A Note on Evaluation of Merger Waves Diachronically and a Proposition for Business Risk Reduction in the New Era

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Abstract
The merger activity present over time trends, upwards or downwards, creating some specific merger waves. A series of merger waves has been witnessed to in many countries, but the most representative and influential country merger waves, with a large economic sense worldwide, are those in the US and UK capital markets. This paper is intended to enlighten many aspects of these merger waves diachronically and explore their development and their nature in a historical perspective with a parallel special reference of the situation in the continental Europe. Furthermore, their impact on economic level is depictured and a proposition for a new legal framework that promotes the reduction of business risk and mitigates the side effects from governmental antitrust policy in the new era is provided.

Keywords: mergers, acquisitions, merger waves, business risk

1. Introduction

Mergers and acquisitions (M&As) are one of the mechanisms by which firms gain access to new resources and, via resource redeployment, increase revenues and reduce cost. M&As activity is mainly imposed by intense competition, evolving technology, changing regulations in the financial markets, and many other factors. Notwithstanding, the process of internationalisation and the expansion of the European Union has fostered the whole activity in recent years, which evolve an international perspective of M&As (Zarotiadis & Pazarskis, 2003).

M&As activity over time present trends, upwards or downwards, creating some specific merger waves. The analysis of merger waves, along with their business risk that is comprised, in the preceding periods were subject to several past studies. The main problem with these studies is that none of them explain properly a merger wave and its characteristics outside of the examined marketplace or timeframe period, over which they were applied. In this perspective, it is established the belief that merger waves are merely considered the simple result of a combination of economic and legal conditions that make activity of this sort appealing to companies sometimes in the past.

A series of merger waves has been witnessed to in certain countries with open market economies. The most representative and influential country merger waves, with a large economic sense worldwide, were United States of America (US) and United Kingdom (UK) merger waves (Weston et al., 1996). Each one of these wave has had different motives, including different business risk factors, due to regulatory and economic circumstances, differences in the type of deals (methods of payment, behaviour of involved companies, etc.), depicturing over time to some extent specific and various modes in the context of behavioural corporate finance.

In order to examine the complex phenomenon of M&As diachronically, respectively to business risk, this study proceeds to an historical and behind various argumentations analysis of M&As activities, and attempts to investigate the development and the nature of M&As, along with their comprised business risk existence. The structure of this paper is as follows: section 2 analyses and classifies M&As and Risk types, as they are perceived in the following text of this research, section 3 provides an analysis of merger waves in the US; section 4 presents a similar analysis of merger waves for the UK; section 5 refers at a parallel special reference of the situation in the continental Europe; section 6 depictured their special impact on economic level is depictured and a proposition for a new legal framework that promotes the reduction of business risk and mitigates the side effects from governmental antitrust policy in the new era is provided; last, section 7 concludes.

2. Classification of M&As & Risk types

2.1 Categorization of M&As activities

The term of “merger” is perceived, in general, as the action of unity from two or more companies. In this study, the terms “merger” and “mergers and acquisitions (M&As)” are used in many cases at the text, providing similar meanings for the terms “merger” and “acquisition”, while in others, wherever it is necessary, there is a clear distinction among them and always exists a provision of the exact meaning. To make clear, the perception of each term, they are analysed separately below (Steiner, 1975; Mueller, 1989; Trautwein, 1990; Agorastos & Pazarskis, 2003; Soubeniotis et al., 2006; Pazarskis et al., 2006):

The type of M&As activity, or how a company can make an M&A and under which exact way can an M&A activity be formed, is possible in three ways:

- merger by absorption, where the acquiring firm retains its name and its identity, and it acquires all of the assets and liabilities of the acquired company; after the merger the acquired firm ceases to exist as a separate business entity,

- merger by consolidation, where an entirely new firm is created; both the acquiring firm and the acquired firm terminate their previous legal existence and become part of the new firm, and
- merger by acquisition, where one firm purchase another firm's stock for cash, or shares of stock, or other securities.

