# COMPLETION OR ABANDONMENT OF MERGERS AND ACQUISITIONS

## EVIDENCE FROM THE NEWSPAPER INDUSTRY, 1981-2000


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### ABSTRACT

Regulatory and technological changes have resulted in a surge in merger and acquisition (M&A) activity in the newspaper industry since the 1980s. This study investigates the "success" of these M&As focusing on a particular facet of acquisition performance, the completion likelihood of an announced transaction. We are motivated by the large number of M&A transactions that are announced but later abandoned prior even to their official consummation date. Based on a sample of M&As from the newspaper industry (1981-2000), we identify several attributes that influence the likelihood of completion of M&As involving newspaper companies. We find that although firm-level characteristics are relevant, transaction-specific factors and regulatory aspects of the focal M&A are even more important. Not surprisingly, the attitude of the transaction (whether hostile or friendly) is a key factor, but other features such as the method of payment as well as the percentage sought by the acquirer also constitute major influences on whether an M&A deal is ultimately consummated. The latter factor in particular, re-affirms the prevailing view on the importance of regulatory influences on media M&As.

## INTRODUCTION

The newspaper industry is a blueprint of a traditional, “old economy” industry faced with the challenge of coping with drastic technological change associated with the emergence of new Information and Communication Technologies (ICT) and, in particular, the Internet. Among the three industries that featured in the MIT Media Lab’s construct of convergence in 1978, “Broadcast and Motion Picture”, “Computers” and “Printing and Publishing” (Fidler, 1997), it forms part of the industry mentioned last: the most mature one, which was to be hit twice by “convergence shocks” over the course of the subsequent two decades. First, in the 1980s, it had to cope with the rise of (cable) TV.[1] Second, digitization represented a major exogenous shock in the 1990s, as did deregulation of the information industries (especially in the 1996 Telecommunications Act in the U.S.A.) (Chon, Choi, Barnett, Danowski & Joo, 2003). These developments changed the technological and economic preconditions for information production and delivery fundamentally. Today, newspapers are still in the process of adjusting to the pervasiveness and popularity of the Internet as a source of news and information. For instance, it was only in March 2006 that the New York Times stopped publishing daily stock listings although such information has been available on the Internet for several years (The Online News Association, 2006). Also, starting March 2007, it will have a single merged newsroom rather than separate online and print newsrooms (Crossbie, 2005).

As a result, mergers and acquisitions (M&A)[2] have become an important strategic tool for firms in the media industry (Chon et al., 2003; Peltier, 2004), and in the newspaper industry in particular. Hence, while merger activity in the newspaper industry was modest during the M&A wave of the 1980s – according to Mitchell and Mulherin (1996) mainly clustered in broadcasting, air transportation, and petroleum production – the picture changed drastically in the 1990s. It

[1] TV benefited greatly from the emergence of cable TV companies, which enjoyed considerable degrees of freedom regarding prices and services between 1984 and 1992. In 1995, the TV broadcasters’ and cable operators’ share of advertising dollars exceeded the newspapers’ share for the first time (Fidler, 1997).

[2] We use the terms acquisition(s), merger(s) and M&A(s) interchangeably, as synonyms. For us, all that matters is that two firms combine their assets to form a single legal/corporate entity.

became clear that the future prospects of the newspaper industry would hinge on how it would define itself with respect to the core benefit it delivers to customers. While, on a general level, this is *news*, the industry has traditionally defined itself through its delivery medium *paper*. As an industry producing information printed on paper, industry observers regard it largely as an industry in decline, especially the daily segment (Dimmick, Chen & Li, 2004; Waldfogl, 2002), despite the fact that currently profits are still considered healthy (State of the News Media Study, 2005). This assessment is mainly based on substitution by other media, especially for daily newspapers, decreases in circulation, declining industry share of advertising, and unfavorable cost developments. In 2000, the U.S. Industry & Trade Outlook reported a "gradual but steady decline in U.S. daily newspaper circulation, to 56.2 million in 1998 from 62.8 million in 1987", but offered the rosy projection that this development "may be coming to a close". For the period 1998-2005, however, U.S. daily newspaper circulation decreased by –3.5 per cent (Bianco, Rossant & Gard, 2005). In the six-month-period ending in September 2005, circulation of U.S. daily newspapers decreased, on average, by 2.6 per cent with the large papers doing slightly better, as reported by the Audit Bureau of Circulations (*Forbes* online, 11/07/05). The industry's share of advertising expenditures is stagnant or even on the decline (U.S. Industry & Trade Outlook, 2000) since advertising rates are often directly coupled to circulation. Moreover, volatile newsprint prices – for instance, leading up to a high of $658 in 1995 – represent another challenge (U.S. Industry & Trade Outlook, 2000). In countries other than the U.S., developments are not much different: at least in the Western world, newspapers are facing a downward spiral.

In response to these economic and technological changes, many newspapers are meanwhile providing information online as well as offline. Chyi and Lasorsa (2002) report that, as of 2000 already, more than 1,200 U.S. newspapers had an online presence. In some cases, online readership figures have by now overtaken the number of readers who daily unfold their paper version. However, decreasing revenues from offline business (from both sources, readership and advertising) are rarely compensated for by the corresponding online figures (Bianco et al., 2005) partly because readers tend to expect information for free on the web. In summary, while the corporate environment of the 1970s and 1980s was characterized by relative stability, it has become extremely challenging for newspaper firms since the 1990s. Facilitated partly by the regulatory climate, increasingly intensified M&A activity became the response of choice for many firms (Chang & Zeldes, 2002). Deals became larger over time - for example, the acquisition of Times Mirror in 2000 by the Tribune Company in a deal worth 8 billion U.S.$ was the largest newspaper acquisition to date. It made the combined entity the third largest newspaper conglomerate in the U.S., after Gannett and Knight Ridder, and raised concerns whether the age of family-owned newspaper was soon to disappear (The Public Broadcasting Company, 2000).

This M&A activity consisted, first, of consolidating M&As within the declining industry, aimed at reducing duplication, realizing direct cost synergies and, at the industry level, producing concentration (Andrade, Mitchell & Stafford, 2001). Second, to an increasing extent, this M&A activity was diversifying in nature, involving firms from other industries, in particular other transmission media such as broadcasting and television. This type of M&A activity tended to have somewhat expansionary effects and broadened the industry's asset bases.

Given the impressive rise of M&A activity and its current widespread use by newspaper companies, evaluations of the success of such strategies constitute an important topic of debate. Previous literature, which has primarily focused on the success of M&As based on the financial performance of the *post-merger entity*, has reported failure rates of 50 per cent and higher, across different industries in different countries (Saxton & Dollinger, 2004). However, a large number of initiated M&As are abandoned before completion. Figures reported in the literature range from 14 to as high as 25 per cent. This constitutes an important observation because firms devote substantial resources to deal preparation that are lost in case of abandonment (Weston, Mitchell & Mulherin, 2004). Despite the large number of M&A transactions that are not completed, the pre-completion stage of such transactions has remained largely underexplored, despite its important efficiency implications (for an early exception, see Asquith, 1983). We turn our attention to this context – the pre-completion stage of M&A transactions – and, accordingly, adopt the completion likelihood of an announced acquisition as a suitable performance measure.

Moreover, unlike previous studies on the pre-completion phase of M&As (for an overview of this scarce literature, see Wong & O'Sullivan, 2001), we focus more in-depth on a particular industry. We choose the newspaper industry since it has been subject to a number of exogenous shocks and has as a result seen intensified M&A activity in the past two decades. Previous research in media economics has explored several aspects of this M&A activity so far. For example, Greco (1999) looked at the impact of horizontal M&As on corporate concentration in the U.S. book publishing industry. For a sample from 1989 to 1994, he found only moderate increases in concentration based on the Herfindahl-Hirschman Index, and no strong, quantitative evidence of predatory or excessive pricing during the sample period. Chon et al. (2003) undertook an industry-level analysis of media convergence in the post-1996 era. They used data on M&As in the information industries between 1981 and 1999 to conduct a comparative network analysis, and found evidence for several structural differences before and after 1996. For instance, consolidation was most prominent in content production-based industries prior to 1996, and in information delivery industries post-1996. Information delivery industries became more central compared to content production and computer-related industries.

