The paper proceeds as follows. Section 2 describes the empirical methodology. Section 3 describes the data sources and summarizes sample characteristics. The results are discussed in Section 4. Section 5 concludes.

2 . EMPIRICAL METHODOLOGY

Theory suggests that banks specialize in information production and processing. As advisors in M&As, banks can analyze the deal at lower costs than other firms, thus reducing the information asymmetry between the bidder and the target. The greater the complexity of the deal, the greater the information asymmetry is. Moreover, advisors can use their information gathering expertise to signal the deal quality, thus providing a certification effect. As a result, deal complexity and the need for certification should explain the choice of using a bank advisor versus not hiring an investment bank.

We proxy the deal complexity with the following variables:

PERC is the percentage of the target's equity capital involved in the deal. The higher this value, the more complex the deal is: the acquisitions of a minority stake, where no control issues are involved, can more likely be handled by the target management without any advisor.

CASH is a dummy variable set equal to one if the consideration is entirely cash. In this case, there are fewer valuation-related complexities involved in the deal.[2]

CB is a dummy variable set equal to one if the country of the bidder is different from the country of the target company. We expect a higher likelihood of advisor involvement for cross-border transactions, for which information asymmetries should be higher.

[2] As a robustness check, we also defined this variable in terms of the actual percentage of the acquisition paid in cash. The results do not change significantly. We prefer the dummy definition because the need to evaluate the bidder's equity is not influenced by the percentage of the deal paid cash (as long as this is lower than 100%).

SIC3 is a dummy variable set equal to one if the three-digit SIC code of the target is different from the code of the bidder. This dummy captures asymmetric information depending on industry relatedness between merger participants. We expect a higher likelihood of advisors' involvement for cross-industry acquisitions.

TOP_BID and TOP_MB are two dummy variables proxying the reputation of the bidder's advisor and the target's main bank, respectively. We consider top banks as those ranked in the first three positions of the Thomson Financial league tables in the corresponding year[3]. We expect the target company to be more keen to hire a qualified advisor when the bidder is advised by a top bank. This expectation is based on the evidence in Kale et al. (2003) showing that the share of the total takeover wealth captured by the bidder's shareholders increases with the reputation of the bidder's advisor relative to the target's advisor. The same reasoning leads us to expect the probability of hiring the main bank to be postively related to its reputation.

LN_AGE is the natural logarithm of the number of months since the target's IPO to the current deal. This variable proxies information availability about the firm. Since Thompson Financials only collect data on IPOs from January 1980, for firms that went public before that date we calculate this variable as the (log of) the number of months from the current deal to January 1980. Since we only consider deals from 1994 this approximation should not affect the results.

Deal complexity might be also related to the number of bidders involved in the negotiation, which in turn depends on the type of sale process. Choosing the sale process means selecting a point along a continuum which runs from negotiated sale on exclusive basis with one prospective bidder to a broad auction open to many potential bidders, going through auctions limited to few

[3] We also consider different specifications using up to the top 10 players without any material change in the results, with the only exception of a slight reduction in the significance of TOP_MB.

bidders. Moreover, given the type of sale process, the number of bidders changes throughout the process itself. Since it is quite difficult to quantify an objective measure of the number of bidders, we just employ the above metioned variables to capture the deal complexity, as in previous literature.

2.1. The role of banking relationship

There is a growing body of literature showing that prior banking relationships affect the pricing of financial services. We analyze the effect of prior relationship on the decision to hire an advisor on the sell side of an M&A process. Previous relationships can affect the price (and the demand) of services via a reduction of information asymmetry and a subsequent reduction in the cost of providing the service.[4] As such, we measure the intensity of relationships in a comprehensive way: a bank can have acquired information about a company as advisor in a prior acquisition (either on the buy or on the sell side), but also as underwriter in a bond or equity issuance or in a syndicated loan. We consider the inclusion of previous lending transactions as particulary important because lending is the most informationally intensive type of transaction. Admittedly, our measure is far from complete since just includes syndicated loans, excluding all the bilateral lending positions (which are usually not available in the typical databases). Nonetheless, the book-runner of a syndicated loan is presumably one of the firm's relationship banks. In other words, we feel that a relationship measure based on syndicated lending is a good proxy of the overall lending relationship.

