Master's Thesis in Finance
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The Impacts of Conflicting Interests of Investment Banks on Swedish Mergers and Acquisitions

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ABSTRACT

Financial advisors are commonly used by both the buying and the selling side in merger and acquisition activities. Generally, the advisors have significant influence on the outcome of the deals. Previous research on merger and acquisitions on the US market has shown evidence that advisors to the acquirer profit on the deals on which they are advising by having a stock position in the target. This position could either be directly or indirectly through other companies within the same financial conglomerate. Advisor stake in target not only increases the probability of a successful deal and increases the premium paid for the target but also reduces the future viability of the deal at the expense of the acquirer.

We investigate whether the results from the US market are applicable for Sweden by investigating the period 1999-2006 with point estimates. The results deviate considerably from previous studies on the US, indicating that the situation in Sweden is different; a higher premium is being paid when advisor stake exists, however, without reducing the viability of the deal.

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1 INTRODUCTION

In the process of merging two companies or conducting an acquisition (M&A), advisors are commonly used by both the target and the acquirer in a deal. The advisors role is to facilitate the deal by helping its client with economic, legal and practical issues. Usually, the financial advisor is an investment bank. Investment banks have several functions including raising money for clients, giving advice on M&As as well as investment managing. The latter is the same thing as managing funds and other securities on the behalf of clients. This managing function is usually enhanced by a research section that continuously analyzes the market.

In order to prevent conflicts of interests between the advising part and the managing part of the company, the different departments are by regulation and law strictly forbidden to exchange information. This restriction is referred to as the Chinese Walls.[1]

Naturally, it is impossible to prevent all possible kinds of conflicting interests. For example, a holding in the target by a company that belongs to the same conglomerate as the advising firm is not restricted by regulation. Thus, the probability of existing conflicting interests that are not restricted by law could be considerable large.

Furthermore, it is widely known that the corporate ownership structure in Sweden is relatively concentrated to a limited number of families, conglomerates and institutions. With a small population of about nine million people mainly gathered in a few larger cities it is not surprising that communication occurs between different functions in the economy. More importantly, the same small group of acquainted or related people are to a large extent involved in many different settings. These settings include boards, top management and key shareholders. This, needless to say, increases the risk of conflicting interests (Nerep, Interview 2007-11-12).

Being an investment bank, advising in such a corporate structure as the Swedish, might incur several possible conflicting interests. This thesis specifically seeks to investigate the impact of one of these cases, where the advisor, directly or indirectly, has a holding in the target company of a deal in which they are advisor the acquirer. To exemplify, the 4:th of April in 2000, Swedbank acted as financial advisor for Toyoda Automatic Loom Work Ltd, that planned to bid on BT Industries. Robur, the investment fund part of Swedbank, had a 7,2% equity holding in BT Industries. Given that the M&A department of Swedbank acted independent from Robur, the holding in BT Industries should to no extent influence the outcome of the planned acquisition. However, if there were significant conflicts of interests for Swedbank, it could be that Swedbank to some extent acted in favour of Robur, for example suggested a higher bid price than necessary, at the expense of the acquirer.

Since we seek to investigate the impacts of holdings not only direct by the advisor but also indirect through firms that belong to the same conglomerate as the advising firm, a key definition in this thesis is “indirect stake“. Indirect

[1] The Banking Act of 1993, commonly called the Glass- Steageall Act, requiring US banks to divorce their commercial banking activities from their investment banking activities (Grinblatt and Titman 2004).

stake refers to a stake in the target firm that is held by a firm that belongs to the same conglomerate as the advising firm.

2 OUR CONTRIBUTION

Previous research related to the advisor's role in M&A activities, has emphasized the benefits of using a financial intermediary and the reasons to why firms select them. The banks role as underwriters during initial public offerings (IPOs) are covered by Baron (1982), Beatty and Ritter (1986) and Muscarella and Vetsuyoens (1989). Further, Servaes and Zenner (1996) analyze how the investment banks in the M&A help to execute complex transactions and reduce transaction costs.

On the subject of coordinated behaviour of companies within the same conglomerate, research covers the issue of opportunistic sharing of information between different members of a conglomerate. For example Archarya and Johnson (2006) provide evidence of insider trading in the credit derivatives market by showing that lending banks use private information regarding corporate clients to trade credit default swaps. Irvine, Lipson and Puckett (2004) find that institutional investors receive information regarding the contents of forthcoming analysts' reports. In addition, Ritter and Zhang (2006) show that underwriters allocate hot IPOs to its affiliated funds to improve their result and thus, attract more money.

As opposed to research focusing on the financial advisor as an active provider of private information, Bodnaruk, Massa and Simonov (2007) emphasizes the passive provider of information that is exploited when a member of the same financial conglomerate is stakeholder in target. This is adding a new dimension to the knowledge on merger arbitrage provided by Mitchell & Pulvino (2002) and Baker and Savasoglu (2002).

Therefore, we also contribute to the research made on the role of investment banks in terms of the activities they engage in for their own benefit, provided by Ellis, Michaely and O'Hara (2000). Their research shows that the lead underwriter in an IPO is the dominant market maker and is therefore engaged in stabilization activity for less successful IPOs such as taking substantial positions in the aftermarket trading. However, in the case with Ellis, Muchaely and O'Hara (2000) the investigated opportunistic behaviour of the investment banks is in line with the interests of their clients. Contrary to that finding, the research made by Bodnaruk, Massa and Simonov (2007) shows that the opportunistic behaviour of an investment bank, is not compatible with its clients' interests. In Bodnaruk, Massa and Simonov's (2007) empirical study of M&A in the US, they find evidence that advisors not only take advantage of their privileged position by taking position in the deals they advise on, but also by directly affecting the outcome of the deals in order to fetch a higher capital gain from their positions. This interference has negative implications on the viability of the deal. Moreover, Bodnaruk, Massa and Simonov (2007) point out that what really matters is the equity position of the conglomerate, as opposed to the direct position of the advising bank.

This thesis will position itself close to the described research by Bodnaruk, Massa and Simonov (2007), extending their research to other markets. The major part of the research on advisors role on M&A is based on data from the US market. However, the Swedish market, having a significantly different institutional and legal setting than the US,

might show different patterns. Thus, our research uses the Swedish market as the object for analysis. Consequently, we aim at provide a picture of the impact of the advisors' double-sided role in the Swedish market.

3 THEORETICAL FRAMEWORK

To create an understanding of the possible conflicts of interests and their implications we provide a brief description of the dynamics of the share price related to an M&A. Moreover, we outline the characteristics of the institutional and legal corporate setting in Sweden with focus on M&A conflicts of interests.

3.1 Acquisition premium

Usually, the acquirer in an acquisition pays a premium on the stock market value for the company they buy. The most common explanation to that is synergy effects, which increase the potential value of the acquired company. However, if the premium does not correspond to real value added by the acquirer, the share price will most likely decrease again after the acquisition, when the real performance gain, or added value, is revealed.

Consequently, we have two interesting effects from the existence of a premium. First, initial shareholders in the target gain from an acquisition since their shares will be sold at a premium. Second, if the acquirer overvalues the synergy gains, the acquirer will make a loss. Thus, the advising firm to the acquirer plays a crucial role when advising the acquirer on the valuation of the target.