Furthermore, according to the correlation of the activities of merged companies, there is a classical distinction for M&As activities of four types:

- horizontal merger, where a company takes over another from the same industry and at the same stage of the production process,
- vertical merger, where the target is in the same industry as the acquirer, but operating at a different stage of the production chain, either nearer the source of materials (backward integration) or nearer to the final customer (forward integration),
- congeneric merger, where a company takes over another from the same industry, but not at the same production process, and
- conglomerate merger, where the acquiring firm and the acquired firm are apparently unrelated to each other (Gaughan, 1996, Weston et al., 1996).

In addition, according to the process and the nature of the negotiations, as well as the agreement of companies' management, if it is pro- or contra-oriented to the M&A action, M&As activities are distinguished as:

- friendly or amicable M&As, where the acquirer and the acquired company achieve a common agreement on this specific action, there is a common consensus, and no official reaction on the completion of the process,
- hostile M&As or takeovers, where the target company express in public its disagreement to the M&A action, and attempt to defend itself through some precise actions from the eventual acquirer company (Sudarsanam, 1995).

2.2 Categorization of Risk types

The term of "business risk" in this study is perceived as a company's exposure to uncertainty, in general, and includes many risk types. Every company faces different risks, based on its business, economic, social and political factors, the features of the industry it operates in – like the degree of competition, the strengths and weaknesses of its competitors, availability of raw material, factors internal to the company like the competence and outlook of the management, state of industry relations, dependence on foreign markets for inputs, sales, or finances, capabilities of its staff, and other innumerable factors. A list of the most important categories of risks in detail is stated below (Eleftheriadis, 2006; Olsson, 2002):

- ***Credit risk*** is the risk that a counterparty may not pay amounts owed when they fall due.
- ***Sovereign risk***, the credit risk associated with lending to the government itself or a party guaranteed by the government.
- ***Market risk*** is the risk of loss due to changes in market prices. This includes
  - interest rate risk
  - foreign exchange risk
  - commodity price risk
  - share price risk

- ***Liquidity risk***, the risk that amounts due for payment cannot be paid due to a lack of available funds.
- ***Operational risk***, the risk of loss due to actions on or by people, processes, infrastructure or technology or similar, which has an operational impact including fraudulent activities.
- ***Accounting risk***, the risk that financial records do not accurately reflect the financial position of an company.
- ***Country risk*** is the risk that a foreign currency will not be available to allow payments due to be paid, because of a lack of foreign currency or the government rationing what is available.
- ***Political risk*** is the risk that there will be a change in the political framework of the country.
- ***Industry risk*** is the risk associated with operating in a particular industry.
- ***Environmental risk***, the risk that an company may suffer loss as a result of environmental damage caused by themselves or others which impacts on their business.
- ***Legal/regulatory risk*** is the risk of non-compliance with legal or regulatory requirements.
- ***Systemic risk*** is the risk that a small event will produce unexpected consequences in local, regional or global systems not obviously connected with the source of the disturbance.
- ***Reputational risk*** is the risk that the reputation of an company will be adversely affected.

3. Historical Analysis of Merger Waves in the US

The history of merger waves in the US has been characterized by four major waves or periods of high levels of M&As activity, followed by periods of relatively low activity. Each of these has been distinctly different from the others, presenting peculiarities, especially, in the type of deals, the methods of payment, and the behaviour of the involved companies (Tarasofsky & Corvari, 1991).

The first US merger wave began at the end of the nineteenth century, at 1895, as companies were trying to position themselves after the Depression of 1883. The introduction of the Sherman Antitrust Act (1890) and the combination of a rising stock market have fostered the whole activity. Its activity peak was between 1898 and 1902, and lasted until 1905. The first merger wave was imposed by firms as they demanded the development of large national markets and the extended production capacity, through acquired firms of the same industry (McCann & Gilkey, 1988). As the Sherman Act made it possible for companies to form near monopolies without any regulatory interference, acquisitions with stock-for-stock exchange made it feasible. This first wave was mainly characterized as the horizontal merger movement at the US, and was associated with the completion of national transportation systems, making them the first broad common market in the world. During this merger wave, almost 1800 firms were disappeared and approximately 71 companies formed virtual industry monopolies. Undoubtedly, the first merger wave was led to a massive transformation of the industrial landscape in the US (Sudarsanam, 2003).

