THE INFLUENCE OF CORPORATE GOVERNANCE ON THE SUCCESS OF M&A TRANSACTIONS: AN EMPIRICAL ANALYSIS OF GERMAN COMPANIES

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Abstract

This study investigates how corporate governance mechanisms — such as board size, independence, and insider ownership — impact the success of mergers and acquisitions (M&A) among German companies. Using cumulative abnormal returns (CAR) as a measure of shareholder value, the study identifies the influence of various governance structures on M&A performance. The results indicate that insider ownership and multiple board mandates are positively associated with M&A success, while larger boards may impede integration efficiency. This research addresses gaps in German M&A literature and provides actionable insights for both scholars and practitioners (Ortiz & Schalkowski, 2015; Tsai, 2008).

1. INTRODUCTION

Mergers and acquisitions (M&A) often represent significant strategic moves within corporate management, as they can create substantial opportunities for growth or expose companies to high levels of risk. Highprofile cases, such as the AOL-Time Warner merger, underscore the importance of effective governance structures in optimizing M&A outcomes. This study examines how specific governance mechanisms, such as board composition, ownership structure, and governance-related incentives, impact M&A success. Understanding these factors is critical for maximizing shareholder value and aligning management with company goals (Jensen & Meckling, 1976; Ortiz & Schalkowski, 2015).

2. THEORETICAL FRAMEWORK AND CORPORATE GOVERNANCE MECHANISMS

Corporate governance involves structures that guide and control company activities to align managerial actions with shareholder interests. Key theoretical perspectives in governance research include:

- Principal-agent theory: This theory explores conflicts between owners (principals) and managers (agents), who may act in their own interest rather than in the interest of shareholders. To align interests, governance mechanisms often include incentive-based compensation and strict oversight structures (Jensen & Meckling, 1976).
- Stewardship theory: Stewardship theory contrasts with principal-agent theory by suggesting that managers act as stewards who are intrinsically motivated to work in the best interest of the company and its stakeholders. This perspective emphasizes the role of trust and long-term commitment in management (Davis et al., 1997).
- Resource dependence theory: This theory posits that companies depend on external resources for success. Corporate governance structures can help manage these dependencies, ensuring that resource acquisition and usage align with strategic goals (Pfeffer & Salancik, 2015).

These theories provide a foundation for understanding how different governance mechanisms impact M&A performance.

3. M&A TRANSACTIONS AND SUCCESS MEASUREMENT

M&A transactions involve transferring ownership control and are typically classified as mergers or acquisitions, where one entity gains significant influence over another. M&A success is commonly measured by cumulative abnormal returns (CAR), which quantify the stock price reactions around the announcement period, serving as an objective indicator of shareholder value. MacKinlay's (1997) event study methodology is frequently applied to analyze CAR, offering a reliable framework for assessing M&A outcomes.

In addition to CAR, other metrics like return on assets (ROA) and return on equity (ROE) may be used to assess post-transaction performance, particularly in long-term evaluations (Tsai, 2008).

4. IMPACT OF CORPORATE GOVERNANCE ON M&A SUCCESS

4.1. Board size

The size of a company's board plays a crucial role in shaping M&A outcomes. While larger boards can offer diverse perspectives and expertise, they may also lead to slower decision-making and inefficiencies in the M&A integration process. Optimizing board size is essential for balancing effective oversight with efficient decision-making (Ortiz & Schalkowski, 2015; Brahma et al., 2023).

4.2. Board independence

Independent directors contribute objective perspectives that can align management decisions with shareholder goals. Studies indicate that companies with a higher proportion of independent directors often experience better M&A outcomes due to improved oversight and reduced agency problems (Satapathy et al., 2024).

4.3. Ownership structure and insider ownership

Major shareholders and insider ownership have a substantial influence on M&A decisions. A positive association between insider ownership and M&A success suggests that alignment of interests between management and shareholders promotes value creation. Insider ownership, by directly linking financial outcomes to managerial performance, incentivizes managers to prioritize shareholder returns (Jensen & Meckling, 1976; Brunner-Kirchmair & Pernsteiner, 2016).

4.4. Multiple board mandates

Directors with multiple board roles bring valuable networks and experience, potentially enhancing decision-making in M&A. However, excessive mandates may dilute a director's focus, necessitating a balance between the breadth of experience and the commitment to individual firms (Wright et al., 2012).

5. METHODOLOGY

The study applies a quantitative research design, utilizing event study methodology to analyze the effect of corporate governance structures on CAR among German firms conducting M&A between 2017 and 2023. Governance variables — such as board size, independence, insider ownership, and multiple board mandates — were gathered from the last annual reports prior to the M&A announcement. Statistical analyses, including partial correlation and multiple regression, were employed to examine the relationships between governance factors and CAR (MacKinlay, 1997).

6. EMPIRICAL ANALYSIS AND RESULTS

6.1. Descriptive statistics

The study's sample comprises 48 German publicly listed companies that completed M&A transactions within the specified timeframe. Key data, including board composition and ownership structure, were collected from the companies' annual reports. CAR was calculated using historical stock data from the announcement period.

6.2. Correlation analysis

Partial correlations reveal a positive relationship between insider ownership and CAR, supporting the notion that aligned interests enhance M&A outcomes. Conversely, larger board sizes are negatively correlated with CAR, likely due to delays in decision-making.

6.3. Regression results

Multiple regression analysis confirms that insider ownership and multiple board mandates positively influence M&A success, while larger board sizes negatively affect performance. No significant effect was found for board independence, suggesting that independence alone may not determine M&A outcomes.

6.4. Robustness analysis

To ensure result robustness, additional control variables — such as firm size, book-to-market ratio, leverage, and liquidity — were included in supplementary analyses. The findings remained stable, with insider ownership consistently associated with M&A success (Brunner-Kirchmair & Pernsteiner, 2016).

7. DISCUSSION AND PRACTICAL IMPLICATIONS

The findings underline the importance of insider ownership, optimized board size, and well-considered multiple board mandates in achieving M&A success. Increasing insider ownership can help align managerial incentives with shareholder interests, promoting long-term value creation. Optimizing board size to balance diversity and decision-making agility is also critical; a board size of five to six members is often sufficient for effective governance. Although board independence was not significantly associated with M&A success, recruiting board members with relevant M&A expertise could still enhance oversight quality.

These insights offer practical recommendations for companies aiming to optimize governance structures to support M&A activities. Furthermore, judicious management of multiple board mandates is advised, as excessive commitments can compromise focus.

8. CONCLUSION AND FUTURE RESEARCH

Corporate governance is essential to M&A success, with insider ownership and board composition emerging as key factors. Future studies could explore the long-term effects of M&A using ROA or Buy-and-Hold-Abnormal-Return (BHAR), and conduct cross-national comparisons to understand how governance impacts vary by regulatory environment. Increasing the sample size could also improve the generalizability of these findings.

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