3.2 Merger arbitrage

Generally, when a company is announced for an M&A, the share price jumps. The period after the announcement, the share price increases or stays almost the same until the day of completion. However, the increased price immediately after the announcement is often slightly lower than that what is finally paid for the company. The difference between the current market price and what the acquirer pay (arbitrage spread) gives raise to a form of arbitrage opportunity (merger arbitrage) (Ercan and Bharucha, 2007). The arbitrage strategy is quite straight-forward; after an announcement the investor takes a long position in the target and if the acquisition is realised the arbitrageur profit from the spread. In the US, merger arbitrage generates abnormal profits of 0,6-0,9% per month (Baker and Savasoglu, 2002) and excess returns of 4% per year (Mitchell and Pulvino, 2002). Ercan and Barucha (2007), show that the corresponding abnormal profit in the Swedish market is between 0.2% and 0.4% per month. However, there is always a risk that the deal will not be realised which is usually followed by a stock price decline implying a loss for the investor.

Since the merger arbitrage is dependent on whether the deal goes through or not, information about the likeliness of a deal completion is valuable. Thus, we will try to clarify whether advisor stake in a target can serve as an indicator of the likeliness of a bid going through.

3.3 Swedish institutional setting

The Anglo-Saxon system of corporate governance and the Germanic system of corporate governance represents two different systems that have different and significant implications for corporations. The former is characterized by low ownership concentration and relatively short-term relationships, and the latter by high ownership concentration and long-term relationships (Weimer and Pape, 1999). Sweden resembles the Germanic system with ownership

concentrated to large families and institutions while the US is characterized by the Anglo-Saxon system. However, the corporate governance model of Sweden is still unique and Sweden is positioned somewhere in the middle of the continuum (Swedish Code of Corporate Governance, 2004). Sweden has a corporate ownership system with dual shares divided into A and B shares where owners of A-shares have 10 or 100 votes and owners of B-shares have one vote per share. The dual-class share system has had a large impact on the corporate governance setting in Sweden. Due to the concentrated ownership and control structure, hostile takeovers can easily be blocked. Therefore, friendly takeovers are more frequent (Holmén and Nivorozhkin, 2005). The fact that friendly takeovers dominate the Swedish M&A market reduces the risk of a deal failure and hence reduces the risk of a share price decline associated with a deal failure.

3.4 Swedish legal setting

The Sweden market structure has relatively weak formal institutions and governance systems that impose few constraints. This setting favours a few major owners, which through the system of shares with dual voting rights have been able to control a large fraction of the listed companies (Lubatkin et al., 2005).

Moreover, the Swedish legal setting is characterized by a set of weakly defined principles rather than rules and laws restricting conflicts of interests and insider information sharing. Ruling principles that could be applied on these two matters are issues of general nature such as the "loyalty obligation", that a principal must be loyal to its agent, and "information duty", that the principal has to inform the agent about circumstances that could be conflicting interests. Obviously, the distinction is hard to make of what are possible conflicting interests. Moreover, even if the possible conflicting interests have been reported, the question whether the principal actually have acted in the best interest of the agent is still there (Nerep, Interview 2007-11-12).

Regarding sharing of inside information, the law is clear on the point that it is strictly forbidden (according to "Marknadsmissbrukslagen", former "Insiderlagen"). However, law enforcement is complicated since insider information is exchanged secretly between individuals who have no incentives to do else than denying illegal activities. Therefore, the controlling authority "Finansinspektionen" is mainly left with analyzing statistical trading patterns that could give signs of inappropriate activities. Since the approximate methods used by "Finansinspektionen" are known, investors could relatively easy avoid detection. Therefore, the number of illegal inside activities that Finansinspektionen has the possibility to discover is small. In line with this, it is not surprising that there are only a few cases in the Swedish history where people have been convicted for insider crime (Nerep, Interview 2007-11-12).

3.5 The role of the advisor

The financial advisor to the acquirer reduces transaction costs of a deal by effectively facilitating the process (Servaes and Zenner, 1996). Investment banks usually constitute a corporate business part and a sales and trading business part. The corporate business part sells its expertise on M&A by prospecting for takeover targets, advising clients about the price to offer and plan takeover tactics. The sales and trading business part, act as market makers and trading securities for their own funds (proprietary trading). (Grinblatt and Titman, 2004). Regarding the legal

restrictions and obligations of the advisor, Sweden differs from the US. In Sweden, it is more difficult than in the US to sue if the firm would not be satisfied with their advisor. However, there are some detailed restrictions imposed on firms giving financial advices by Finansinspektionen. The regulations were overviewed and changed during 2007. The rules are detailed in how to manage the conflicting interests that occur between corporate finance and the analytical part of an investment bank. Most important is that conflicts of interests are not forbidden, but one is obligated to report them. To sum, as advisor, the investment bank has inside information and power regarding the deal, of the likeliness of success and the expected premium.

3.6 Sweden versus the US

The major differences between the Swedish institutional and legal setting compared to the one of the US and its expected implications relevant for this thesis are summarized in the table below.

Factor	Expected impact
Concentrated ownership	We do not expect this to have direct impact on our result. However, the ownership and control being concentrated to a few spheres probably contributes to that a limited amount of people are involved in and have control of many different transactions that are not clearly related. If people engage in inappropriate activities this might have a positive impact on the premium when advisor stake exists. Moreover, this should happen at the expense of the acquirer reducing the viability of the deal.
Concentration of control (dual shares)	
Friendly takeovers	As most bids are assumed to be accepted we expect that advisor stake in target has little or none impact on the likeliness of a bid to go through.
Weaker control mechanisms from government	Weaker requirements of transparency should facilitate inappropriate opportunistic behaviour. Thus, this characteristic is expected to have a positive impact on the correlation between advisor stake in target on the one hand, and on the other hand the bid premium, the probability of the deal going through and the extent to which the advisor sacrifices the interest of the acquirer.

Table 1: Institutional settings in Sweden compared to that of the US.

4 HYPOTHESIS FORMULATION

Having explained the legal and economical setting of Swedish M&A, we further specify the purpose of this thesis by defining our hypotheses. We use three hypotheses subsequently to investigate the advisors loyalty towards its clients and potential negative influence the conflicting interests could have on a deal. The first hypothesis is a general hypothesis whilst the following two are conditional on that the bid actually goes through.

4.1 General hypothesis: Likeliness of success

Due to merger arbitrage, explained in section 3.3, it can be very profitable to have a position in a target when a bid goes through, while it most likely will be unprofitable when it does not. Hence, if the advisor to the acquirer seeks to gain a profit on its indirect stake in the target the advisor can be expected to interfere in the deal so that the bid is more likely to go through. Consequently, our first hypothesis is as follows:

Hypothesis 1: When the advisor has indirect or direct stake in the target a deal is more likely to go through.

4.2 Conditional hypotheses

4.2.1 Premium size

Obviously, if the advisor has a direct or indirect stake in the target the advisor would profit on a higher acquisition price. Consequently, we would expect that the premium paid is positively correlated with advisor stake in target.

Hypothesis 2: The existence of indirect advisor stake in the target implies a higher premium paid for the target firm.

4.2.2 Future Viability

However, even if hypothesis 1 and 2 would be supported, one could still argue that corporate finance departments are skilled in choosing assets that are currently undervalued and possible targets for an M&A. In this way, two different departments in the same conglomerate could have made the same analysis independently. In other words, the higher probability of success cannot solely be traced to inappropriate influence of conflicting interests, but rather skilful valuation by the different players. Since we want to test whether the interference of the advisor is inappropriate, we need to show that it is done at the expense of the acquirer. If that is the case, advisor stake would be positively correlated with higher premium and also be at the expense of the acquirer which would be reflected in a lower viability of the deal.