The second US merger wave started ten years after the end of the first one, at 1915, and ended with the beginning of the Great Depression, at 1929, where the country's economic collapse led to chaos in the US stock market and a disastrous end of M&As activities overnight (McCann & Gilkey, 1988). The motives to start the firm interests in this wave were due to the fact that the regulatory framework was changed again. All began as the US courts made it clear that they no longer approved industry monopolies by no means and start to take apart forcibly companies that had a monopolistic character. The first "victim" of this tactic was at 1911 the break-up of Standard Oil, established and owned by John D. Rockefeller, which acquired multiple subsidiaries throughout the US, and drove many of its competitors out of business. The US Supreme Court accused Standard Oil of discriminatory practices, abuse of power and excessive control of its market, and forced it to sell thirty-three of its most important subsidiaries, with a forbiddance at the new owners of these subsidiaries to create a new trust. The final expression of this anti-monopoly policy was a new merger legislation expressed by the Clayton Act, in 1914, which actively, and in paradox, encouraged companies to form oligopolies instead of monopolies. So, as once again companies tried to positioning themselves and reserved a privilege position in the changed marketplace, the second US merger wave had already begun (McCann & Gilkey, 1988). The rising of stock market and stock-for-stock exchange, as a way of financing M&As, facilitated companies' plans to succeed easily for vertical integration, and extended profit margins through economies of scale. Obviously, in this merger wave, the term "merging for monopoly" has been replaced by the "merging for oligopoly", as remarked Stigler (1950).

As the level of M&As activities decreased notably in the post-war era, throughout the 1940s and 1950s, a new legalization, the Celler-Kefauver Act (1950) that was introduced to extend the Clayton Act, give new incentives for special market concentration (Scherer, 1979). As a result the rise of conglomerate mergers, the only feasible way, has become the new reality in the 1950s, and the third US merger wave had started. This merger wave began at the end of the 1950s, and lasted until the middle of the 1970s. The oil crisis of 1973, that resulted the sharp increase in inflation, along with the world-wide economic crisis, have signalised the end of this third merger wave, as the US economy has entered in a new economic downturn at the middle of the 1970s, with its stock market. The major characteristic of this merger wave, as referred above, was the conglomerate-oriented mergers, as the anti-trust laws had made it very difficult to implement horizontal or vertical integration strategies for expansion. 80% of the mergers that took place involved two interested companies from different industries (Rumelt, 1974), and, by 1973, fifteen of the top 200 US manufacturing companies' previous strategy fall in this category (Baskin & Miranti, 1997). The majority of merger deals usually were friendly mergers (Shleifer & Vishny, 1991). Until 1965, as Internal Revenue Service (IRS) rules allowing non-taxable stock swaps, the financing of M&As with stock-for-stock exchange was the most popular one. After 1965, these tax advantages had became less important in financial planning of aggressive conglomerates that were trying to create large companies in banking, insurance, oil and steel, and, cash payment became the norm of conglomerate acquisitions in this period. Finally, the studies of Harry Markowitz, John Lintner and William Sharpe on portfolio theory, that efficient portfolios equated risk and returns, promoted notably the conglomerate formation.

The fourth US merger wave began by the late of the 1970s. This merger wave exceeded all of the proceeding waves in the size of the deals, as a new generation of financial entrepreneurs promoted an entirely new idea, the Leveraged-Buy-Out (LBO) partnerships, and the highest degree of hostility, as large companies became targets of unwelcome acquisition bids. Almost half of all major US companies during this merger wave had faced the possibility of a hostile acquisition in the 1980s (Mitchell & Mulherin, 1996). At its first stage of the merger wave, the acquisition of small companies was observed, while two categories of firms were the targets: owner-managed firms, whose owners were approaching retirement and wished to liquidate their entities; and subsidiaries spun-off from larger firms, that want to sell them for their disappointing performance (Baskin & Miranti, 1997). At the second stage of this merger wave, after 1984, that of mega-mergers or of merger-mania, much larger companies were the targets. One of them was the well known RJR Nabisco and Co. which was acquired from Kohlberg Kravis Roberts and Co. partnership (KKR) for $24,7 billion in 1989. The merger motives were mainly due to the governmental deregulation in certain industries. Many researchers support that the US government relaxed some of the restrictions on takeover activity that the earlier law enforcement had put in place (Shleifer & Vishny, 1991). But behind this, the real motive is that many conglomerates failed entirely, and companies want to concentrate on areas in which they were most profitable and effective. Furthermore, the changing market conditions, with increases in the costs of inputs (mainly, in oil) and the rapid developments in technology, had fostered the whole activities. Finally, ineffective corporate management drove usually a stock company undervaluation, thus making it an appealing target for acquisition. After the completion of the M&As process, the ineffective managers were removed and the overall company performance was improved (Scherer, 1988). The popularity of debt financed transactions was increased during this fourth merger wave, and the use of junk bonds make it possible, even for very large companies to be takeover targets.