Despite the important insights gained, unresolved questions remain, regarding, for instance, a descriptive characterization of the intensified M&A activity in the newspaper industry over the past two decades, and an analysis of those factors that determine which M&As go through, and which ones are abandoned. While regulatory concerns play an important part, insights from other industries suggest a complex pattern of infuence factors. Hence, this study addresses the following four research questions:

RQ1: How many M&A transactions involving newspaper firms were initiated and completed during the last two decades?

RQ2: How do characteristics of the individual *transaction* influence its completion likelihood?

RQ3: How do characteristics of the involved *firms* influence its completion likelihood?

RQ 4: What impact do *industry*-level events or features, in particular *regulatory considerations* and changes, and the relatedness between industries, have on this pattern of transaction-specific and firm-specific influences on completion likelihood?

In addressing the fourth question, we distinguish between different categories of transactions based on business areas that have similarly been used in previous research (Chon et al., 2003). They appear to capture, at least to some extent, the three processes underlying the information industries, production and distribution of information, provision of means of transmission or distribution of information products, data and communication, and processing of data. Hence, we distinguish between M&As involving (1) two firms from the newspaper industry (SIC 2711), (2) a newspaper firm and a firm from printing and publishing generally (SIC 27), (3) a newspaper firm and a firm from communications (SIC 48), and (4) a newspaper firm and a firm from data-processing services (SIC 737). For each category, we investigate separately which transaction and firm-specific factors affect a transaction's completion likelihood.

## THEORETICAL BACKGROUND

### Motivations for and performance of M&A activity

Possible motivations underlying M&A activity are broadly grouped into two categories, with different theoretically-derived performance implications. On the one hand, M&A activity could be guided by economic motives, based on, for example, realizing economies of scale and scope such as, for instance, those arising from high first-copy costs in media industries, hence resulting in an efficiency-enhancing reallocation of corporate assets. On the other hand, managerial reasons might propel M&A activity. For example, the managerial hubris theory (Roll, 1986) explains corporate takeovers and argues that managers in acquiring firms tend to make positive errors in the valuation of targets, and consequently, on average, overpay. While managers in this scenario may at least believe that they act in the best interest of shareholders, other managerial motivations have been put forward that arise from the separation of ownership and control. Conflicts between shareholders' interests and managers' preferences may emerge, with managers pushing through their preferences (e.g. prestige and power, remuneration, shielding against personal risk) for particular corporate actions such as acquisitions (Besanko, Dranove, Shanley & Schaeffer, 2004). In that case, M&As would lead to an increase in managers' power at the expense of shareholders, rather than to more efficient allocation of corporate assets. Empirically, the issue of which category prevails – that is, what the predominant performance implications of M&As are – is a matter of ongoing debate (Wong & O'Sullivan, 2001).

M&A processes can generally be decomposed into several, potentially overlapping stages (Haspeslagh & Jemison, 1991). Each of them contributes in its own way to success or failure of the overall endeavor, and each of them requires appropriate performance measurement. In the past, research on M&A success has predominantly equated performance with post-acquisition performance. The majority of these studies have employed performance measures based on stock market data such as abnormal announcement returns to shareholders using event study methodology (Moeller, Schlingemann & Stulz, 2005), but also accounting-based measures such as revenue-weighted, industry-adjusted return on assets (Ravenscraft & Scherer, 1987; Peltier, 2004). Finally, some studies have employed subjective performance measures, such as satisfaction and goal contribution, based on survey data of executives about perceived M&A outcomes (Saxton & Dollinger, 2004; for an overview of the methodological approaches see e.g., Bruner, 2002).

However, assessing performance at the pre-completion phase is even more challenging. Consequently, previous research on the consequences of abandonment is scarce, being primarily rooted in the legal and finance literatures (for an overview, see Wong & O'Sullivan, 2001). It mainly focused on the extent of discipline that the threat of takeover imposes on firms, and on an assessment of the costs of a failed takeover arising for the would-be target, in order to ascertain whether managerial or economics-based motives dominated in the abandonment decision. Considering both the potential target and the acquirer firm, direct performance implications arise from three sources at the pre-completion stage. Firstly, reputation-based external effects can have an impact and the handling and outcome of this phase may influence the would-be acquirer's reputation as an acquirer and, in a broader context, as a corporate entity.

Secondly, there are resource-based internal effects. Firms incur large direct costs when they engage in M&A activity. They also incur opportunity costs because managerial attention is diverted away from other tasks such as long-term investments in R&D (Hitt, Hoskisson & Ireland and Harrison 1991). Breakup or termination fees in mergers are a reflection of these costs. Weston et al. (2004) report, for example, that Paramount Communications agreed to pay to Viacom, the initial would-be acquirer, a termination fee of $100 million as compensation for investigation expenses, executive time involved and opportunity costs. Overall, firms devote considerable resources to pre-deal M&A activity.

Thirdly, previous studies hint at learning-based internal effects. Experiences from current acquisition processes influence a firm's knowledge base. First, being able to efficiently manage an acquisition process constitutes a capability in its own right, and prior acquisition experience can provide knowledge on handling future acquisitions (Vermeulen & Barkema, 2001). Such expertise may relate to screening and selecting targets, solving administrative problems, or deciding on appropriate levels of integration. Second, acquisitions inject new knowledge into an organization, either through direct infusion from incorporating the target's knowledge or indirectly through leveraging effects in combination with the organization's existing knowledge, possibly in the form of conflicts and frictions from clashes of corporate cultures, organization structures and management systems (Haspeslagh & Jemison, 1991).

Decision-making processes at the pre-completion stage are largely unobservable to financial markets and difficult to capture based on accounting data. Hence, we adopt the likelihood of completing an announced M&A deal as a simple and straightforward measure of performance, which addresses all three aforementioned dimensions. While firms may clearly benefit from abandoning an acquisition before its announcement, or switch targets, when closer investigation reveals, for example, a larger than expected misfit between the organizations' strategies, cultures, or product portfolios, it is usually in the interest of the acquirer to complete the venture once a deal has been announced. Later termination might harm its reputation, and implies inefficient use of internal resources.

Nevertheless, a substantial number of M&As are abandoned altogether during the negotiation stage. Previous literature reports estimates for abandonment rates ranging from 14 (Pickering, 1978) to 25 per cent (Holl & Kyriazis, 1996). While most of these studies analyze cross-sections of different industries, the newspaper industry under study here is a declining industry prone to consolidation through contractionary M&As. Such acquisitions may be even more likely to fall prey to shareholder concerns and litigations, changes of heart due to unexpected disagreements on financial terms, personality clashes, and conflicts over future staff deployment and management styles in general, issues that feature prominently as reasons for abandonment (Pickering, 1983). Regulatory roadblocks constitute another important cause of abandonment. Not surprisingly, the abandonment rate for our newspaper industry sample is somewhat higher than the reported maximum of 25 per cent, to date, with 27.2 per cent.

**Firm characteristics**

In the newspaper industry, the increase in public ownership of newspapers has been a strong and much debated trend for the past decades (Lacy & Fico,1990; Maguire, 2003). Public ownership has shown to constitute an important influence on various characteristics of newspapers firms, as well as on competition in the business. Blankenburg and Ozanich (1993), for instance, showed the degree of public ownership to be positively associated with financial performance. Lacy and Fico (1990), however, found no significant impact of ownership (private or public) on newspaper quality. Turning to its effects on M&As, research on M&As in general has shown *public status* of the involved firms to significantly affect post-acquisition performance measured. In a cross-industry sample of 4,000 UK-based, publicly owned acquirers during the 1984-1998 period, Conn, Cosh, Guest and Hughes (2005) found acquisitions of private *targets* to outperform acquisitions of public targets, both in terms of announcement returns and share returns over a three-year post-merger period. Their underlying theoretical reasoning comes in three steps.

First, the process of acquiring a privately owned target is less exposed to public gaze. Therefore, the would-be acquirer may be less reluctant to abandon the deal prior to its consummation, for fear of losing face. Second, owners in private targets are in a stronger position to resist a bid, or at least submit it to careful examination, than shareholders of a public firm, especially if ownership of the shares is widely dispersed. Dispersed public ownership reduces the target's ability to fend off unwelcome acquisitions. The threat implicit in the market for corporate control may even suffice to induce a publicly owned target's management to accept a "friendly" takeover it would not have agreed on with private ownership. Third, without the requirements of public information disclosure, the parties may engage in more extensive mutual information exchange, resulting in more careful assessment of corporate fit. As a result of all this, fewer acquisitions, which the parties have realized to lack economic sense, may get pushed through if the target is a private company. In contrast, from an early-stage perspective, these arguments would imply higher abandonment rates for private targets. On the one hand, publicly owned firms are subject to more intense regulatory scrutiny during the pre-completion phase, which may delay merger completion, leaving the process more vulnerable to derailment.