Hypothesis 3: The existence of direct or indirect advisor stake in the target reduces the viability of the deal.

5 METHODOLOGY AND DATA

The methodology of this thesis follows Bodnaruk, Massa and Simonov (2007) on relevant parts. However, some adjustments and simplifications have been made, partly due to the different setting in Sweden compared to the US, and partly due to limitations as a result of the limited scope of this thesis.

M&As before 1999 reveal little information on key figures, performance and advisors involved, and the data for before 1999 is difficult or impossible to obtain. Thus, our dataset comprises the time period 1999-2006. Our dataset initially consisted of 157 public M&A announcements of firms that were listed on the Swedish OMX-exchange. The dataset is reduced by 41 observations due to missing information regarding the financial advisor to the acquirer. In addition, 24 more observations are excluded due to missing data on historical stock prices and advisor ownership in target. Out of the 92 observations, 88 are relevant to the six major advisors on the Swedish market we have chosen to look into; Alfred Berg, Carnegie, SHB, SEB, Swedbank and Nordea[2].

Presented below is a graph on the total M&A activity on the Swedish public market over time from the initial dataset with 157 observations. We see a peak between year 2000 and 2001 probably due to the IT-boom followed by an abrupt decrease during year 2002 in connection with the IT-bubble. During the second half of the time period we notice a moderate increase in the number of announced deals. Moreover, it is notable that the first half of our time period shows a gap between the number of announced deals and the number of completed deals. From 2002 to 2006 there is a completion rate of 100% which is typical for Sweden being characterized by a large fraction of friendly deals, as mentioned in section 3.4. Over the whole time period we have an average of 92% of completed deals.

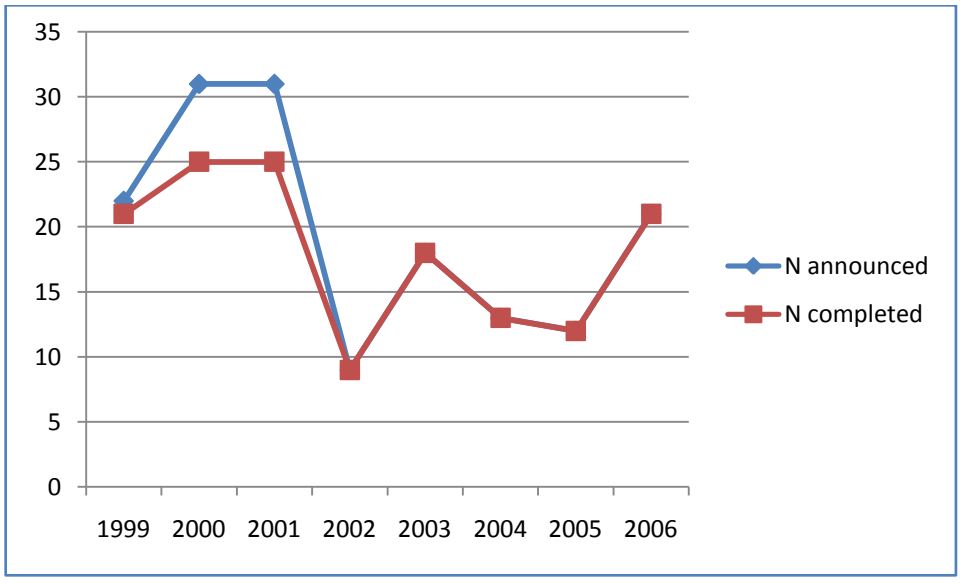


Figure 1 Number of completed deals compared with the total number of announced deals.

[2] For the rationale behind the choice of these advisors see section 5.3.

In order to test whether our reduced dataset of 88 observations gives an accurate picture we also present a graph on the number of announced deals and completed deals over time based on our reduced dataset. The graph is displayed as Figure 2. As could be seen, the general trend of deal announcements and number of completed deals is approximately similar to our original dataset. Thus, we consider the reduced dataset to be acceptable. However, in order to keep our analysis as significant as possible we will use an as large dataset as possible for each part of the analysis. Consequently, in cases when we do not need data for share price and viability measures we will use the largest dataset in which only observations with missing crucial data is excluded.

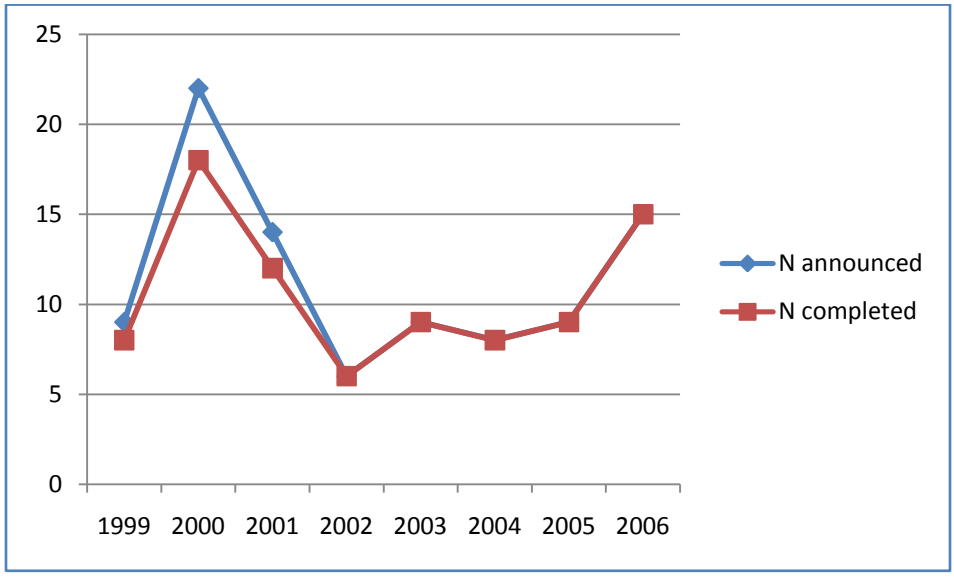


Figure 2 Number of completed deals compared with the total number of announced deals, used dataset.

5.1 Brand construction

Until now we have talked about conglomerates that a specific advisor belongs to. Since we want to track all companies that are related to the advisors active on the market we construct "brands" that consist of all the financial firms that are part of each conglomerate. The financial institutions could be commercial banks, insurance companies, hedge funds, mutual funds and investment managers (Bodnaruk, Massa and Simonov, 2007). A company is assigned to a specific brand if the main owners of the conglomerate has stake that corresponds to 10% or more in voting rights. The brands have been hand-constructed based on the presentation of owner spheres in Sweden in "Owners and Power in Sweden's Listed Companies" (Sundqvist and Fristedt, 1999-2006). Since the "Owners and Power in Sweden's Listed Companies" only provides statistics on ownership once a year, we have chosen to define ownership by the brands yearly. We assign each deal to the year of the announcement date, i.e. for each deal we first look at the year of the announcement of the deal, then we use "Owners and Power in Sweden's Listed Companies"[3]

[3] "Owners and Power in Sweden's Listed Companies" (Sundqvist and Fristedt, 1999-2006) contains the 25 largest shareholders in all the Swedish companies whose shares are listed on the A-, O-, and NGM-lists.

to define which brand the advisor to the acquirer belongs to that specific year. The brands are defined in Appendix 2.