The end of this fourth US merger wave is not universally accepted. It is considered from some researchers that this merger wave lasted until the end of the millennium, while others are claiming that it is still continuing. Despite this debate, it is clear that in the period that followed (from 2000 till now) the rationalism in M&As activities prevails. The LBO, the hostile takeovers, and the debt-financed transactions of the 1980s no longer exist in this period (Andrade et al., 2001). The most possible explanation for these changes is the improvement of corporate governance, where it became more difficult for managers to enter into highly risky deals.

4. Historical Analysis of Merger Waves in the UK

The history of merger waves in the UK reveals a less glamorous and shorter history than US merger history. There is no clear consensus of the exact time of merger waves diachronically among researchers. In general, there are observed four major waves or periods of relatively high levels of M&As activity, followed by periods of relatively low activity.

The first UK merger wave began in the 1920s, and lasted until the end of the inter-war period. As the structure of British industry was changing, the emergence of larger companies was a new reality in the business world. One of the solutions was the external development through M&As, or the so-called “defensive mergers” (Weston et al., 1996). Among their main aims were the mass production, the increase of productivity, and an overall increase in share prices at the London Stock Exchange. This merger wave drove to market concentration in many manufacturing industries, and a notable example was the creation of Imperial Chemical Industries (ICI), in 1926, formed out of four major chemical companies. Furthermore, the companies’ negotiations and transactions were almost always unknown to public, and were regulated between the directors of the companies, while neither institutional nor private shareholders had much influence on corporate decisions. The end of this wave placed at the beginning of the Second World War.

The second UK merger wave began in the middle of the 1950s, as a new generation of financial entrepreneurs, or more precisely corporate predators, want to take advantage from inefficient management at many UK companies. The first of these predators, Charles Clore with its bid for Sears in 1953, saw that some companies were undervalued at the stock market much lower than the real price of their assets, and offered to the shareholders of the company a higher price for their investment. The success of the bid has been described by Littlewood (1988) as “a catalyst for change in both the complacent attitude of company directors towards their shareholders, and in the passive and undemanding attitude of shareholders towards their investment”. As the hostile take-over was a new phenomenon in the UK, the authorities was very suspicious. The Bank of England discouraged banks and other financial institutions from lending to predators, in the early 1950s. But the hostile takeover of British Aluminium, a “blue-chip” company, from Tube Investments, a British engineering company, and its American partner, Reynolds Metals, in 1958, changed City attitudes to takeovers overnight. Among the top 200 manufacturing companies in 1964, 39 were involved in M&As activities within the next five years (Hughes, 1993). Last, this UK merger wave was mainly characterised by conglomerates or congeneric mergers, and ended at 1968, when the City Takeover Code was published (1968), and the Takeover Panel, was created to police it. (Samuels et al., 1999).

The third UK merger wave started at the early 1970s, and for a decade, included a number of glamorous hostile bids from a new generation of predators, in Charles Clore’s footsteps, such as Jim Slater and James Goldsmith. These “asset strippers” (as they regarded from the employees of the affected companies, and characterised with no interest in the long-term health of the companies they bought) had financed their M&As by issuing new shares in their own companies. Furthermore, the popularity of horizontal deals still remained active, despite the fact that conglomerate deals grew correspondingly (Sudarsanam, 2003). For the above referred reasons, the legal framework changed in 1973 with the Fair Trading Act, that formalized the procedures for regulating M&As activity in the UK and created the Office of Fair Trading (OFT), which examines each deal and decides whether it should be referred to the Mergers and Monopolies Commission (now know as the Competition Commission). The most important event in this wave was the corporate acquisitions of US firms (in the

United States) from UK firms. Many UK firms recognised the strong possibility that, in the long run, the US economy would be globally the most stable and developed one (Cooke, 1999).