Using data from Security Data Corporation (SDC), we define the intensity of the previous relationship of the target with a given bank as the ratio of two values. The denominator is the total dollar value (time weighted) of all transactions of the given type completed by the target over the

[4] One may think of the cost of providing the certification effect in the case of a bond or stock issue or the cost of evaluating a company in the case of an acquisition.

previous five years.[5] The numerator is the sum of the dollar value of all the transactions for which the given bank was retained as lead manager (for stock, bond, and loan transactions) or advisor[6] (for M&A transactions). Thus, the relationship intensity measure will always lie between zero and one. A value of one indicates the strongest possible intensity and a value of zero indicates no prior relationship.[7]

The precise definition of intensity of relationship between the target and its bank advisor is given by:

$$D_i^q = \frac{\sum_{j=1}^{i-1} value_j^D \cdot (date_i - date_j)^{-1} \cdot Q_j}{\sum_{j=1}^{i-1} value_j^D \cdot (date_i - date_j)^{-1}}$$

Here, D_i^q is the relationship intensity between *the target and bank q* at the time of deal *i*. Subscript *j* indicates the target's various transactions over the previous five years; Q_j is an indicator variable which takes the value of one when the bank advisor/lead manager of transaction *j* was *q*. $date_i$ and $date_j$ are the dates (expressed in years) of issue *i* and issue *j*.

At the time of every transaction *i* we calculate the variables REL_MB as the strongest previous relation that the target company has with a bank. We call this bank the "main bank" of the target. Notice that the main bank might not be the advisor in the current deal.

2.2. The models

[5] The current M&A transaction is excluded in all calculations of relationship intensity.
[6] For transactions for which more than one lead manager or bank advisor was retained, all banks are given full credit for the deal. In the event of a merger between two or more banks, the numerator is the sum of the dollar value of the transactions where at least one of the merged banks was retained.
[7] For transactions where more than one bank advisor was retained, the bank with the strongest relationship intensity is used in the empirical analysis.

In order to evaluate the importance of every factor in the choice of the target to hire an advisor, we run a logistic regression where we model the probability (p_i) of hiring an advisor for the acquisition *i* as

$$\ln\left(\frac{p_i}{1-p_i}\right) = \alpha + \beta_1 PERC_i + \beta_2 REL\_MB_i + \beta_3 TOP\_MB_i + \beta_4 CB_i + \beta_5 CASH_i + \beta_6 TOP_i + \beta_7 SIC3_i + \varepsilon_i$$

We add to this basic specification year and country control variables.

We are also interested in understanding why the company should hire, as advisor, its main bank. In modeling this second choice, we face a typical sample selection problem: the choice to hire the main bank versus another bank is actually observed only for deals where the target company chooses to hire an advisor. Unmeasured variables influencing the choice to hire an advisor could thus bias the results. This problem can be solved by using a Heckman's selection model where (a variation of) the previous logistic equation is used in the selection stage. The dependent variable in the main equation is equal to one if the advisor is the main bank. We use a probit extention of the classical Heckman model that allows for a binary output in the main equation. Note that our relationship measure is based on transactions completed in the previous five years. If a company has completed no transaction in this period, the relationship measure will have a value of zero and no main bank can be identified. Since such a firm, by definition, cannot hire the main bank as advisor in the present deal, a spurious correlation could be generated between the intensity of the relation with the main bank and the decision to hire the main bank. In order to avoid this problem, we run the second model on a reduced dataset in which the target company has completed at least one transaction in the previous five years. As a robustness check, we run the previous logistic model on this reduced dataset and the main results hold.

2.3. The analysis of the abnormal returns

The last part of our analysis is aimed at measuring the effect of the variables influencing the choice of the advisor on the post-acquisition performance of the target company. We measure the standardized average cumulated abnormal return at six different time horizons (1, 5, 10, 20, 40, and 60 days) using the market model implemented with the MSCI indices for every European country. We then run the following linear regression:

$$CAR^{i}_{t-1,t+x} = \alpha + \beta_1 DUM\_MB_i + \beta_2 TOP\_MB_i + \beta_3 DUM\_ADV_i + \beta_4 PERC_i + \\ + \beta_5 CB_i + \beta_6 CASH_i + \beta_7 TOP\_BID_i + \beta_8 SIC3_i + control\ variables + \varepsilon_i$$