5.3 Financial advisors

Similar to Bodnaruk, Massa and Simonov (2007), our key variable is the aggregated indirect and direct stakes of the advisors in the target. For our analysis we consider potential and actual advisors for each year. The potential advisors are defined as the Swedish advisors that are active in giving advice to the acquirer on a public M&A in more than three years in our sample period. As mentioned, these are Alfred Berg, Carnegie, SHB, SEB, Nordea and Swedbank. Actual advisors are defined as the advisors that give financial advice to the acquirer in a specific deal. The actual and potential advisor is found through extensive and time consuming research work. About 50% of the advisors are provided by the database Mergermarkets. However, when the financial advisors are not mentioned in the prospect of the deal they are not found in the databases. In these cases we have found information about the advisor on corporate websites and by consulting current and former employees at the relevant companies. Figure 3 shows the advisor activity in total during the relevant time period.

5.4 Aggregate stake

By our definition, direct stake aim at the shareholdings that is hold in target by the advising firm to the acquirer. However, the existence of direct stake would imply obvious conflicts of interest. Hence, it is very rare. Indirect stake, on the other hand, refers to stake in the target firm that is held by firms within the same brand as the advisor. Thus, the aggregate advisor stake for each deal consists of the sum of the portfolio holdings for all firms belonging to the same conglomerate as the advisor. The database of portfolio holdings is also hand-constructed and the number of the holdings come from "Owners and Power in Sweden's Listed Companies" (Sundqvist and Fristedt, 1999-2006). Statistics of the aggregate stakes of our brands are reported in Appendix 1.

5.5 Potential advisor stake

For each deal, we add the aggregate sum of the stake that is held in target by the potential advisors and all the other firms that belong to the same brand. Thus, the aggregate stake includes both direct and indirect stake on each deal.

Our database of brands, the firms belonging to them, and their aggregate stake will allow us to investigate how the behaviour of financial institutions is influenced by stake in the target. More specifically, we will try to determine to what extent the aggregate stake in the target influences the likeliness that the bid go through (H1), the premium (H2) and the future viability of the deal (H3). Thus, our explanatory variable is Advisor stake and our dependent variables are Success rate (H1) Premium (H2), and ROE, ROA and Net Profit Margin (H3). The variables are summarized in the table below.

Hypothesis	Tested variable(s)
H1: Likeliness of success	Success rate
H2: Premium size	Premium
H3: Future viability	Net profit margin, ROA, ROE

Table 2 Hypothesis and corresponding tested variables

5.5.1 Frequency of stake combined with advising

We see that the six potential advisors have stake in 23,1% of the total 116 deals, and are advisors in 9,9% of these 116 deals. The expected number of cases when the firm advising happens to also have stake in the same deal would therefore be 23,1% of 9,9%, that is 2,3% of the deals. In reality, the banks have stake and are advising at the same time in 4,48% of the cases, which is almost twice as many cases as expected. This is an indication of that it might not merely be a coincidence that the bank have stake in target. Out of the six banks, Carnegie stands out with almost three times more observations where they are both having a stake and are advising at the same time, than expected. Nordea has never had a stake in target in deals where they are advising the acquirer. The relationship is graphed in figure 3.

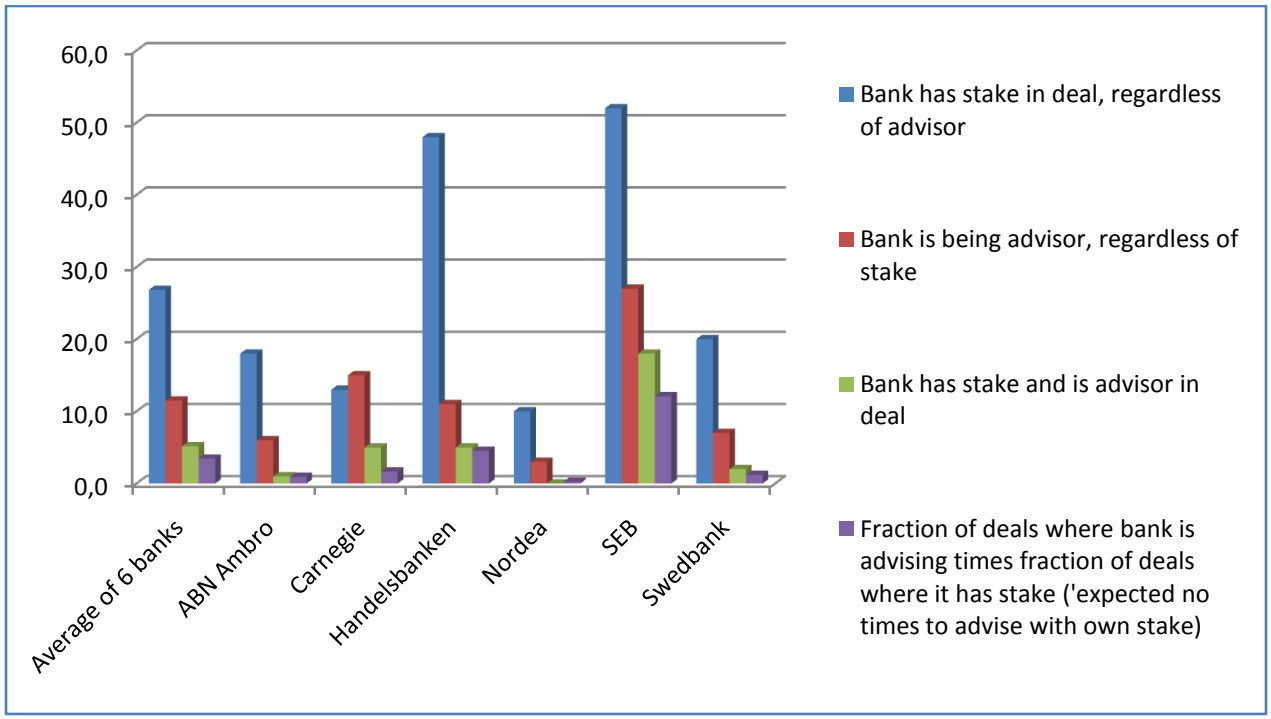


Figure 3 Frequency analysis of banks being both advisor and stakeholder at the same time.

5.6 Choice of dependent variables

In this thesis, key is the construction of the brands and the aggregate stake of the brands for each deal. Thus, when performing the analysis we will use relatively simple and straightforward methods. For each hypothesis we calculate point-estimates and perform t-tests where we simply compare the group of the deals in which there is advisor stake with the group without. Moreover, we perform OLS-regressions to investigate the link between stake as the explanatory variable and premium, ROE, ROA and Net Profit Margin as the dependent variables. For each variable we make a robustness check by plotting the observations in order to spot and remove potential outliers. We continue by providing a description of how the dependent variables are constructed.

5.6.1 Hypothesis 1: Success rate

Through the first hypothesis we test if the profitability for the advisor comes at the expense of the acquirer. As described in section 3.3, a large risk factor in merger arbitrage is the chance that the deal is not completed. Therefore, an advisor with direct or indirect potential merger arbitrage position would gain on the success of the deal. Hence, we would expect the advisor stake in target to be positively correlated with the likeliness of the bid to go through. We test for the likelihood of the bid going through with a point-estimate on the success ratio when an advisor has stake in the target versus when it has not.