The fourth UK merger wave began in the 1980s, as was existed the confidence that with market deregulation and the privatisation of state-owned companies, the national economy could achieve an overall improvement. So, the Thatcher government’s adopted as its central priority, in order to provide market efficiency and to reduce the role of the state in business, the abolition of exchange controls and privatisation. The outcome from the abolition of exchange controls (the well-known as Big Bang) was a dramatic restructuring of the financial services industry, with the M&As actions to involved many interested parties (brokers, jobbers, banks, other financial institutions), UK or not. But, if the abolition of exchange controls forced to severe changes, the same did privatisation. The programme included the sale of part of shares of British Petroleum, the privatisation of British Aerospace, British Rail, British Telecommunications, and other public utilities (gas, electricity, water). In this wave, very large companies, virtually invulnerable to takeovers in the past, also US firms included, were targets (Ross et al., 1999). The size of deals, the increased hostility, and the use of leverage during this merger wave depictured something completely different within this wave. Even the major crash of the stock market on the Black Monday in 1987 was not enough to stop this merger wave. Finally, the creation of the Cadbury Committee (1991) with its findings (the Cadbury Report, 1992) and a major concern about the low confidence in financial reporting and the ability of auditors to provide the correct company results, signalised a new direction in M&As. The Cadbury Report increased the level of monitoring to which Boards of Directors were subjected and the degree of deal’s transparency. As a result the M&As activities that followed were friendly and horizontal mergers, as companies were also seeking to get bigger and reach an international perspective with global economies of scale (see, Glaxo’s hostile bid for Wellcome in 1995, and five years later, the merger between GlaxoWellcome and SmithklineBeecham).

The end of this fourth UK merger wave is not universally accepted, as many researchers considered that this merger wave lasted until the end of the millennium, while others are claiming that it is still continuing. Despite this debate, it is clear that in the period from 2000 till now the rationalism in M&As activities prevails, as it also does in the US capital market, and is expressed with a new global aspect (Andrade et al., 2001).

5. Historical Analysis of Merger Waves in Continental Europe

The history of merger waves in the Continental Europe presents a far less glamorous and shorter history than US and UK merger history. This had make been influenced undoubtedly from the fact that it were not exist but in the last two decades the specific conditions for a single economic market with common currency in the Continental Europe (Taqi, 1987; Tsoukalis, 1998; Lyroudi et al., 1999).

There is no clear consensus of the exact time of merger waves diachronically among researchers on this topic. In general, there are observed three major waves or periods of relatively high levels of M&As activity, followed by periods of relatively low activity. The first merger wave is placed from 1958 to 1970, where were realised the first movements for unification of European states, as several states were agreed for collaboration in certain markets (coal, steel, etc.). The second merger wave is placed from 1986 to 1992, when was the Treaty of Maastricht (Sarri, 1996). The third merger wave is considered that began afterwards the middle of the ’90s. Its main characteristic is that presents a geometrical increase in the size of merger deals, as companies were seeking to get bigger, reach an international perspective with global economies of scale and be profitable from their operations in the Euroland.

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6. Business Risk in Economy from M&As and Proposition for Mitigation of Side Effects from Governmental Antitrust Policy

In recent years, a few companies have demonstrated exceptional proficiency in assessing their target acquisitions - evaluating them as stand-alone organizations and then factoring in the value of any potential synergies between them and their new partners (Buffet, 1981). By assessing potential synergies from preamble, a buyer can quantify the likely costs to implement the acquisition and estimate the time it might take to realize the benefits. Unfortunately, most companies are not so experienced. They underestimate integration and deal costs, overestimate savings, and imagine synergies that do not exist. They fail to identify the risks in integrating two organizations with very different management and operational processes. An acquired part must be cut away from its host and quickly reattached to the acquiring company's business processes as soon as possible. Many executives will pledge to remain available to assist with the process throughout the integration. But in a risk-driven process, the acquiring company knows that the value of the acquisition falls down if top managers leave. Of course, the acquirer could spend a of its risk mitigation efforts on training its own team to run the acquired firm.