where DUM_MB is a dummy variable equal to one if the main bank is hired as an advisor. A positive value of β_1 would suggest that hiring the main bank increases the wealth of the target's shareholders. Of course, this coefficient could simply be influenced by the choice of hiring an advisor (as opposed to navigating alone through the M&A process). In order to isolate this effect, we include DUM_ADV, a dummy variable equal to one if an advisor has been hired. In a second version of this model, we interact DUM_MB with the relationship variable REL_MB. The resulting variable, REL_MBX, should give us a better understanding of the relationship between the intensity of the previous relationship and abnormal returns.

The expected sign of DUM_MB and REL_MBX is, a priori, not clear. We can in fact identify two conflicting hypotheses: on the one side, if bank advisors produce a certification effect, the main bank, which supposedly has the deepest knowledge of the company, should provide a more credible signal. On the other side, we could also envision a hold-up situation where a company that in the past heavily relied on a given bank may find it expensive to switch to a new bank. In this case, hiring the main bank should not necessarily produce a significant wealth effect.

[Insert Table 1 about here]

3 . DATA SOURCES AND SAMPLE CHARACTERISTICS

The data are from Security Data Corporation (SDC). SDC reports information on M&A, equity, bond, and loan transactions. All non-hostile M&As involving European listed firms over the period from January 1, 1994 through December 31, 2003 were identified. We excluded all the transactions involving financial firms as either target or bidder. The sample consists of 473 transactions. To measure banking relationships, we select all debt (both bond and loans), equity, and M&A transactions completed by both bidder and target firms from the beginning of 1989 to the end of 2003. The data about stock prices are from Datastream.

In our sample, bidders are always assisted by an advisor. In 174 transactions, the target companies have no advisor. Out of the remaining 299 transactions, the target firms are assisted by their main bank in 55 cases.

During the 1990s, the competition in the European investment banking industry has increased remarkably, thus possibly affecting firm–bank relationships. Nonetheless, there is no clear pattern in the evolution of the relationship measure, nor in the other variables, over time with the only exception of an increase of the market share of top banks (Table 2).

[Insert Table 2 about here]

As the reader can see aroud 40% of our observations are clustered in the 1999 – 2000 period, the so called "dot com bubble". In order gauge the extent to which this concentration may alter our results we run all our analysis with and without these observations and we document a significant stability in our main results. For ease of exposition we only report results on the whole sample[8].

[8] Results on the sub-sample without the bubble period and on the bubble period sub-sample are available from the authors upon request.

Table 3 reports sample summary statistics by type of advisors. The REL_MB variable is considerably higher in the sub-sample where the target firm hires its main bank as advisor for the current transaction: in these cases, the bank with the strongest relationship holds significantly more information than the average bank in the system. The presence of an advisor (either the main bank or any other institution) is associated with a higher percentage of shares purchased and a lower proportion of deals settled completely in cash.

Based on an unconditional comparison, two main results seem to emerge: i) the main bank as advisor is associated with a strong firm–main bank relationship, and ii) the presence of an advisor is associated with more complex deals.

[Insert Table 3 about here]

4. RESULTS

The choice of an advisor on the sell side can be analyzed from different standpoints. The obvious one is to look at the elements that bring the target to require the services of an investment bank rather than walking alone through the acquisition process. In our sample, around one-third of the transactions are completed without the assistance of an advisor on the sell side. Such a high percentage makes the choice non-trivial and worth being analyzed.

[Insert Table 4 about here]

Table 4 reports the results of a logistic regression on a dummy variable equal to one if the target has chosen to be assisted by an advisor. In the first two models, we do not include the intensity of the relation with (or the reputation of) the main bank. The probability of requesting the assistance of a bank is positively related to PERC (the percentage of equity capital involved in the

transaction), which is the only significant variable among the proxies for deal complexity.[9] Moreover, the likelihood of hiring an investment bank increases with the reputation of the bidder's advisor (TOP_BID). The intensity of the relation with the main bank seems not to be relevant in this context, as it does not affect the probability of hiring a bank for the current deal. It seems that the close existing relationship does not yield the main bank the ability to influence the decision process of the company. On the contrary, when adding the reputational variable for the main bank (TOP_MB), we observe a positive effect. These results are robust to the inclusion of control variables for the years and home countries of both target and bidder companies.