*Publicly owned acquirer* firms may be in a better position financially to complete M&As because they appear to reap higher profits from their business than privately owned newspapers (Lacy & Blanchard, 2003). On the other hand, closer scrutiny of shareholders and diverse interests of the owners may constrain management in completing an initiated transaction when new information emerges during the negotiation process.

Finally, previous research has shown post-acquistion performance to be influenced by whether the target is a subsidiary (*target subsidiary*) of a larger corporate entity or not (Slovin & Sushka 1998). Negotiations with a subsidiary differ from a conventional corporate transaction because of power issues relating to the parent company. More concentrated ownership implies a blockholder with her own strategic agenda, which increases risk of collision of interests and confidential information. In the newspaper industry, or information industries in general, this is compounded by the issue of compatibility of the companies' political orientations . Especially in Europe, a newspaper's political image as advanced by its editors serves as an important differentiating characteristic (Gabszewicz, Laussel & Sonnac, 2002). Hence, acquisitions with targets that are subsidiaries might be more likely to be abandoned (Slovin & Sushka 1998).

Previous evidence shows that past *acquisition experience* affects post-acquisition performance (Haleblian & Finkelstein, 1999). This suggests that it could influence early-stage performance as well. However, the empirical evidence on post-acquisition performance is inconclusive, ranging from a positive association (Bruton, Oviatt & White, 1994), to a non-significant (Lubatkin, 1982) or even negative one, at least over a certain range of cumulative experience (Haleblian & Finkelstein, 1999). In addition, Hayward (2002) suggests and finds evidence that the effects of prior experience might depend on various qualities of this experience, such as similarity with the focal transaction. Conceptually, what appears to constitute a fundamental difference in dimensions of experience quality is whether it is one's own, direct experience, or whether it is only indirect experience of others that is transferred via processes of social learning (Huber, 1991). We capture experience (or more precisely, the lack of it) broadly by distinguishing between would-be acquirers that attempt an M&A for the first time, and those who have already gained experience in previous (attempted) transactions.

**Transactional attributes**

Previous research on post-transaction consequences of M&A activity has identified the *method of payment* – basically cash, stock, debt, or any combination of these – as a central explanatory factor for acquisition performance, both from the target's and the acquiring firm's shareholders' perspective (Andrade et al., 2001; Weston et al., 2004). One stream of studies has found cash payment to be positively associated with post-acquisition performance (Asquith, 1983; Travlos, 1987). Two theoretical arguments have been advanced to explain this phenomenon (for a concise overview, see Yook, 2003). The first bases on signaling theory, and information asymmetries in the market. Choice of payment method then conveys information about the acquiring firm's "true" value. While overvalued acquirers would benefit more from a stock-financed transaction – hence, would rather choose stock as the predominant means of payment – a cash offer would signal an undervalued acquirer. Hence, acquirers are expected to use cash if they believe their assessment of the acquisition's synergistic value to exceed the market's assessment. Therefore, cash offers are viewed to be more likely to be motivated by economic rationales, whereas stock-financed acquisitions, in contrast, are suspected to be driven rather by managerial motivations.

The second theory focuses on the benefit of debt, based on the disciplining effect of the debt incurred in the process of raising the cash needed for a cash acquisition. This debt disciplines the management of the acquirer (and the new entity) by means of the threat of illiquidity and bankruptcy. It also reduces the agency costs associated with free cash flow by decreasing the available cash. While recent, more fine-tuned empirical research challenges the theoretical reasoning, especially of signaling theory, somewhat (Yook, 2003), the empirical association between positive abnormal returns and cash acquisitions, in general, remains. At the pre-completion stage, we expect this association, based on theoretical arguments as to the quality of the bid, to translate also into a higher completion likelihood of cash-financed bids. Also, there is a second implication of the choice of payment method for the pre-completion stage. Cash facilitates greatly the assessment of the precise value and hence the attractiveness of a bid as perceived by the target management and shareholders (Wong & O'Sullivan, 2001). Thereby, it reduces the scope for disagreement and conflict during the negotiation process, increasing its likelihood of going through. The argument may be particularly pertinent in the context of the newspaper industry, where acquisitions within the declining industry are likely to be contentious since they invariably involve staff lay-offs. Cash transactions also ease expansionary transactions which occur mainly in the form of diversification into other industries, where value assessment is hampered by the parties' relative lack of familiarity with one another's core business.

As the central ingredients of corporate restructuring, decisions to acquire and merge are inextricably intertwined with decisions to divest (Weston et al., 2004).[3] *Divestitures* have been argued to create value if they improve managerial incentives in response to changes in the firm's environment, possibly reflecting a strategy shift, thereby enhancing the efficiency of operations. Also, they may create value by revealing information to shareholders. Empirical evidence supports these ideas (Mulherin & Boone, 2000), in particular related to the efficiency theory of divestitures (Hulburt, Miles & Woolridge, 2002). As regards the effect of accompanying divestitures on post-acquisition performance, conceptual arguments suggest a positive influence, because such transactions should be motivated with greater likelihood by economic rationales rather than managerial motives. However, as regards the pre-completion stage, an accompanying divestiture implies that the M&A is at least partly a substitution of one part of the firm for another. As such, it is inherently more complex, aggravating the valuation problem. This creates more scope for conflict and disagreement. Consequently, we expect transactions involving divestitures to be more susceptible to abandonment.

*Acquisition attitude*, which can range from friendly to hostile, represents another important property of a transaction. Friendly acquisitions are deals that are negotiated with the target's management to meet certain legal and technical requirements, while hostile bids involve an offer directly to the target's shareholders to sell their shares at a specified price without the target's board of directors' approval (Weston et al., 2004). Usually, hostile acquisitions are characterized as unsolicited bids that involve aggressive public rejection by the target's management (Davis & Stout, 1992; Andrade et al., 2001). As a result, target firms often use elaborate defensive measures, such as poison pills or white knights. In hostile bids, public communication plays a

[3] A conglomerate firm which desires to pursue a particular acquisition can also be forced to divest parts in order to comply with regulatory requirements. We discuss this aspect of divestitures in the section below on "Industry Perspectives and Regulatory climate".

predominant role. This has led some researchers to argue that the role publicity plays as part of the bargaining process, is what really distinguishes hostile from friendly transactions (Schwert, 2000). In this view, perception of hostility is closely linked to a "negotiation process" carried out in the open public space, while the notion of friendliness emerges from a bargaining process that predominantly takes place behind closed doors. A deal may initially start as a hostile – i.e., as a resisted move – but will ultimately come across as friendly, if its public announcement follows a confidentially negotiated settlement. While in reality, most acquisitions are located somewhere on the continuum between these two polar cases, the conceptual distinction, nevertheless, has serious implications for the practical assessment and conduct of acquisition processes. First, once a negotiation has been carried into the public space, parties can never fully return into the private confidential arena. Second, pre-deal handling – that is, the processes of deal preparation, bid communication, and negotiating – differ substantially among the two types. Third, the most relevant counterparts that the acquirer needs to get to agree on the deal, differ fundamentally.

Generally, based on these characteristics of hostile and friendly M&As, we can expect transactions that are perceived as friendly by the public to have a greater likelihood of getting completed: whatever the announcement-preceding discussions behind closed doors might have been, after their announcement such deals should be less prone to meet resistance on the part of the target management (Wong & O'Sullivan, 2001). Hostile bids sometimes evolve out of negotiations that started out friendly, but ended in disagreement. They are more likely to meet managerial resistance, which makes it more difficult to complete the transaction, also raising the associated costs. Overall, this should reduce the likelihood of completion (Holl & Kyriazis, 1996).