Another common mistake is failing to assess the target's future growth rate and profitability. Forecasting an unrealistic growth rate of return for the target due to the changing conditions in the macroeconomic, foreign exchange and competitive environment can have dire consequences on its valuation.

The job of mitigating risk will fall to management and require an action plan based on the potential impact of all risk scenarios. Success will depend on determining both the probability of a major risk occurring and the impact if it does.

From several past research papers on accounting and finance, there is a common agreement that, although M&As served firstly as a way to react shareholders to inefficient management and provide an evolution of the mechanisms of corporate governance in the 1970s, their further development was limited in the 1990s, as they did not serve anymore the interests of shareholders properly

(Jarrell et al., 1988; Jensen & Ruback, 1983; Jensen, 1993). In addition, acquisitions generally increase managerial compensation, including bonuses, even when shareholder wealth declines (Grinstein & Hribar, 2004). Similarly, managers might make acquisitions that increase risk without a sufficiently large increase in return because of the private benefits that flow from them (Furfine & Rosen, 2006).

As Holmstrom & Kaplan (2001) stated, some changes were inevitable and to some extent necessary:

> “...corporate governance changes in the 1990s, in regulation..., are worth mentioning. In 1992, the SEC required public companies to provide more detailed disclosure of top executive compensation and its relation to firm performance, particularly stock performance. This requirement arguably had several effects. It focused boards of directors on stock performance. Companies now routinely report firm, industry, and market stock performance in their proxy statements. This represents a substantial shift from the pre-1980s when companies were more likely to focus on earnings per share, growth, and other measures that might or might not affect company stock performance. In addition, the requirement makes equity-based compensation packages easier to defend. Boards of directors are less likely to be criticized by shareholders or the media if managers are compensated based on stock performance (pp. 135-136).

The simple relation between managers and shareholders have been on doubt, since the exact obligations of the management team for information and defend of shareholders’ benefits could not be served properly. It is well known that the state protectionism of shareholders is imposed in two forms: the common law and the market regulations of capital markets. However, in some cases these public tactics were ineffective to protect shareholders against opportunistic behaviour from the part of management and that had been resulted sometimes an inferior operating performance and several decreases in firm’s value.

Political opposition and investors’ disagreement promoted by some specific hostile takeover actions in the past led to more restrictive regulation adopted in the beginning of this sort of actions from the U.S. capital market. Holmstrom & Kaplan (2001) argued that this status led many observers to criticize the entire governance system in the 1970s and 1980s of the US, and characterised much more attractive other systems, particularly the German and Japanese systems, as being superior of this (Porter, 1992). Also, criticised US capital market as an unfavourable environment for long-term investments.

However, in the decade of the ‘90s, as an expression of seeking for much higher levels of capital productivity, in the short-term as well as in the long-term, the U.S. style of corporate governance has reinvented itself, and the rest of the world seems to be following the same path (Holmstrom & Kaplan, 2001).

In this direction, in the period from 2000 till now, more changes and improvement of corporate governance has been made, and the rationalism in M&As activities prevails, expressing a new global aspect in corporate strategy, in accordance to corporate governance perceptions (Andrade et al., 2001).

Similar systems that have emerged mainly in US and the UK capital markets are characterized by freely competitive markets, transparency in corporate affairs and regulatory structure to protect investors from the incompetence or dishonesty of agents (Holmstrom & Kaplan, 2001). Complementary monitoring patterns, one professional and the other governmental, provide assurances in the Anglo-American markets of the reliability and currency of corporate information. This leads to a reduction of accounting risk. However, the most compelling issue in the recent history of Anglo-American corporate governance is now not whether there should be regulatory regimes; it is whether these regimes come within the purview of professional or governmental agencies and what the boundaries of supervisory authority are.

Nowadays, in this path tried to position their selves the German and Japan capital markets, as the lack of transparency and prevailing patterns of governance for their commitment on long-term successful strategies mitigating their efforts to become major centers of international capital. For example, in many cases at the past, it was difficult for outsiders to gather sufficient data to analyze corporate performance of German or Japan companies.