On a second line of thought, we could focus our analysis on the decision of hiring the main bank as advisor for the specific deal (Table 5).

[Insert Table 5 about here]

We find that the choice is still influenced by the complexity of the deal, proxied by the percentage of shares involved (PERC, model 2) and by the different nationality (CB, model 4) and industry (SIC3, models 1, 2, and 4) of merger participants[10]. We also observe that the intensity of the relationship with the main bank is highly significant and positive. This result is expected because this variable proxies the benefits that can be earned by choosing the main bank as advisor.[11]

4.1. Abnormal Return Analysis

[9] As far as the cash variable is concerned, we see a significant negative relation between the percentage of stocks purchased and the frequency of cash payment. The two effects cannot be fully disentangled. Dropping the PERC variable increases the significance of the cash variable, with a negative coefficient significant at the 1% level. Both effects point to the same direction: as the complexity/relevance of the transaction increases, the target company is more willing to request the services of an advisor.

[10] An anonymous referee suggested that deal complexity should also control for the intangibility of the target firm in terms of growth opportunities. We estimated a different specification of our model including Tobin's Q as a measure of growth opportunities for a subsample of 173 transactions for which we have this information. The estimated coefficient for this variable is not significant and the other results are robust to the consideration of this additional dimension of deal complexity. Results are available from the authors upon request.

[11] Again, a second possible explanation could be found: the intensity of the relation measures the bargaining power of the main bank.

So far, the results suggest that the relationship between the target company and its main bank is one of the key variables influencing the advisor choice.

At this point, one could reasonably argue that there are many possible explanations for this effect: on the one hand, the relationship between the advisor and the target lowers the information asymmetry, thus enabling the advisor to provide a better service. Target companies are therefore willing to hire an advisor when the expected benefits are higher. On the other hand, some sort of hold-up problem could be envisioned: a bank that has been in the previous years almost the only link between the company and the capital markets can influence the target company, thus increasing the probability of being hired. The best way to disentangle these two alternatives is to look at the effect of the target–advisor relationship on the post-announcement abnormal returns of the target company itself. If the first hypothesis is true, we should observe a positive effect because of the higher quality service provided by an advisor with a deep knowledge of the company. In contrast, if the second hypothesis is true, we would expect no significant effect of the past relation on the stock performance.[12]

[Insert Table 6 about here]

Table 6 reports the results of the regression of the standardized average abnormal returns calculated on six different time frames (from one to sixty trading days). On the right hand side of this model, we use the same variables as before to proxy the complexity of the transaction. We are particularly interested in the sign of the two dummy variables that describe the advisor choice. DUM_ADV, set equal to one if the target company employs the services of an advisor, is (almost) always positive but non-significant, meaning that the simple presence of an advisor does not guarantee a superior performance. On the contrary, hiring the main bank as advisor

[12] Theoretically, one could even expect a negative relation because the fee paid to the advisor would not be justified by the transaction complexity. However, we do not expect the market to be able to detect and discount this effect.

(DUM_MB) has a positive and significant effect up to day *t+10*. Note that, even removing DUM_MB, DUM_ADV still is not significantly different from zero. Another interesting result is the positive effect of the reputation of the main bank (TOP_MB) on the abnormal return of the target company. This result probably captures two different effects: on the one side, there is the reputation effect depicted by Kale et al. (2003) and, on the other side, we could also assume that top banks can cherry-pick the best companies, generating an endogenous selection effect. Using a dummy variable to capture the main bank effect does not allow us to gauge entirely the extent to which the intensity of the relationship is responsible for the abnormal return of the target company.

[Insert Table 7 about here]

In order to refine our result in Table 7, we report the same regressions where the main bank dummy variable is interacted with the intensity of the relationship between the target and its main bank. The resulting variable, REL_MBX, is equal to the intensity of the relation if the advisor is the main bank and zero otherwise. From the results, we see that the effect is even stronger and more persistent, lasting until *t+40*.

This result seems to give more credit to our first hypothesis: since there is a positive effect of the past relation on the abnormal return, the target company is willing to pay an advisory fee when the previous relation is stronger, because of the larger expected benefits in terms of shareholders' value.