Finally, the degree of control that an acquirer seeks could impact on a deal's completion likelihood.[4] The *percentage of ownership sought* is likely to confer information about the extent to which strategic or purely financial interests are pursued. Correspondingly, higher ownership

[4] The degree of control a would-be acquirer seeks to gain affects also the considerations of regulatory bodies on whether to permit or block the transaction. We discuss this aspect of the percentage sought in the section below on "Industry Perspectives and Regulatory climate".

percentages sought by the acquirer usually imply greater strategic importance of the deal, involving higher-ranking management as decision-makers. On the one hand, since strategic acquisitions are less substitutable – fit of corporate culture, business model, political stance of a newspaper and the like matter more – than are primarily financially motivated transactions, they might be pursued with more vigour, increasing their completion chances. On the other hand, the legal requirements and involvement of antitrust authorities differ depending on the percentage of ownership that is about to be transferred. This would suggest that the higher the degree of control a firm seeks to acquire, the less likely it is that the deal will be completed.

**Industry perspectives and Regulatory Climate**

The *relatedness* of industries has been shown to constitute an important factor in determining the (post-acquisition) performance of M&A endeavors (Healey, Palepu & Ruback, 1992). Higher degrees of relatedness have mostly, though not unambiguously, been found to be associated with better performance (Maquieira, Megginson & Nail, 1998; while Peltier (2004) fails to find support for this notion in the media industries). The underlying theoretical reasoning builds on the idea of operating synergies in overlapping businesses – for instance, due to economies of scale and scope (Besanko et al., 2004), which can arise from the multiple utilization of content, cross-product promotions and umbrella branding, "bulk purchasing" of input goods (such as paper) and services (e.g., from advertising agencies), and high first-copy costs from collecting and organizaing editorial and advertising copy, as well as preparaing the printing mechanisms (Boone, Carroll & van Witteloostuijn, 2002; van Kranenburg, 2002). Windowing and versioning strategies play a decisive role in media industries in general (Chan-Olmsted & Chang, 2003; Shapiro & Varian, 1998). Relatedness arises on the demand side as well: Mass media have been characterized as a zero-sum-game (Greco, 1999). As the total number of hours Americans allocated for media usage remained relatively stable over, for instance, the time period 1989-1994 (1989: 3,278 hours/year; 1994: 3,402 hours/year; U.S. Department of Commerce, Bureau of Commerce, 1997), increased usage of one medium, such as the Internet, could only come at the expense of other media (Waldfogl, 2002; Greco, 1999).

The notion of "relatedness" was originally developed by Rumelt (1982) in order to measure the extent of diversification of firms, and is usually assessed on the basis of SIC codes (Weston et al., 2004). Acquisitions within the newspaper industry (SIC 2711) correspond to horizontal expansions in Rumelt's terminology of diversification relatedness, while acquisitions across industry borders (involving firms with their core in different industries) cover both related and unrelated diversification moves (Rumelt, 1982). These categories can be linked to the role distinction proposed by Andrade and Stafford (2004) between *expansionary and contractionary mergers*. They argue that expansionary merger activities are more akin to internal investments in that they increase a firm's and industry's asset base. Contractionary M&As, in contrast, reduce the capital stock of an industry and "allow firms to remove duplicate functions and rationalize operations" (Andrade & Stafford, 2004: 2). Consequently, intra-industry M&As are more likely to primarily perform a contractionary role, especially in declining industries such as the newspaper industry. Under such circumstances, M&A activity is associated with downsizing and consolidation. A merger may then enable two newspaper firms to eliminate unneeded capacity and operate more efficiently. M&A activity that leads to diversification primarily performs an expansionary role. Such transactions allow firms to add dissimilar capital and knowledge, and to increase their base of operations.

We argue that both the degree of relatedness by itself and the role (contractionary or expansionary) that a transaction performs, influence the likelihood that it gets completed. First, we address the degree of relatedness. On the one hand, lower degrees of relatedness imply that the partners involved in the transaction are less familiar with the industry-specific shared concepts of business conduct (Spender, 1987) relevant in each other's primary area of business. This increases the likelihood of discovering a misfit at later stages of the pre-deal phase. On the other hand, higher degees of relatedness imply nearly always that the transaction involves the acquisition of stakes in a (previous) direct competitor. Given the evidence on individuals' identification with a group such as their own organization (Kogut & Zander 1996) in opposition to a rivaling group, such as a competitor, this poses particular challenges that may decrease the likelihood of completion. Also, horizontal acquisitions may be subject to closer antitrust scrutiny, which might reduce completion chances.

Second, we consider the different roles of M&As according to Andrade and Stafford's (2004) dichotomy as well. Due to their very role, contractionary acquisitions are likely to be more conflict-ridden than expansionary M&As, which are often driven by long-term visions. In order to remove duplication and achieve rationalization, contractionary acquisitions usually involve deployment of staff, which has been shown to be a major reason for conflict in merger negotiations, and hence a prime cause of abandonment (Pickering, 1983). In addition, previous research has found members of one organization to frequently attempt to dominate members of the other organization (Leroy & Ramanantsoa, 1997). This may be particularly likely in contractionary M&As, where domination is more essential to confine the deployment of resources as much as possible to the other organization, forming an additional source of conflict.

Finally, industry-level analysis has shown M&A activity to occur in waves with each of these waves mainly being driven by a surge of M&A activity in a few industries. Industry-specific, economic and technological exogenous shocks have been identified as central triggers of these surges (Mitchell & Mulherin, 1996; Harford, 2005). For the information industries, the 1996 Telecommunications Act clearly constituted such a shock, at least in popular perception since its effectiveness in deregulating the industry is a matter of debate and some authors have argued that it was rather the result than the cause of change (Noam, 1996, 2001). In any case, M&A activity in telecommunications and related industries soared in the late 1990s. Here, we analyze whether this shock also stimulated M&A activity involving newspaper firms, and, if so, whether it induced a different sort of M&As in terms of its completion probability.

Last but not least, *regulatory considerations* have traditionally played an important part in determining the outcome of acquisition and merger processes in the media, especially due to their role in providing information and as open platforms for articulating diverse views and for securing freedom of speech. As such, plurality of independent media outlets has been argued to constitute an important ingredient of social and political discourse in modern democratic societies. Not surprisingly, the surge of media M&As especially since the 1990s has provoked concerns that growing concentration of ownership of media companies might harm 'free voice' and freedom of the press (e.g., Bagdikian, 2000, 2004), resulting even in individual citizens sending messages to the Federal Communications Commission (Blethen, 2004). In addition, cross-border M&As still represent a highly sensitive topic in many countries, especially outside the U.S.. The recent case in which an international consortium consisting of U.K.-based Mecom and U.S. private equity house Veronis Suhler Stevenson acquired the German media company Berliner Verlag, illustrates this vividly: while there are no legal barriers to foreign ownership, this is nevertheless the first time, that a foreign company has come to own a German newspaper (Milmo, 2005). As a result, it has been argued that certain domains of the media industries, and in particular the newspaper industry, are local or regional rather than national markets and can certainly not be considered a coherent international market arena (see e.g., Chambers, 2003). While appropriate geographic definitions of relevant markets are still a matter of debate (Noam & Freeman, 1998; Lacy & Davenport, 1994), recent trends have been towards bundled corporate ownership including the emergence of big national and even global media conglomerates (Chan-Olmsted & Chang, 2003). In some instances, foreign acquirers without previous stakes in other media may even face fewer regulatory obstacles than national acquirers, when antitrust authorities adopt a narrow approach in defining the relevant market, especially in geographic terms.

In this study, we capture these complex issues of regulatory considerations with two contiguous characteristics of attempted M&As - ,the degree of control the prospective acquirer seeks to gain, and whether the M&A involves a divestiture. First, the degree of control, reflected in the *percentage sought*, that a would-be acquirer seeks to gain affects antitrust considerations and the stance taken by regulatory bodies on whether to permit or block the transaction. Acquisitions involving larger ownership stakes and would transfer higher degrees of control are subject to closer regulatory scrutiny and are more likely to be blocked. Second, a conglomerate firm which seeks to acquire assets of particular other firms can also be forced to *divest* parts of the current conglomerate in order to comply with regulatory requirements. Failure to divest the required parts then may result in antitrust authorities blocking the deal. Examples abound, in the U.S.A as well in Europe. In January 2006, for example, the German Federal Cartel Office (FCO) blocked the merger between media conglomerates Axel Springer AG and Pro Sieben Sat.1 Media AG. Axel Springer AG had refused to sell either their influential daily newspaper "Bild", or one of the two main TV channels of Pro Sieben Sat.1 Media AG after a possible merger (Frankfurter Allgemeine Zeitung, 2006). From a regulatory perspective, we argue that a transaction process that is accompanied by a divestiture is more likely completed. The divestiture may represent a regulatory requirement, and compliance would ease regulatory concerns and facilitate obtaining permission for the deal. However, from a purely transaction-level viewpoint, divestitures may reduce a focal transaction's completion likelihood since they make the transaction inherently more complex. To determine which of these counteracting factors prevail remains to be empirically determined.