5.6.2 Hypothesis 2: Premium

The second hypothesis investigates whether the information contained in the stake is profitable. In this thesis, we focus on the short-term target premium. In line with Bodnaruk, Massa and Simonov (2007) we define a few estimates of the premium. Bodnaruk, Massa and Simonov (2007) define target premium as the market adjusted return of the target's stock over the period defined from the three months before the bid announcement to two months after the deal announcement or resolution date, whichever comes first. The historical values of the share prices were not to be found in any database available since many of the firms are no longer listed. Thus, we hand-constructed the dataset observation by observation from old editions of Dagens Industri stored in the microfilm section of the Royal Library in Stockholm. We define the premium as the difference in stock price 20 days before the bid announcement and 20 days after the deal announcement or on the resolution date, whichever comes first. We also define an alternative proxy for the premium using the period of one day before the bid announcement and 20 days after the deal announcement or on the resolution date.

As argued before, we expect to find a positive correlation between the advisor stake in the target and the premium if the advisors try to maximise the value of their stake. We test this relationship with a t-test.

5.6.3 Hypothesis 3: Future viability

The next step is to consider the implications for the acquirer. By looking at the future profitability of the firm after completion of the deal we can tell whether the advisor sacrifices the interest of the acquirer to make a profit. Following Bodnaruk, Massa and Simonov (2007), we measure the profitability of the deal by looking at the change in ROE, ROA and Net Profit Margins one year after the deal compared to one year before the deal. We run OLS regressions on the change in profitability and the proxies for advisor holdings.

6 RESULTS

6.1 Hypothesis 1: Likeliness of bid being successful

In our sample, 13 out of 157 bids were not completed, and out of these, five were advised by one of the six banks we look into. From the deals where one of the six banks is advising, we see that 94,6% of the bids have been successful. When there exists potential advisor stake 83,3% of the bids go through and when there is no advisor stake 96,7% of the bids are successful. The difference is not significant at a 95% confidence level. Moreover, the indication we get is reversed to what we expected, since it implies that existing advisor stake decreases the likelihood of success of a successful deal. Thus, we reject our first hypothesis.

6.2 Hypothesis 2: The existence of direct or indirect advisor stake in the target implies a higher premium paid for the target firm

In deals where one of the six banks is advising and has a stake in target, the average premium paid is 31%, and for the group with no advisor stake an average premium of 25% is paid. The results suggest that a 23% higher premium is paid when the advising firm has a stake in target, supporting the hypothesis that advisor stake implies a higher premium paid for the target firm. However, in a t-test the result is not significant at the 95% confidence level and we reject the hypothesis.

In order to find significant results we perform an OLS regression with premium as the dependent variable and advisor stake as explanatory variable. We find that the standardized beta is -0,396 indicating that the relationship is negative, i.e. the opposite of what we had expected. Moreover, the result is not significant at a 95% confidence level. In a second attempt to get significant results we use the alternative proxy for the premium changing the time interval for the dates on which we measure the stock price. Unfortunately, this has no effect on the significance of the results. Since the relationship is not significantly positive, there is no need to look into the performance of potential advisors. If the beta instead would have shown to be significantly positive, it would have been interesting to see if the managers just happened to be skilled enough to pick the right stocks suggesting that the higher premium would be fair. That is, however, not the case here.

We also group the sample assigning all deals in which a specific advisor is engaged by the acquirer to one group. Thus, we get six groups of deals, one for each advisor respectively. When running t-tests on each group separately we find that has Carnegie has the most significant difference in premium. When Carnegie is advising a deal in which they also have stake the mean premium is 85,7% and 15,5% when they do not have any stake in the target. Although a huge difference, this anomaly only sports a p-value of 8%, due to the considerably small number of observations (11).

Advisor	Stake and/or advisor	N	Mean premium	T-test, p-value, Advising with, versus without, stake
ABN Ambro	Advisor, no stake	6	38,21%	N/A
	Not advisor, stake	12	20,81%	
	Advisor and stake	0	N/A	
Carnegie	Advisor, no stake	7	15,54%	8%
	Not advisor, stake	7	26,78%	
	Advisor and stake	4	85,76%	
Handelsbanken	Advisor, no stake	4	26,99%	41%
	Not advisor, stake	33	28,85%	
	Advisor and stake	4	23,61%	
Nordea	Advisor, no stake	3	8,67%	N/A
	Not advisor, stake	10	16,22%	
	Advisor and stake	0	N/A	
SEB	Advisor, no stake	5	24,85%	31,1%
	Not advisor, stake	23	21,52%	
	Advisor and stake	13	15,85%	
Swedbank	Advisor, no stake	3	117,17%	21,7%
	Not advisor, stake	11	31,84%	
	Advisor and stake	2	23,94%	
6 banks combined	Advisor, no stake	31	25,23%	35,9%
	Not advisor, stake	35	21,36%	
	Advisor and stake	22	31,09%	

Table 3: Premium for banks in different setups and p-value for t-test when advising with or without stake.

6.3 Hypothesis 3: The existence of direct or indirect advisor stake in the target reduces the viability of the deal

To estimate the viability of a deal we compare ROA, ROE and Net Present Margin for the acquirer before and after the deal.

Below is a comparison of the means from the deals in which the advisor has stake compared to the deals in which the advisor has not stake. The variable STAKE takes the number 1 if advisor stake exists and 0 otherwise. To check significance of the comparison we also perform an independent sample t-test.

Point-estimates	stake	N	Mean	Std. Deviation	Std. Error Mean
DiffROE	,00	24	-5,7029	19,46775	3,97384
	1,00	9	-,6356	3,28808	1,09603
DiffROA	,00	24	-4,3992	15,55821	3,17581
	1,00	9	-1,1744	2,75737	,91912
DiffnNPM	,00	24	-2,8608	20,35439	4,15482
	1,00	9	-,9400	2,62742	,87581

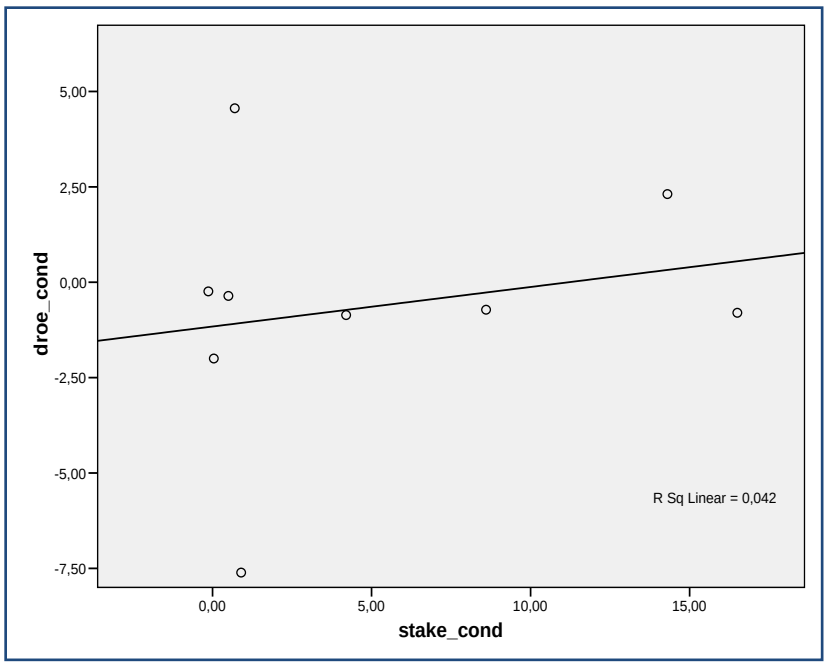
Table 4 Point-estimates for ROA, ROE and Net Profit Margin for advisors with stake (1) and without stake(0).