5. CONCLUSIONS

This paper examines the factors affecting the target's choice of advisor in M&As. If the role of a bank in an M&A transaction is to provide information, then the likelihood of hiring an advisor should be related to the intensity of the previous banking relationship. The access to information

generated by previous transactions (loans, bond and equity underwriting, and M&As) can be used in M&As to certify the quality of the transaction. We empirically analyze 473 M&A transactions completed from January 1, 1994 through December 31, 2003. We find that the probability of hiring an advisor, as opposed to walking alone through the acquisition process, is mainly influenced by the complexity of the deal and the reputation of the bidder's advisor. Moreover, we find that the probability of hiring the main bank is influenced by the complexity of the deal and by the intensity of the previous relationship. This last result may be originated by a certification effect provided by the main bank or by a hold-up problem where the target company finds it difficult to switch to a new bank. The positive effect of a closer firm–main bank relationship on the target stock performance at the announcement of the deal seems to confirm the certification effect hypothesis.

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Table 1
Variable Definition

The table reports a brief description of the meaning of the variables used in the regressions.

REL_MB	Intensity of the relation of the target company with its main bank (for the construction of this variable see the methodological section of the article).
TOP_MB	A dummy set equal to one if the main bank of the target company is ranked among the first three positions of the Thomson Financials league tables.
PERC	Percentage of shares involved in the transaction.
CB	A dummy set equal to one if the observation is related to a cross-border transaction.
CASH	A dummy set equal to one if the transaction is entirely cash.
TOP_BID	A dummy set equal to one if the advisor of the bidder company is ranked among in the first three positions of the Thomson Financials league tables.
SIC3	A dummy set equal to one if the three-digit SIC code of the target is different from that of the bidder.
LN_AGE	The natural logarithm of the number of months since the target's IPO to the current deal..
Year Fixed Effects	Nine dummy variables for years from 1995 to 2003. The null case is 1994.
Country Fixed Effects	For the nationality of the target company, we use specific dummy variables for the two countries with the highest number of acquisitions (France and Germany) and a dummy variable for other countries, the null case is the UK. For bidder nationality, we again use two specific dummy variables (France and Sweden), a dummy for other countries, and the null case is again the UK.
$CAR_{t-1,t+x}$	The average (standardized) cumulated abnormal return from day *t-1* to day *t+x*, where t is the announcement of the deal.

Table 2
Sample Descriptive Statistics – Distribution by Year

The table reports sample descriptive statistics for 473 M&As involving European listed companies from 1994 to 2003. The first three columns report the total number of deals (*Total*), the number of deals where the target company has not employed an advisor (*No Advisor*), and the number of deals where the advisor was the bank with the strongest previous relationship with the target company (*Main Bank*). Columns number four and five report the average intensity of the relation with the main bank (*REL_MB*) and the average percentage of shares of the target company involved in the deal (*PERC)*. The last five columns report the percentage of deals where the bidder's advisor (*TOP_BID*) or the main bank of the target company (*TOP_MB*) are in the top three positions of the Thomson Financials league tables, the percentage of cross-border deals (*CB*), the percentage of deals where the target and bidder belong to different sectors according to the three-digit SIC code (*SIC3*) and the percentage of deals that only involve cash payments (*CASH*).

	Number of			**Average**		**Percentages**				
	Total	**No Advisor**	**Main Bank**	**REL_MB**	**PERC**	**TOP_BID**	**TOB_MB**	**CB**	**SIC3**	**CASH**
1994	24	9	4	39.22	62.63	20.83	20.83	41.67	37.50	79.17
1995	38	17	3	49.18	65.44	13.16	10.53	31.58	26.32	71.05
1996	48	12	9	50.05	59.73	12.50	18.75	25.00	29.17	75.00
1997	45	17	4	38.31	59.33	22.22	13.33	40.00	26.67	86.67
1998	48	10	7	35.96	86.51	12.50	16.67	37.50	37.50	70.83
1999	97	30	13	47.02	70.86	25.77	18.56	27.84	36.08	72.16
2000	80	36	5	47.05	61.43	22.50	17.50	37.50	53.75	78.75
2001	40	19	4	60.69	52.41	22.50	22.50	42.50	45.00	77.50
2002	35	15	4	37.86	54.64	28.57	20.00	28.57	51.43	80.00
2003	18	9	2	54.95	41.21	33.33	33.33	50.00	33.33	77.78
Total	473	174	55	45.94	63.89	21.14	18.18	34.46	38.69	76.32