## METHOD

### Data and sample

Our data are derived from the Thomson Financial Securities Data's Worldwide Mergers & Acquisitions database (henceforth Thomson). Thomson collects data on M&As world-wide from many sources – English and foreign language news media, filings at the Securities and Exchange Commission and its international counterparts, and trade publications (see Pryor (2001) for a survey of the Thomson data). We focus on the 1980s and 1990s, and study M&As (a) in which at least one of the firms involved in the transaction was in the international newspaper industry (SIC 2711) and (b) which were announced between March 3 1981 and December 31 2000.[5] This yielded 3,615 M&A announcements of which 2,632 (72.8 %) were later publicly declared as completed. The remaining transactions were announced, but never consummated. In addition to the information on announcement and completion, Thomson provides some background information about the firms, as well as some financial information pertaining to the deal if known (often, such information is not made public and is therefore also not available in the Thomson database). For simplicity, we refer to the larger partner in the transaction as the acquirer and the smaller one as the target, but the distinction between a merger and an acquisition is not always clear-cut. In some analyses (Models 4 to 7: see below), we distinguish between M&As involving (1) two firms from the newspaper industry (SIC 2711), (2) a newspaper firm and a firm from printing and publishing generally (SIC 27), (3) a newspaper firm and a firm from communications (SIC 48), and (4) a newspaper firm and a firm from data-processing services (SIC 737).

**Measures**

***Dependent variable.*** Our dependent variable captures early-stage performance in M&As. A comprehensive measure would ideally stretch from a would-be acquirer's first considerations on undertaking an acquisition through the target selection and negotiation phase, to the completed deal – or abandonment. Such processes can take years, as illustrated, for example, by the proxy statement for WorldCom's acquisition of MCI, which traces the background of the merger back to 1994 (Weston et al., 2004). However, information, especially on the earlier stages of the acquisition processes prior to the public announcement, is usually impossible to obtain for a researcher, unless a case study approach is adopted. In addition, we would expect later stages of the process that involve some degree of publicity to be more relevant with respect to reputation

[5] Although Thomson began collecting data in the early 1980s, the company is confident of the completeness of the data only after 1990; M&A transactions in the 1980s should be treated more as a sample than as a complete record of all M&A transactions (Pryor, 2001).

consequences. Hence, we use the date of public announcement of the M&A (as reported in Thomson) as marking the beginning of the process stage under scrutiny here. We take the completion date of the M&A (as reported in Thomson) as a proxy for its consummation. Consequently, we adopt a simple, unambiguous proxy for performance during that part of the pre-acquisition process that spans from announcement to completion/abandonment: *M&A completion* (cf. Hotchkiss, Qian & Song, 2005). It is a dummy variable with value 1 if the (announced) M&A is completed, and 0 if it is not.[6]

***Independent variables***. In constructing our independent variables, we draw largely on the literature on post-acquisition performance of M&As (see also above). We first explain those variables that relate to *characteristics of the involved firms*. *Public status* is an indicator for whether (1) or not (0) a firm is publicly owned, which is recorded for both partners in the M&A transaction. *Target subsidiary* indicates whether the smaller partner in the transaction is a subsidiary of a larger corporate entity (1) or not (0). The dummy *Inexperienced acquirer* takes on a value of 1 if the M&A is the first attempted one for the acquirer during the sample period, and is 0 otherwise.[7]

We now turn to those independent variables that capture *characteristics of the particular transaction*, and partly also reflect some coarse measures of regulatory influences. The first independent variable related to transaction attributes is acquisition attitude, which can range from friendly to hostile. We resort to a conservative classification based on how a deal was reported in Thomson, which is how it was represented to the public by the firm or represented by the media. Our dummy *Transaction attitude "friendly"* is coded as 1 if a transaction was publicly presented as friendly, and 0 otherwise. Acquisitions can generally be paid for in cash, stock, debt or some combination of the three (Weston et al., 2004). For method of payment, we include a dummy *Primarily cash transaction*, which is 1 if the predominant mode of payment used in the transaction was cash (as opposed to stock-financed methods). Next, *Divestiture involved* is an indicator that is 1

[6] Mergers whose status is recorded as intent withdrawn, withdrawn or rumored (but not completed) make up the abandoned category.
[7] There is a small chance that the firm we take to be a 'one-timer' has actually attempted other transactions before the start of our sample period, but this is unlikely since our sample period spans the 1981-2000 period.

if the acquirer engaged in a divestiture to facilitate the focal M&A event and *Percentage sought* is a variable giving the percentage stake sought by the acquirer in the target firm when the M&A was initiated. These two factors partly capture the degree of regulatory scrutiny that a deal is subjected to. In addition, we define two locational dummies, *Acquirer U.S.A* (*Target U.S.A)*, which is 1 if the acquirer (target) is located in the U.S.A., and 0 otherwise

Finally, we measure aggregate *industry-level events or features* which partly relate to the regulatory climate. First, we include an index for the degree of (world) globalization. We use the CSGR globalization index, or *World globalization index*, which measures the economic, social and political dimensions of globalization on an annual basis over the period from 1981 to 2000 (Lockwood & Redoano, 2005). We expect periods of intensified globalization to be characterized by greater flux and competition, making an M&A attempt less likely to go through. Second, we define a *Post-1995 indicator*, since this period represents a structural shift following the Telecommunications Act of 1996 (Chambers, 2003; Tseng & Litman, 1998). Given the increased volume of M&A activity in the post-1995 period, and increased scrutiny by regulatory authorities, we expect that M&As in this period to be less likely to be consummated than those initiated in the period before. Lastly, we define an indicator *Intra-industry (newspaper)* for M&A transactions within the newspaper industry (i.e. both acquirer and target are from within the newspaper industry). We expect that such transactions are probably contractionary, being related to the declining nature of the industry. We conjecture that such transactions are more likely to be abandoned as they are motivated by economic distress, and also because they are susceptible to attract close regulatory attention particularly when the transaction is evaluated within the confines of a narrowly defined relevant (geographic) market.

**Statistical methods**

In addition to presenting descriptive statistics that capture patterns of M&A activity in the newspaper industry, we estimated a binary logistic regression model with *M&A completion* as the dependent variable, to test for the effects of our independent variables on the likelihood that an M&A deal is either completed or abandoned. The binary logistic model can be expressed as:

$$P(Y) = 1/(1+e^{-Z}),$$

where $Y$ is the dependent ***M&A completion*** variable, and $Z$ is a linear combination of the independent variables and coefficients to be estimated. That is,

$$Z = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \ldots \beta_n X_n, + \varepsilon,$$

where $\beta$ is the intercept, $\beta_1 \ldots \beta_n$ are the regression coefficients, $X_1 \ldots X_n$ denote the independent variables, and $\varepsilon$ is the error term. The null hypothesis that all coefficients ($\beta$s) except $\beta_0$ are zero was tested with the model chi-square statistical test[8]. We estimated seven models, in total. Models 1 to 3 relate to the overall sample, with all M&As included that involve at least one firm from the newspaper industry. In Model 1, only firm-specific variables are taken on board, whereas Model 2 only has the transaction-cost variables included. Model 3 is the full specification, with all variables added. With Models 4 to 7, we ran the full specification for the subsamples of M&As among newspaper firms only (Model 4), and between newspaper firms and counterparts from the printing and publishing industry (Model 5), communications industry (Model 6), and data-processing services industry (Model 7).