T-test		Levene's Test for Equality of Variances		T-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Upper	Lower
DiffROE	Equal variances assumed	2,357	,135	-,769	31	,448	-5,06736	6,58678	-18,50118	8,36646
	Equal variances not assumed			-1,229	26,197	,230	-5,06736	4,12222	-13,53760	3,40288
DiffROA	Equal variances assumed	2,184	,150	-,612	31	,545	-3,22472	5,26663	-13,96607	7,51663
	Equal variances not assumed			-,975	26,480	,338	-3,22472	3,30614	-10,01459	3,56514
DiffNPM	Equal variances assumed	1,197	,282	-,279	31	,782	-1,92083	6,87268	-15,93775	12,09609
	Equal variances not assumed			-,452	24,948	,655	-1,92083	4,24613	-10,66682	6,82515

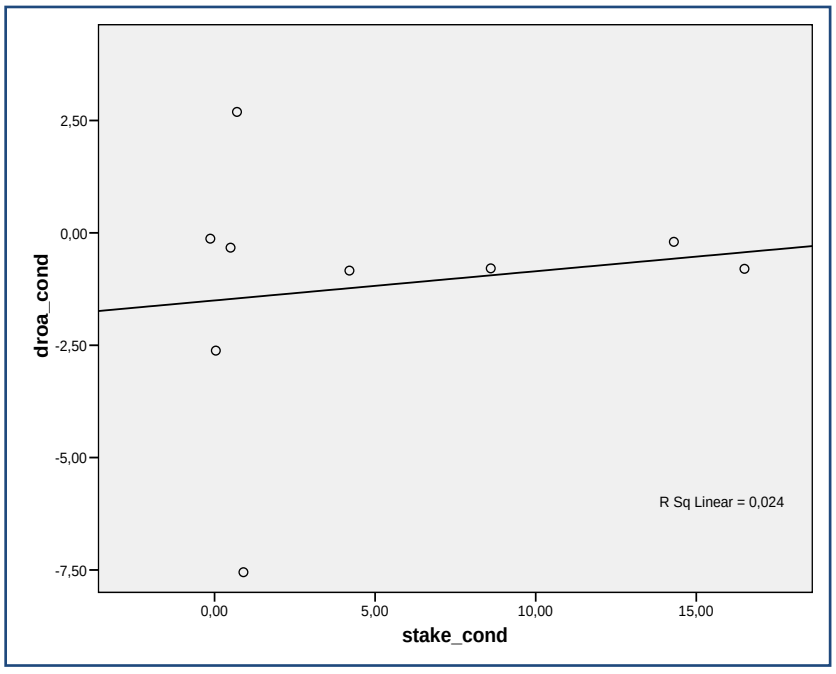
Table 5 T-tests for ROE, ROA and Net Profit Margin for when the advisor has stake versus when it has not.

On average the viability in terms of ROA and ROE of the acquiring firm has decreased after completion of a deal. Surprisingly, we see that the decrease in ROA and ROE are less for deals in which there are advisor stake. Moreover, the Net Profit Margin generally decreases after a deal. The decrease is less for deals in which there are advisor stake. In sum, firms with advisor stake perform better than the firms that did not have advisor stake. The result reversed to what we have expected.

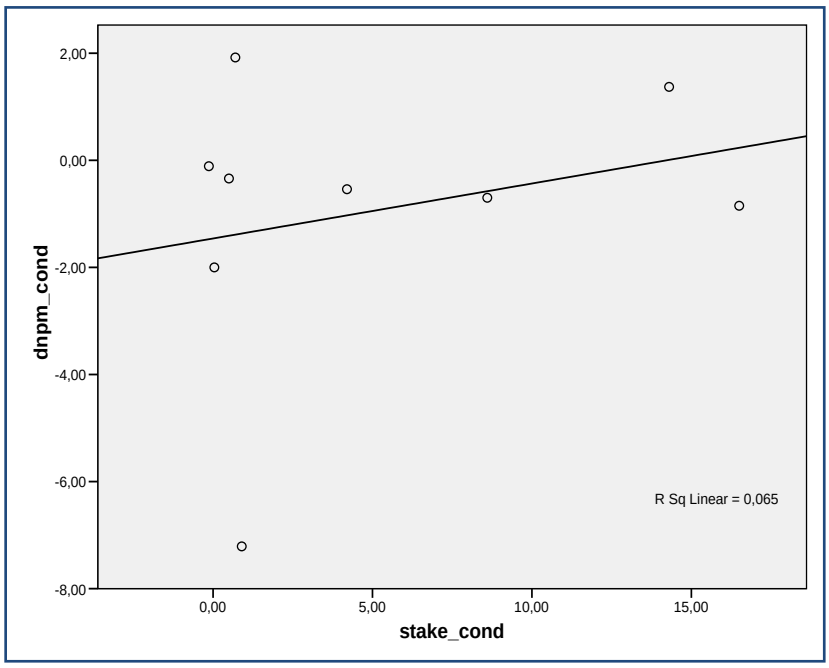
To further investigate the relationship between advisor stake and viability we run an OLS-regression with change in ROE, ROA and Net Present Margin as dependent variables respectively. Plots and statistics of the regressions are presented in Appendix 3.1-3.2. Furthermore, we run a similar regression but conditioning on existing advisor stake. The outputs from the regressions are presented in Appendix 3.3 and the plots below show the relationship between advisor stake and each dependent variable respectively.



Graph 1: Relationship between the change in ROE and Advisor stake conditioning on advisor stake.

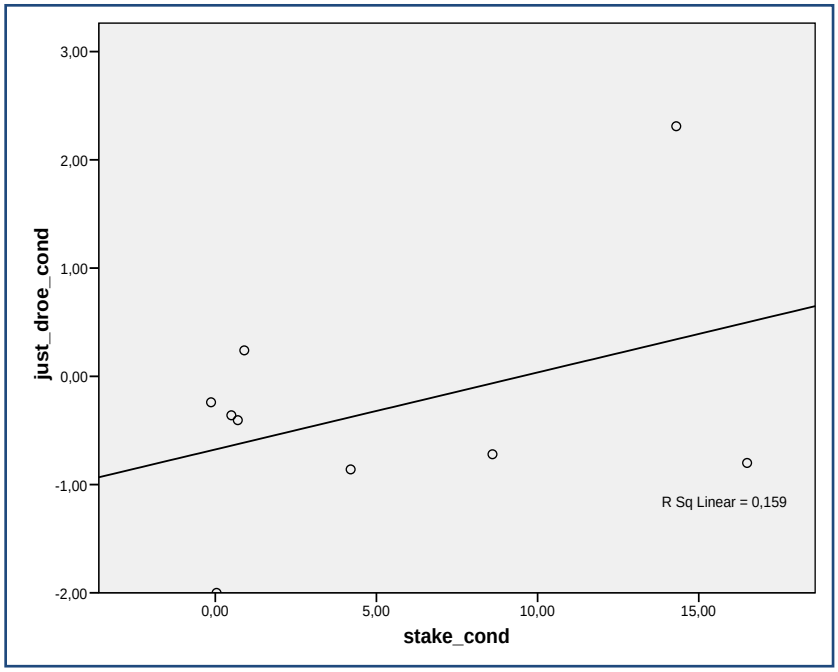


Graph 2: Relationship between the change in ROA and Advisor stake conditioning on advisor stake.