Table 3

Sample Descriptive Statistics – Distribution by Type of Advisor

The table reports sample descriptive statistics for 473 M&As involving European listed companies from 1994 to 2003. The first column reports the total number of deals (*Total*). Columns number two and three report the average intensity of the relation with the main bank (*REL_MB*) and the average percentage of stocks of the target company involved in the deal (*PERC*). The last five columns report the percentage of deals where the bidder's advisor (*TOP_BID*) or the main bank of the target company (*TOP_MB*) are in the top three positions of the Thomson Financials league tables, the percentage of cross-border deals (*CB*), the percentage of deals where target and bidder belong to different sectors according to the three-digit SIC code (*SIC3*) and the percentage of deals that only involve cash payments (*CASH*). The last three lines report the p-values of t-tests for equality of means between the indicated sub-samples.

		Average		**Percentages**				
	Number of Deals	**REL_MB**	**PERC**	**TOP_BID**	**TOB_MB**	**CB**	**SIC3**	**CASH**
No Advisor	174	45.04	40.16	16.67	17.24	40.80	40.80	87.93
Other Bank	244	37.77	78.19	22.95	15.57	29.51	40.16	68.85
Main Bank	55	85.02	75.49	27.27	32.73	36.36	25.45	72.73
Total	473	45.94	63.89	21.14	18.18	34.46	38.69	76.32
t-test (No Advisor – Other Bank)		0.094	0.000	0.109	0.652	0.018	0.896	0.000
t-test (No Advisor – Main Bank)		0.000	0.000	0.117	0.030	0.557	0.031	0.023
t-test (Main bank – Other Bank)		0.000	0.595	0.517	0.014	0.342	0.031	0.567

Table 4
Logistic Regressions on the Advisor Choice

The table reports the results of six logistic regressions (p-values in brackets). The dependent variable is a dummy set equal to one if the target company has hired an advisor for the operation and zero otherwise. The definitions of the independent variables are in Table 1. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels.

	(1)	(2)	(3)	(4)	(5)	(6)
Constant	-0.611	0.665	-0.903	0.485	-0.871	0.499
	(0.698)	(0.990)	(0.752)	(1.038)	(0.759)	(1.049)
REL_MB			0.284	0.185	0.121	-0.085
			(0.269)	(0.311)	(0.290)	(0.337)
TOP_MB					0.476	0.779
					(0.320)	(0.368)**
PERC	0.030	0.025	0.030	0.025	0.031	0.026
	(0.003)***	(0.004)***	(0.003)***	(0.004)***	(0.003)***	(0.004)***
CB	-0.220	0.076	-0.222	0.071	-0.235	0.058
	(0.230)	(0.286)	(0.231)	(0.286)	(0.231)	(0.288)
CASH	-0.313	-0.226	-0.332	-0.238	-0.330	-0.225
	(0.300)	(0.344)	(0.301)	(0.344)	(0.302)	(0.349)
TOP_BID	0.848	1.255	0.821	1.241	0.781	1.187
	(0.287)***	(0.337)***	(0.288)***	(0.338)***	(0.289)***	(0.339)***
SIC3	-0.209	0.067	-0.201	0.069	-0.188	0.102
	(0.230)	(0.268)	(0.230)	(0.268)	(0.231)	(0.271)
LN_AGE	-0.080	-0.151	-0.046	-0.129	-0.062	-0.158
	(0.117)	(0.128)	(0.121)	(0.133)	(0.123)	(0.137)
Year FE	No	Yes	No	Yes	No	Yes
Country FE	No	Yes	No	Yes	No	Yes
Observations	473	473	473	473	473	473
Pseudo R-squared	0.207	0.349	0.209	0.350	0.212	0.357

Table 5
Heckman Selection Model on the Choice of Hiring the Main Bank

The table reports the results of four Heckman selection models. The dependent variable of the main equation is a dummy that takes a value of one if the target company hires its main bank as advisor for the current deal. The dependent variable of the selection equation is a dummy that takes a value of one if the target chooses to hire an advisor for the current deal. The independent variables are described in Table 1. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels.