In accordance to the whole above situation, Mueller (1977) remarked that:

> “...nevertheless, any effort to curtail the volume of merger activity should, to be consistent, be accompanied by other measures to improve the markets for capital and corporate control. More detailed accounting procedures, less costly procedures for engaging in proxy fights or direct takeovers, and perhaps even measures forcing a greater payout of profits and more reliance on the external capital market (p. 343).”

One of the main issues, that were influenced from merger waves diachronically, is the government policy with its expressions over the antitrust policy. It is quite interesting that most of the mergers and acquisitions were associated with regulatory changes (Kaplan, 2000). The antitrust policy, along with its manifestations, from the end of the nineteenth century until now, had created entirely new business environments in many cases, signalizing the beginning of a new era of each merger wave, and creating every time new political risk circumstances. And, as long as managers were not willing to return the excess cash flow to shareholders, depending on the forced law regulations in several past periods, the government policy created reactions that led to new merger waves in each capital market. Hence, strict antitrust policies, even they aimed to cessed M&As activities, they did not so, and with their side effects, were largely responsible for the asymmetric development of merger waves diachronically (Baskin & Miranti, 1997).

The most important element of this procedure is the way that antitrust laws interacted with business activities in each merger wave. For example, if the antitrust policy no longer approved industry monopolies by no means and started to take apart forcibly companies that had a monopolistic character, it encouraged, simultaneously and in paradox, companies to form oligopolies, instead of monopolies. If the antitrust policy no longer approved industry oligopolies, they determined firms to make acquisitions to diversify, instead of oligopolies (McCann & Gilkey, 1988). It is clear that government policy formed new laws to control corporate restructuring, but the latter reacted in a different way and created once again circumstances for new law formations. Whatever one thinks of the changes each wave brought, the antitrust policy is, to a large extent, responsible for them, along with the formation of new legal risk circumstances.

After the several merger waves in capital markets, public authorities understand that promoting economic policy through special merger procedures is not feasible and beneficial for economic development. As a result, the current antitrust stance is certainly preferable to that of the past in capital markets, and much more flexible and lax concerning M&As activities. Despite the fact that aggressive antitrust enforcement may be a good idea at first, in the global business environment where firms are committed to growth through M&As, antitrust policy had inadvertent side effects much more damaging than the benefits it created. All things considered, it is clear that supporting lax antitrust enforcement of the sort that is applied in recent years is much more beneficial for a capital market and provides a reduction for business risk from governmental side effects (Shleifer & Vishny, 1991).

7. Summary and conclusions

The M&As activity over time present trends, upwards or downwards, creating some specific merger waves. These waves are not similar, while each wave is different in terms of characteristics, and their appearance has been witnessed to in many countries (Mueller, 1977; 1980). Kaplan (2000), in a collection of in-depth case studies of mergers, concludes that “a general pattern emerges from these studies. It is striking that most of the mergers and acquisitions were associated with technological or regulatory shocks.” Thus, merger waves are merely considered as the simple result of an irregular combination of particular economic, technological and legal conditions that make activity of this sort appealing to companies at a certain time frame period.

The most representative and influential country merger waves, with a large economic sense worldwide, are those in the US and UK capital markets. Their special characteristics and aspects diachronically, as stated above, in a historical perspective, with a parallel special reference of the situation in the continental Europe, reveal the importance and influence of M&As, and, especially, of merger waves worldwide.

Furthermore, it is clear that changes and improvement of corporate governance, which has been made in interaction with merger waves, result that the rationalism in M&As activities prevails, while, concerning government policy towards merger activities, the support of lax antitrust enforcement of the sort that is applied in recent years in some developed capital markets (US & UK capital markets) is proposed as a much more beneficial and business risk reducing framework for business activities.

On the other hand, in many cases risk increases, although it is proposed that diversification should reduce risk. For example, risk increases when companies in maturing industries are rebalancing their portfolios, or selling off pieces of the business. The pieces being sold include processes or cultures that are difficult to integrate into the buyer's organization. Another example is cross-border transactions which are riskier than those within a single country because they have additional country risk. A merger that employs the right mix of professionals prior to signing an agreement will obtain a more thorough assessment of its financial, operational, management and legal risks. The managers of each initiative can formulate risk mitigation plans to lower the potential of each risk factor.

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