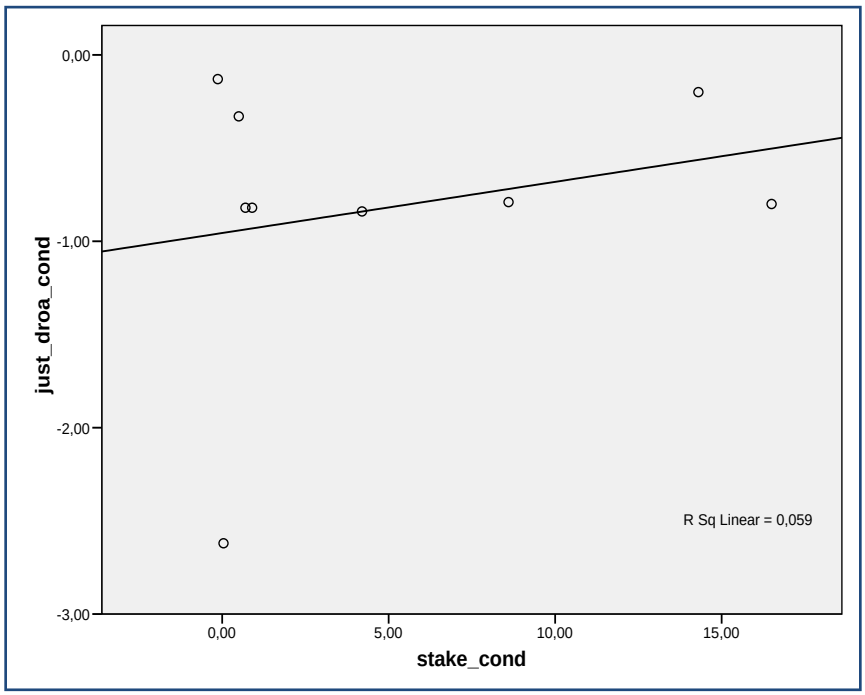


Graph 3 Relationship between the change in Net Present Margin and advisor stake conditioning on advisor stake.

From the plots we see that the results in Graph 1 and 2 might be influenced by outliers, hence we adjust our data and then plot the observations again (Graph 4 and 5).



Graph 4 Relationship between the change in ROE and advisor stake conditioning on advisor stake adjusted for outliers.



Graph 5 Relationship between the change in ROA and advisor stake conditioning on advisor stake adjusted for outliers.

After adjustments for outliers the R square increases for both regressions, however, it is still very low, 0,159 for ROE, 0,059 for ROA and 0,065 for Net Present Margin, indicating that the relationships are still almost non existent. In accordance with the results from the mean comparisons, we find some indication that the ROE, ROA and Net Profit Margin performance is positive correlated with advisor stake. The results indicate that the viability in terms of return on equity and total assets in fact is higher when the advisor has stake in target. Thus, we find no support for the hypothesis that the advisor sacrifices the interest of the acquirer for the own benefit.

7. CONCLUSION

None of the results generated has shown to be statistically significant, probably due to the extremely small sample size. Thus, our research must be regarded as point-estimates providing indications of general trends. The main indications we get from our results are:

- Advisor stake in target is often correlated with a relatively high premium paid for the target.
- Advisor stake in target does not decrease the future viability of a deal, rather the contrary.

Based on the results from our data we cannot find any evidence of that advisors to the acquirer sacrifices the interests of their client for the own benefit. Even though we find some indications of that the premium is higher when advisor stake in target exists, the fact that it does not seem to reduce the viability of the deal indicates that conflicting interests is not the underlying reason for the higher premium in deals with advisor stake.

It is interesting to note that our results deviate considerable from the similar study on the US market provided by Bodnaruk, Massa and Simonov (2007) that proves that the advisors to a large extent sacrifices the interests of their clients for their own interests. These results are not what we had expected considering the institutional and legal setting of Sweden. It might be the case that these institutional differences between Sweden and the US have other impacts than we have assumed. However, the underlying reasons might be of other categories relating to for example cultural or moral differences. It is not within the scope of this thesis to identify the exact reasons; however, it might be an interesting subject for further research.

Unfortunately, the results we obtained were weak and insignificant. Yet, the fact that we have found some indications of general trends which encourages us to raise the question of what the underlying reasons for the insignificance are. The insignificant results could be due to either weak support of the hypothesis or due to the extremely small sample. Thus, it would be an interesting topic for further research to extend the sample size in some way by either increasing the time period or by extending the research geographically, for example to Scandinavia. With a larger sample it would also be interesting to control for more factors, as for example periods of economic recession.

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8.3 Interview

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APPENDIX 1 Aggregate advisor stake in target

Date	Target	Brand	Stake
1999-02-04	ABB	SEB	14,30%
1999-03-01	PriFast	Handelsbanken	2,90%
1999-01-07	Spectra-Physics	SEB	1,70%
2000-09-13	Arete AB	SEB	3,50%
2000-04-04	BT Industries	Swedbank	7,20%
2000-08-21	Norrporten	SEB	1,30%
2001-10-10	AssiDomän AB	SEB	8,60%
2001-11-20	Scandinavia Online AB	Carnegie	0,04%
2001-01-26	Segerström & Svensson AB	Carnegie	0,90%
2001-09-24	Ångpanneföreningen AB	SEB	16,50%
2001-03-22	Perstorp AB	SEB	3,50%
2003-03-20	Mandamus Fastigheter AB	Swedbank	0,70%
2003-11-21	Pandox AB	SEB	19,00%
2004-11-15	Finnveden AB	SEB	6,40%
2005-02-17	Cloetta Fazer AB	Carnegie	0,50%
2005-07-12	Karlshamns AB	SEB	4,20%
2006-06-20	Biacore International AB	Carnegie	2,40%
2006-04-03	Gambro AB	SEB	21,70%
2006-11-20	Protect Data AB	SEB	3,30%
2006-09-18	Scania AB	Handelsbanken	1,40%
2006-04-13	Strålfors AB	SEB	4,30%
2006-08-21	WM-data AB	Alfred Berg	0,80%

APPENDIX 2 Brand definitions

Brand name	Firms included in brand*
SHB	SHB pensionsstiftelse, SHB pensionskassa, SHB personalstiftelse, SHB/SPP fonder, SHB Livförsäkring.
SEB	Investor, SEB fonder, Enskilda Securities.
Alfred Berg	ABN AMRO Bank, ABN Asset Management, Alfred Berg SE, Alfred Berg Asset Management AB, Banco AB.
Swedbank	Föreningssparbanken, Robur fonder
Carnegie	D. Carnegie & Co, Carnegie Investment Bank AB.
Nordea	Nordbanken, Nordea fonder

**The definitions of the brands are mainly based on the outline of owner spheres in Sweden by Sundqvist and Fristedt (1999-2006). However, in some cases their outline includes more firms than included in this table. In cases where we have not detected target stake in any of the deals have not considered it relevant to include them in the table.*

APPENDIX 3 Plots and statistics from regressions on ROE, ROA and NPM

Appendix 3.1 Regressions on whole sample

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,137(a)	,019	-,013	16,85167

a Predictors: (Constant), stake

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	168,075	1	168,075	,592	,448(a)
	Residual	8803,340	31	283,979		
	Total	8971,415	32			

a Predictors: (Constant), stake
b Dependent Variable: DiffROE

Appendix 3.1.1 Regression on the difference in ROE with advisor stake as explanatory variable on the whole sample.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,109(a)	,012	-,020	13,47418

a Predictors: (Constant), stake

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-4,399	2,750		-1,599	,120
	stake	3,225	5,267	,109	,612	,545

a Dependent Variable: DiffROA

Appendix 3.1.2 Regression on the difference in ROA with advisor stake as explanatory variable on the whole sample.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,050(a)	,003	-,030	17,58312