	(1)		(2)		(3)		(4)	
	Main Bank	**Advisor**	**Main Bank**	**Advisor**	**Main Bank**	**Advisor**	**Main Bank**	**Advisor**
Constant	-2.122	-0.393	-1.461	1.188	-1.438	-0.442	-1.133	1.210
	(1.063)**	(0.519)	(0.920)	(0.779)	(0.710)**	(0.510)	(0.738)	(0.563)**
REL_MB	1.352		1.060		1.352		1.167	
	(0.457)***		(0.470)**		(0.447)***		(0.360)***	
TOP_MB	0.086		0.222		0.071		0.124	
	(0.223)		(0.235)		(0.224)		(0.217)	
PERC	0.005	0.018	0.007	0.014		0.018		0.013
	(0.008)	(0.003)***	(0.004)*	(0.003)***		(0.003)***		(0.003)***
CB	0.033	0.050	-0.017	-0.025	0.017	0.058	-0.018	-0.019
	(0.107)	(0.084)	(0.108)	(0.097)	(0.106)	(0.082)	(0.114)	(0.084)
CASH	-0.146	-0.458	-0.260	-0.620	-0.073	-0.460	0.177	-0.603
	(0.262)	(0.278)*	(0.258)	(0.329)*	(0.261)	(0.278)*	(0.235)	(0.267)**
TOP_BID	0.030	0.520	0.171	0.782	-0.095	0.515	-0.221	0.803
	(0.286)	(0.217)**	(0.271)	(0.267)***	(0.234)	(0.217)**	(0.252)	(0.245)***
SIC3	-0.530	-0.001	-0.357	0.271	-0.518	0.016	-0.437	0.212
	(0.226)**	(0.191)	(0.247)	(0.227)	(0.224)**	(0.188)	(0.227)*	(0.209)
LN_AGE	0.313	-0.232	0.641	-0.363	0.368	-0.217	0.830	-0.325
	(0.270)	(0.183)	(0.284)**	(0.236)	(0.239)	(0.182)	(0.340)**	(0.217)
Year FE	No		Yes		No		Yes	
Country FE	No		Yes		No		Yes	
Log Likelihood	-227.524		-184.250		-227.650		-183.580	
Chi2 LR Test of Ind.	0.09		2.36		0.47		2.54	
P-Val	0.760		0.124		0.493		0.110	
Observations	265		265		265		265	

Table 6
Main Bank and Abnormal Returns

The table reports the results of OLS regressions where the dependent variable is the average standardized cumulated abnormal return calculated over the period indicated in the column heading (ranging from one day in column 1 to sixty days in column 6). Standard errors are in brackets. DUM_MB is a dummy variable set equal to one if the target company has hired its main bank as advisor for the present deal. Definitions of the other independent variables can be found in Table 1. LAMBA is the inverse of the Mill's ratio of a Heckman selection model estimated to control for possible sample selection bias. The dependent variable in the (probit) selection model is DUM_ADV, while the independent variables are the relevant deal characteristics (PERC, CB, CASH, TOP_MB, SIC3, LN_AGE, year and country fixed effects). ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels.