## RESULTS AND DISCUSSION

### Descriptives on completing M&A deals in the newspaper industry

Overall, the M&A activity pattern involving the newspaper industry is characterized by a steady rise in the number of transactions, both announced and completed, with a sharp peak for 1995 (a year prior to the Telecommunications Act in the United States) when 365 M&As were announced. Figure 1 presents the annual number of M&As that were announced and later completed within our observation window. Interestingly, in 1995, only 246 of the attempted

[8] Although we report Nagelkerke $R^2$ values, it should be noted that they are consistently low due the unusually large sample sizes used in this study. Although asymptotically independent of sample size (Nagelkerke, 1991), it is in practice sensitive to sample size since it is equal to 1-exp($LR/N$), where $LR$ is the likelihood ratio chi-square for the model and $N$ is the number of observations.

M&As were later completed (a completion rate of 67.39 %), which is lower than the average completion rate for the entire 1981-2000 period (which was 71.97 %).

[INSERT FIGURE 1 ABOUT HERE]

In terms of M&A activity and its relation to industry structure, the 3,615 M&A transactions under study are attempted by a total of 1,215 firms. Of these 1,215 firms, 982 are able to consummate at least one M&A deal. Past experience appears to help: Firms that have completed more than one M&A deal have subsequently, on average, a higher success rate; the average completion rate for multiple transaction firms is 77 per cent. The newspaper industry, at least in terms of M&A activity, indicates a rather skewed picture. There are a few large players who attempt and complete many M&A transactions, but there are also a number of smaller players in terms of M&A activity. Hence, our data contain a significant number of inexperienced firms which attempt only one M&A deal during this 1981-2000 period. In fact, 63.5 per cent of the firms who initiated M&A transactions in the 1981-2000 period did so for the first time. Such firms appear to do reasonably well in completing the single M&A they attempt and the average completion rate for this group is 72.15 per cent.

Table 1 displays the top-10 players in the newspaper industry in terms of M&A activity (announcements and completions), and Tables 2a and 2b list the top-10 target and acquirer industries, respectively. We note that the firms in the top-10 group are quite similar to one another in terms of attempts and completion of M&A transactions.

[INSERT TABLES 1, 2A AND 2B ABOUT HERE]

In terms of the industrial composition of M&As in the newspaper industry, we find that newspaper firms interact intensively with firms not only in related industries in the parent sub-classification of printing and publishing, but also in related media industries such as radio and cable. Whether or not a firm is classified as an acquirer or target does not have an impact on the industrial classification of partner firms – newspaper firms are sometimes acquired by firms in related industries and, in other cases, they acquire firms in related industries. Although the distinction between mergers and acquisitions is not always clear-cut, we find that the majority of M&As (1768; 48.90 %) occur when a newspaper acquirer targets a firm outside the newspaper industry. In 1,430 of the cases (39.55 %), M&As occur between two firms that are both from within the newspaper industry. There are only 417 (11.54 %) instances of M&As where a newspaper firm is targeted by a firm from outside the newspaper industry, suggesting that the newspaper industry is not as attractive a target.

[INSERT TABLE 3 ABOUT HERE]

**Factors influencing M&A completion likelihood**

Before estimating our logistic regression models, we conducted a standard correlation analysis the results of which are presented in Table 3.

[INSERT TABLES 4A AND 4B ABOUT HERE]

Examining the results presented in Tables 4a and 4b, we find that the public status of the acquirer has little effect on the completion likelihood. Transactions in which target firms are publicly owned, however, are significantly more difficult to complete. This is not surprising as publicly owned firms are, in most cases, likely to be larger than privately owned firms. However, this finding is not robust across different subsamples. Public status of the target is important for M&As within the printing and publishing industry, but less so when newspaper firms are involved in M&A deals with firms from the communications (48) and data-processing services (73) industries. We find that whether or not the target firm was a subsidiary of a larger corporate identity does not appear, in most cases, to influence the probability that an M&A deal is completed. In the case of deals between newspaper companies and other firms in the printing and publishing industry, this factor is significant with the expected (negative) sign, but the magnitude of the effect is small relative to that of other variables.[9] In the case of the overall sample, we find that deals within the newspaper industry are somewhat less likely to go through

[9] The magnitude of the effects can be found by calculating the log-odds. Details are available from the authors upon request.

than deals in which one of the firms involved is from outside the newspaper industry. This is likely to be due, in part, to surveillance by anti-trust authorities, which is usually much more stringent in the case of intra-industry transactions *vis-à-vis* inter-industry ones. It may also partly reflect the inherent difficulties of a contentious contractionary transaction.

In contrast to what we found in the descriptives, in the presence of other covariates, being an inexperienced firm in terms of M&A activity does not affect the completion probability. That is, inexperienced firms are no less likely to complete an M&A transaction in the newspaper industry than more experienced firms. We find that U.S. residence makes little difference in completion either, despite the fact that the U.S. have the most developed market for corporate control. Also, there was deregulation in U.S. market in the form of the 1996 Telecommunications Act. While this may have stimulated M&A activity in the information industries, it does not seem to have altered the administrative and legal processes surrounding M&As with newspaper firms enough to affect their completion likelihood, overall. This is corroborated by the lack of significance of our post-1995 period dummy. The exception are M&As between newspaper firms and partners in the directly affected communications industry (SIC code 48). For these transactions, we find a weak period effect in that these transactions were more likely to have been terminated in the pre-completion process. This may have been due to increased regulatory scrutiny after 1996, combined with high expectations on the potential benefits of M&A deals – for instance, in the areas of multiple utilization of content and cross-product promotions – that may have turned out to be unrealistic.

We find that whether or not the acquirer engaged in a divestiture does not have as strong an effect as we hypothesized. It is not consistently significant across different specifications. It is likely that the two effects, one of making a deal more likely to go through by easing regulatory roadblocks and the other of making a deal less likely to go through because it makes the transaction more involved and complex may counteract each resulting in a neutral outcome. However, it is marginally significant and positive for transactions between newspaper firms and firms within the broader printing and publishing industry (SIC 27). This might indicate that it is economic incentives that drive these transactions, rather than managerial motives or the hype surrounding diversification into new digital media. On the other hand, regulatory issues are likely to play their part in this result as well. This group of M&As involve parties from closely related industries which are, hence, likely to fall into the same relevant market as defined by antitrust authorities. Firms may then engage in a divestiture to obtain regulatory approval which smooths out the last obstacles to getting the deal through. Note that for transactions involving newspaper firms only, we do not find such an effect of divestitures. We speculate that this most likely reflects the fact that we observe many transactions within this sub-sample between small players with a limited number of subsidiaries at best. Hence they are less likely to be required to shed some of them in a new acquisition. Also, to the extent that such an acquirer firm is a local or regional rather than a national or global player, its attempt to acquire stakes in a firm in a geographically distant market is much less likely to call regulatory authorities onto stage which could stipulate compulsory divestitures.

Transactions that are paid for primarily in cash are significantly more likely to be completed. This effect is robust across all our specifications and sub-sample analyses. In fact, for the overall sample, a transaction funded primarily through cash payments has twice the odds of being completed relative to other transactions. This doubling of odds holds also for the sub-samples in models 4, 5 and 6. Interestingly, the effect is considerably stronger when newspaper and data-processing services firms attempt an M&A transaction; in this case, a predominantly cash payment even triples the odds of completion (Model 7). Overall, this supports the notion that cash offers are more likely to be motivated by economic rationales rather than managerial motivations. Moreover, the dependence of the effect's magnitude on relatedness between the partners' core industries points towards the relevance of signaling theory for M&As in information industries. The less related the industries – that is, the further apart the two core business arenas – the larger the information asymmetry a target experiences in assessing the potential acquirer's value. This heightens the relevance of the method of payment to convey information about the would-be acquirers "true" value. "Good" (undervalued) acquirers will recognize this, hence offer cash, and experience a higher likelihood of getting their deal through.

The percentage sought by the acquirer in the target has a consistently negative effect on the completion likelihood. This effect, which is in line with our expectations, is significant for all but one sub-sample. Inherent complexities of transactions that would confer substantial control, as well as regulatory considerations explain this result. The only exception is the sub-sample that comprises transactions between firms from the newspaper industry and those in the data-processing services industry (SIC 73). Here, the negative effect of a higher sought after percentage of ownership is not significant. While the smaller number of observations for this type of inter-industry M&As in our dataset, may play a part, regulatory concerns are also less likely to prevent such a deal from getting through, given the larger distance between the involved firms in terms of relevant markets.