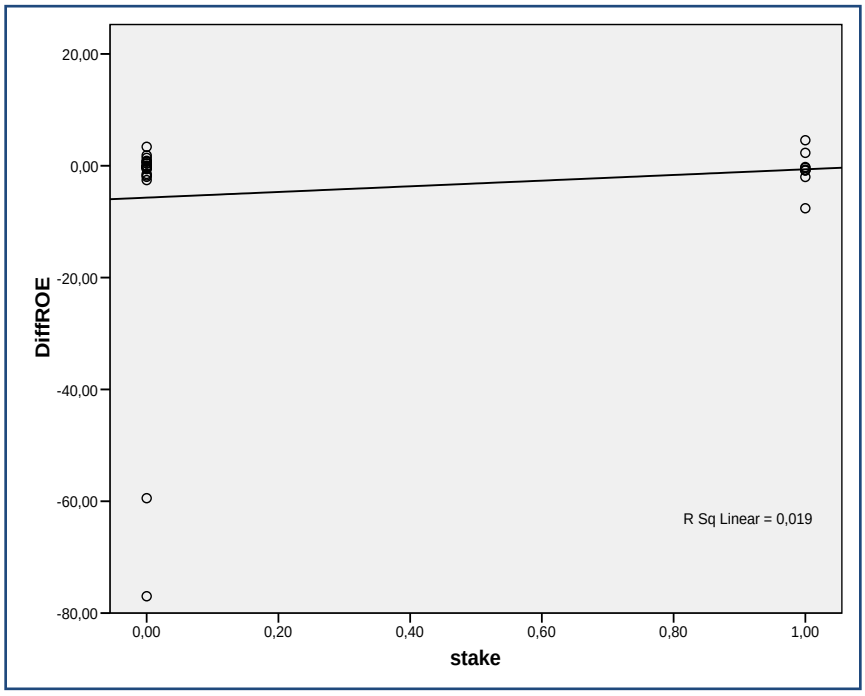
a Predictors: (Constant), stake

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-2,861	3,589		-,797	,431
	stake	1,921	6,873	,050	,279	,782

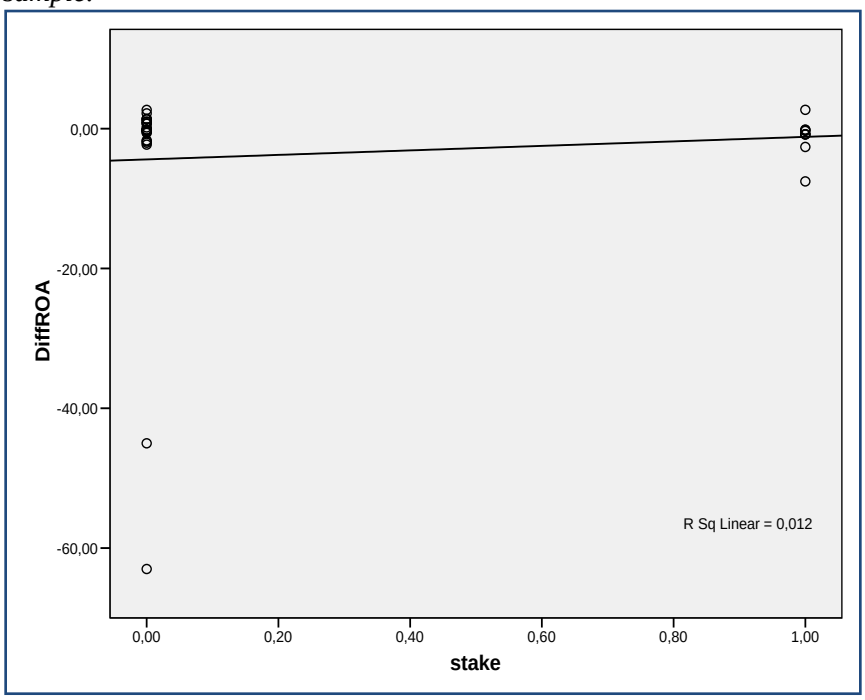
a Dependent Variable: DiffNPM

Appendix 3.1.3 Regression on the difference in Net Present Margin with advisor stake as explanatory variable on the whole sample.

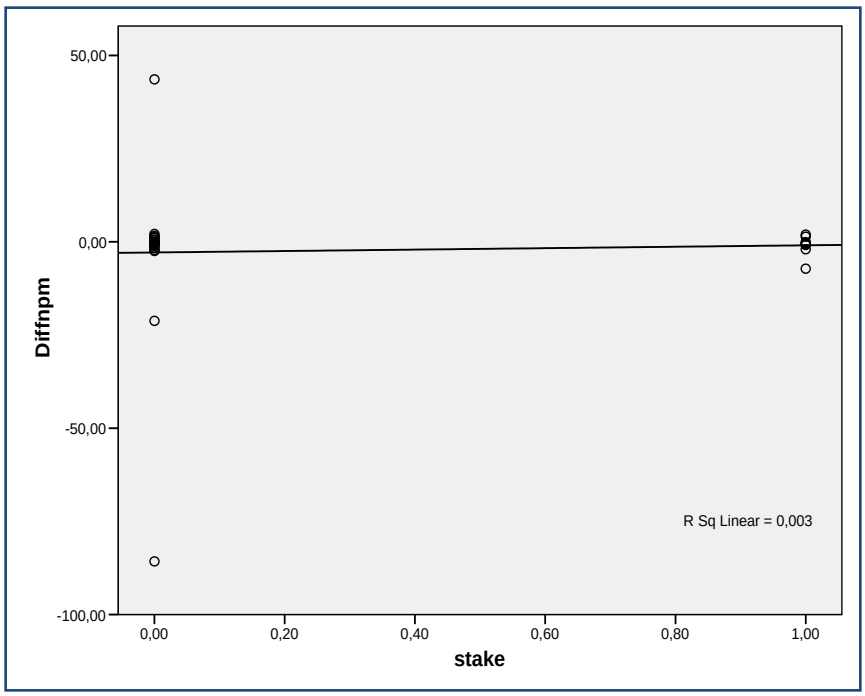
Appendix 3.2 Plots on whole sample



Appendix 3.2.1 Plot on the difference in ROE with advisor stake as explanatory variable on the whole sample.



Appendix 3.2.2 Plot on the difference ROA with advisor stake as explanatory variable on the whole sample.



Appendix 3.2.3 Plot on the difference in Net Present Margin with advisor stake as explanatory variable on the whole sample.

Appendix 3.3 Regressions conditioning on existing advisor stake

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,205(a)	,042	-,095	3,44028

a Predictors: (Constant), stake_cond

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1,161	1,487		-,781	,461
	stake_cond	,104	,187	,205	,555	,596

a Dependent Variable: droe_cond

Appendix 3.3.1 Regression on the difference in ROE with advisor stake as explanatory variable conditioning on existing advisor stake.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,153(a)	,024	-,116	2,91286

a Predictors: (Constant), stake_cond

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1,504	1,259		-1,194	,271
	stake_cond	,065	,158	,153	,411	,694

a Dependent Variable: droa_cond

Appendix 3.3.2 Regression on the difference in ROA Margin with advisor stake as explanatory variable conditioning on existing advisor stake.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,254(a)	,065	-,069	2,71656

a Predictors: (Constant), stake_cond

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1,460	1,174		-1,243	,254
	stake_cond	,103	,148	,254	,695	,509

a Dependent Variable: dnpm_cond

Appendix 3.3.3 Regression on the difference in Net Present Margin with advisor stake as explanatory variable conditioning on existing advisor stake.