	CAR t-1, t+1	**CAR t-1, t+5**	**CAR t-1, t+10**	**CAR t-1, t+20**	**CAR t-1, t+40**	**CAR t-1, t+60**
	(1)	(2)	(3)	(4)	(5)	(6)
Constant	-0.106	0.034	0.158	0.143	0.272	0.370
	(0.220)	(0.307)	(0.348)	(0.326)	(0.314)	(0.310)
DUM_MB	0.126	0.195	0.166	0.112	0.099	0.046
	(0.064)*	(0.090)**	(0.102)	(0.095)	(0.092)	(0.090)
TOP_MB	0.127	0.159	0.144	0.159	0.212	0.202
	(0.057)**	(0.079)**	(0.090)	(0.084)*	(0.081)***	(0.080)**
DUM_ADV	-0.148	-0.213	-0.142	-0.222	-0.221	-0.159
	(0.173)	(0.242)	(0.274)	(0.256)	(0.247)	(0.244)
PERC	0.003	0.005	0.004	0.004	0.005	0.004
	(0.001)**	(0.002)***	(0.002)*	(0.002)**	(0.002)***	(0.002)**
CB	0.046	0.042	-0.009	0.042	0.013	0.077
	(0.071)	(0.099)	(0.112)	(0.105)	(0.101)	(0.100)
CASH	0.069	0.125	0.063	0.034	0.023	0.000
	(0.063)	(0.088)	(0.099)	(0.093)	(0.089)	(0.088)
TOP_BID	0.071	0.102	0.007	0.013	0.006	-0.075
	(0.060)	(0.084)	(0.095)	(0.089)	(0.085)	(0.084)
SIC3	0.065	0.106	0.087	0.137	0.091	0.048
	(0.051)	(0.071)	(0.081)	(0.076)*	(0.073)	(0.072)
LN_AGE	0.035	0.028	0.003	0.004	-0.029	-0.052
	(0.027)	(0.037)	(0.042)	(0.039)	(0.038)	(0.037)
LAMBDA	0.100	0.131	0.146	0.219	0.187	0.128
	(0.106)	(0.149)	(0.168)	(0.157)	(0.152)	(0.150)
Observations	265	265	265	265	265	265
R-squared	0.400	0.396	0.337	0.351	0.394	0.400

Table 7
Intensity of the Relation and Abnormal Returns

The table reports the results of OLS regressions where the dependent variable is the average standardized cumulated abnormal return calculated over the period indicated in the column heading (ranging from one day in column 1 to sixty days in column 6). Standard errors are in brackets. REL_MBX is the interaction between REL_MB and a dummy variable set equal to one if the target company has hired its main bank as advisor for the present deal. Definitions of the other independent variables can be found in Table 1. LAMBA is the inverse of the Mill's ratio of a Heckman selection model estimated to control for possible sample selection bias. The dependent variable in the (probit) selection model is DUM_ADV, while the independent variables are the relevant deal characteristics (PERC, CB, CASH, TOP_MB, SIC3, LN_AGE, year and country fixed effects). ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels.

	CAR t-1, t+1	**CAR t-1, t+5**	**CAR t-1, t+10**	**CAR t-1, t+20**	**CAR t-1, t+40**	**CAR t-1, t+60**
	(1)	(2)	(3)	(4)	(5)	(6)
Constant	-0.114	0.024	0.141	0.128	0.256	0.354
	(0.218)	(0.306)	(0.345)	(0.323)	(0.311)	(0.308)
REL_MBX	0.177	0.259	0.271	0.206	0.196	0.144
	(0.073)**	(0.102)**	(0.115)**	(0.108)*	(0.104)*	(0.103)
TOP_MB	0.128	0.160	0.145	0.159	0.213	0.202
	(0.056)**	(0.079)**	(0.089)	(0.083)*	(0.080)***	(0.079)**
DUM_ADV	-0.155	-0.225	-0.147	-0.223	-0.221	-0.154
	(0.172)	(0.240)	(0.271)	(0.254)	(0.245)	(0.242)
PERC	0.003	0.005	0.004	0.004	0.005	0.004
	(0.001)**	(0.002)***	(0.002)*	(0.002)**	(0.002)**	(0.002)**
CB	0.042	0.037	-0.013	0.040	0.011	0.076
	(0.070)	(0.099)	(0.111)	(0.104)	(0.100)	(0.099)
CASH	0.065	0.120	0.057	0.030	0.019	-0.003
	(0.062)	(0.087)	(0.098)	(0.092)	(0.089)	(0.088)
TOP_BID	0.072	0.105	0.006	0.011	0.004	-0.079
	(0.059)	(0.083)	(0.094)	(0.088)	(0.084)	(0.083)
SIC3	0.065	0.105	0.090	0.140	0.095	0.052
	(0.051)	(0.071)	(0.080)	(0.075)*	(0.072)	(0.071)
LN_AGE	0.037	0.031	0.006	0.006	-0.027	-0.050
	(0.026)	(0.037)	(0.042)	(0.039)	(0.038)	(0.037)
LAMBDA	0.099	0.133	0.138	0.210	0.176	0.113
	(0.105)	(0.147)	(0.166)	(0.156)	(0.150)	(0.148)
Observations	265	265	265	265	265	265
R-squared	0.408	0.403	0.350	0.361	0.403	0.407