Finally, whether or not a transaction is friendly has a strong positive and significant effect on the probability that an M&A is completed in the overall sample. It is also significant among deals within the newspaper industry, as well as in the broader context of the printing and publishing industry (SIC 27). However, when newspaper firms initiate M&A deals with communications or data-processing services firms, the attitude of the transaction does not seem to matter. This may partly be due to the heterogenous nature of such transactions and also due to different roles of the deals. The within-industry transactions in the first two sub-samples (SIC 2711; SIC 2711 and 27) are more likely to perform contractionary roles in consolidating these as yet paper-based industries. Hence, as explained in our theory section, they are prone to be contentious, but at the same time driven by the acquirer's and target's awareness of the necessity of joining forces to stay competitive. So, mutual agreement in a deal that is ultimately handled or portrayed as handled in a "friendly" way, may be what maximizes completion chances. In contrast, M&As involving firms from the newspaper industry, and from communications or data-processing services, are more likely to perform an expansionary role, and to be driven by visions about the future shape and direction of the media industries, rather than immediate economic necessities. Under such circumstances, acquirers may be more willing to risk failure by pursuing a hostile route, rather than compromise on their vision just to close the deal in a friendly manner.

Finally, in the presence of firm and transaction-related variables, the world globalization index seems to have only a weak negative effect, suggesting that it may be a too aggregate and diffuse a measure to influence the completion probability of an M&A in specific industries such as the ones under study here. Indeed, in our sub-sample regressions, this index only turns out to be significantly negative in the newspaper-only estimation. Apparently, globalization depresses the completion likelihood of intra-industry M&As in this industry only, perhaps because takeover bids from other industries drive out further consolidation M&As in this "old" industry.

## CONCLUSION, LIMITATIONS AND DIRECTIONS FOR FUTURE RESEARCH

Overall, although some firm-specific variables are significant, it is the factors related to the focal *transaction* and *regulatory influences* that are relatively more important in determining whether or not an M&A deal involving at least one newspaper firm is completed. Firstly and not surprisingly, whether or not the attitude of the transaction is friendly has an influence on is the completion likelihood. Secondly, the method of payment is another important factor in seeing a deal to completion. Deals paid for predominantly in cash are more likely to go through. Thirdly, complex and large deals, subject to close regulatory scrutiny, as captured by the magnitude of the percentage sought by the acquirer in the target firm, are more prone to derailment. Paper-based information industries (SIC 2711 and SIC 27) exhibit similar patterns regarding the factors that affect the completion of an M&A deal. Deals among newspaper firms and those between newspaper firms and firms in the broader context of printing and publishing firms are similar. For transactions between newspaper firms and firms in communications or data-processing services, we find evidence that, again, points to the importance of deal characteristics (e.g., a positive, significant effect of cash as method of payment), and of regulatory considerations, as reflected by the non-significant effects of accompanying divestitures and the percentage sought in acquisition – in contrast to the findings for our other sub-samples.

Our study, which is the first to study this aspect of M&A processes for the newspaper industry, exhibits several limitations, which at the same time offer fruitful opportunities for future research. To start with, while conceptual arguments and anecdotal evidence suggest that the pre-completion stage of M&As represents an important element in determining firm efficiency overall, it would be desirable to obtain more systematic evidence of the underlying mechanisms. Further, while we included a coarse measure to distinguish between 'novice' acquirers and experienced firms, the impact of a firm's previous M&A experience history is a complex matter (e.g., Hayward, 2002), which calls for more in-depth investigations. Finally, the sample size for some of our sub-samples, such as those of transactions of a newspaper firm with counterparts from the communications industry (SIC 48) or the data-processing services industry (SIC 73), are small compared to the large sample size of within-industry transactions, whether this industry was narrowly or broadly defined. In view of the current further trend in the information industries towards convergence, much larger sub-samples for these categories of transactions should become available in the future. A re-investigation of the patterns found in this study are likely to yield stronger results for these types of transactions.

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**Figure 1.**
**Number of M&As announced and completed between 1981-2000**

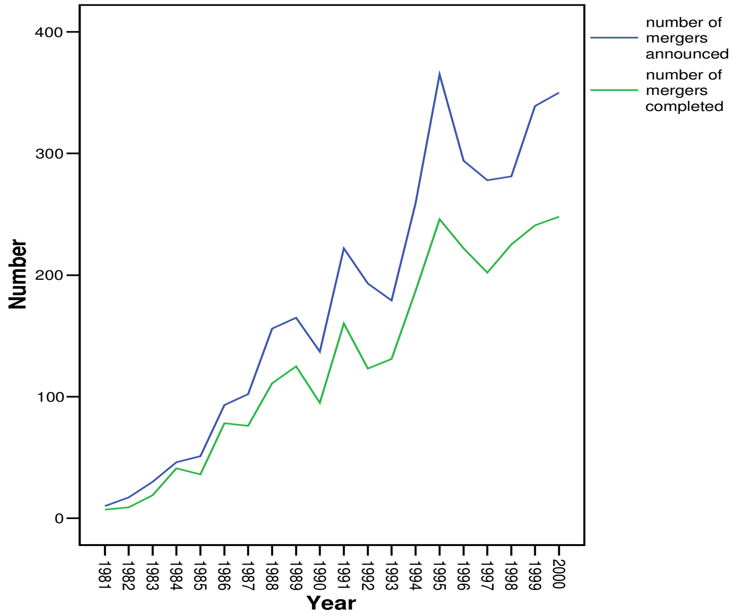


**Table 1.**
**Top-10 acquirers by attempted and completed M&As in the newspaper industry, 1981-2000**

| | Name of acquirer | Number of attempted M&As | Name of acquirer | Number of completed M&As |
|---|---|---|---|---|
| 1. | Wolters Kluwer NV | 101 | Wolters Kluwer NV | 87 |
| 2. | EMAP PLC | 83 | EMAP PLC | 70 |
| 3. | Bertelsmann AG | 78 | Bertelsmann AG | 56 |
| 4. | News Corp Ltd | 66 | Verenigd Bezit VNU | 43 |
| 5. | Verenigd Bezit VNU | 61 | Tribune Co | 41 |
| 6. | Tribune Co | 54 | News Corp Ltd | 39 |
| 7. | Gannett Co Inc | 52 | Gannett Co Inc | 37 |
| 8. | Times Mirror Co | 42 | Thomson Corp | 33 |
| 9. | Pearson PLC | 40 | Times Mirror Co | 26 |
| 10. | Thomson Corp. | 38 | Dow Jones & Co Inc | 25 |

**Table 2a.**
**Top-10 target industries (outside newspapers) with newspaper firms as acquirers, 1981-2000**

| | Industry (SIC code) | Number of M&As attempted | Number of M&As completed |
|---|---|---|---|
| 1. | Periodicals: Publishing, or Publishing and Printing (2721) | 404 | 323 (79.95%) |
| 2. | Books: Publishing, or Publishing and Printing (2731) | 226 | 183 (80.97% |
| 3. | Television Broadcasting Stations (4833) | 152 | 106 (69.74%) |
| 4. | Data-Processing Services (Information-Retrieval Services) (7375) | 117 | 87 (74.36%) |
| 5. | Radio Broadcasting Stations (4832) | 99 | 71 (71.71%) |
| 6. | Miscellaneous Publishing (2741) | 67 | 53 (79.10%) |
| 7. | Services Prepackaged Software (7372) | 52 | 46 (88.46%) |
| 8. | Data-Processing Services not elsewhere classified (7389) | 44 | 38 (88.36%) |
| 9. | Cable and other Pay Television Services (4841) | 43 | 27 (62.79%) |
| 10. | Holding and other Investment Offices (6799) | 30 | 27 (90%) |

**Table 2b.**
**Top-10 acquirer industries (outside newspapers) with newspaper firms as targets, 1981-2000**

| | Industry (SIC code) | Number of M&As attempted | Number of M&As completed |
|---|---|---|---|
| 1. | Periodicals: Publishing, or Publishing and Printing (2721) | 126 | 91 (72.22%) |
| 2. | Books: Publishing, or Publishing and Printing (2731) | 91 | 79 (86.81%) |
| 3. | Television Broadcasting Stations (4833) | 38 | 28 (73.68%) |
| 4. | Related Printing (2752) | 32 | 25 (78.13%) |
| 5. | Miscellaneous Publishing (2741) | 29 | 21 (84%) |
| 6. | Radio Broadcasting Stations (4832) | 22 | 18 (81.81%) |
| 7. | Cable and other Pay Television Services (4841) | 12 | 9 (75%) |
| 8. | Data-Processing Services not elsewhere classified (7375) | 12 | 9 (75%) |
| 9. | Telephone Communications (No Radiotelephone) (4813) | 11 | 10 (90.90%) |
| 10. | Services – Motion Picture & Video Tape Production (7812) | 7 | 4 (57.14%) |

**Table 3: Descriptive Statistics and Bivariate Correlations**

| Variables[n] | Mean | s.d. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1.M&A completion | 0.73 | 0.45 | | | | | | | | | | | | | |
| 2. Public Status Acquiror | 0.64 | 0.48 | -.06** | | | | | | | | | | | | |
| 3. Public status target | 0.15 | 0.36 | -0.09** | 0.19** | | | | | | | | | | | |
| 4. Target subsidiary | 0.36 | 0.48 | -0.03 | -0.08** | -0.33** | | | | | | | | | | |
| 5. Acquiror USA | 0.29 | 0.45 | -0.002 | 0.014 | 0.03** | 0.09** | | | | | | | | | |
| 6. Target USA | 0.33 | 0.47 | -0.009 | 0.06** | 0.02** | 0.1** | 0.82** | | | | | | | | |
| 7. Inexperienced Acquiror | 0.30 | 0.46 | 0.023 | -0.44** | -0.1** | 0.07** | -0.005 | -0.04* | | | | | | | |
| 8. Transaction Attitude Friendly | 0.88 | 0.33 | 0.165** | -0.14** | -0.47** | -0.18** | -0.03* | -0.02 | 0.08** | | | | | | |
| 9. Primarily Cash Transaction | 0.33 | 0.47 | 0.07** | 0.19** | 0.3** | -0.01** | 0.08** | -0.12** | -0.06** | -0.19** | | | | | |
| 10. Divestiture Involved | 0.29 | 0.46 | 0.006 | -0.09** | -0.27** | 0.72** | 0.1** | 0.11** | 0.07** | 0.21** | 0.006 | | | | |
| 11. Percentage Sought | 77.28 | 34.44 | -0.034 | -0.09** | -0.48** | 0.26** | 0.134** | 0.19** | 0.14** | 0.48** | -0.24** | 0.37** | | | |
| 12. Post-1995 indicator | 0.44 | 0.49 | 0.005 | -0.04* | -0.09** | -0.01** | -0.09** | -0.09** | -0.11** | 0.02** | -0.07** | -0.02 | -0.06** | | |
| 13. Intra-industry (newspaper) | 0.40 | 0.49 | -.053** | 0.1** | 0.08** | 0.04* | 0.132** | 0.09** | 0.09** | -0.08** | 0.05** | 0.01 | -0.13** | -0.13** | |
| 14. World globalization index | 0.32 | 0.06 | 0.024 | -0.08** | -0.08** | -0.03* | -0.23** | -0.25** | -0.1** | 0.04* | -0.16** | -0.02 | 0.74** | 0.74** | -0.12** |

** Correlation is significant at the .01 level (two-tailed).
* Correlation is significant at the .05 level (two-tailed).

**Table 4a.**

**Results of logistic regression analysis predicting *M&A completion*: Overall sample**

(dependent variable is 1 if merger was completed, and 0 if abandoned)

| **Variables** | **Model 1 Firm-specific variables only** | **Model 2 Transaction-specific variables only** | **Model 3 All variables** |
|---|---|---|---|
| *Intercept* | 1.267*** (0.104) | 0.326* (0.143) | 1.798*** (0.457) |
| Public status acquirer | -0.163 (0.101) | | -0.214† (0.123) |
| Public status target | -0.631*** (0.114) | | -0.769*** (0.172) |
| Target subsidiary | -0.253** (0.095) | | -0.212 (0.177) |
| Acquirer U.S.A | 0.157 (0.154) | | 0.123 (0.185) |
| Target U.S.A | -0.126 (0.147) | | -0.212 (0.179) |
| Inexperienced acquirer | 0.048 (0.110) | | 0.001 (0.134) |
| Transaction attitude "friendly" | | 1.527*** (0.157) | 1.377*** (0.180) |
| Primarily Cash transaction | | 0.577*** (0.104) | 0.757*** (0.126) |
| Divestiture involved | | -0.198* (0.99) | -0.100 (0.185) |
| Percentage sought | | -0.007*** (0.002) | -0.009*** (0.002) |
| Post-1995 indicator | | | -0.158 (0.153) |
| Intra-industry (newspaper) | | | -0.162 (0.104) |
| World globalization index | | | -2.343† (1.291) |
| Cases in the analysis | 2898 | 3115 | 2443 |
| Overall chi-square | 40.9*** | 123.05*** | 148.95*** |
| -2LL (baseline in parenthesis) | 3375.95 (3416.85) | 3384.99 (3261.93) | 2505.41 (2654.35) |
| Overall % correct | 72.4% | 77.5% | 77.2% |
| Nagelkerke $R^2$ | 0.02 | 0.06 | 0.09 |

† $p < .10$; * $p < .05$; ** $p < .01$; and *** $p < .001$ (standard errors in parentheses).

**Table 4b.**

**Results of logistic regression analysis predicting *M&A completion:* Industry sub-samples**

(dependent variable is 1 if merger was completed, and 0 if abandoned)

| **Variables** | **Model 4 M&As between newspaper firms only** | **Model 5 M&As between newspaper firms and other printing and publishing firms (all within SIC code 27)** | **Model 6 M&As between newspaper firms (SIC 2711) and communications firms (SIC code 48)** | **Model 7 M&As between newspaper firms (SIC 2711) and data-processing services firms (SIC code 73; mainly in information-technology related subcategories** |
|---|---|---|---|---|
| Intercept | 2.301** (0.724) | 2.835** (0.974) | 1.829 (1.387) | 3.017 (2.246) |
| Public status acquirer | -0.284 (0.197) | -0.022 (0.229) | -0.006 (0.382) | -0.003 (0.503) |
| Public status target | -1.060*** (0.298) | -0.759† (0.408) | -0.661 (0.427) | 0.942 (1.092) |
| Target subsidiary | 0.214 (0.286) | -0.996** (0.357) | 0.060 (0.443) | -0.321 (0.558) |
| Acquirer U.S.A | 0.250 (0.365) | 0.261 (0.359) | 0.637 (0.573) | 0.519 (0.649) |
| Target U.S.A | -0.438 (0.370) | -0.252 (0.318) | -0.056 (0.546) | 0.377 (0.564) |
| Inexperienced acquirer | 0.213 (0.213) | -0.133 (0.246) | 0.038 (0.440) | -0.325 (0.527) |
| Transaction attitude “friendly” | 1.561*** (0.319) | 1.245** (0.424) | 0.676 (0.474) | 0.853 (0.695) |
| Primarily cash transaction | 0.779*** (0.204) | 0.951*** (0.271) | 0.824** (0.314) | 1.251* (0.581) |
| Divestiture involved | -0.485 (0.296) | 0.684† (0.366) | -0.537 (0.484) | -0.360 (0.643) |
| Percentage sought | -0.012** (0.004) | -0.20*** (0.005) | -0.010* (0.005) | -0.004 (0.007) |
| Post-1995 indicator | 0.015 (0.236) | 0.135 (0.289) | -0.893† (0.483) | 0.248 (0.705) |
| World globalization index | -4.203* (1.983) | -2.397 (2.522) | -1.044 (3.983) | -6.823 (6.703) |
| Cases in the analysis | 1430 | 1056 | 289 | 216 |
| Overall chi-square | 96.41*** | 45.99*** | 31.41*** | 20.21* |
| -2LL (baseline in parenthesis) | 1006.804 (1103.21) | 689.24 (735.24) | 291.34 (322.75) | 189.72 (209.93) |
| Overall % correct | 76.2% | 80.6% | 74.8% | 81% |
| Nagelkerke $R^2$ | 0.139 | 0.09 | 0.154 | 0.144 |

† $p < .10$; * $p < .05$; ** $p < .01$; and *** $p < .001$ (standard errors in parentheses).