

TRANSFERS OF OWNERSHIP RIGHTS: AN EMPIRICAL STUDY OF FIVE EUROPEAN COUNTRIES

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ABSTRACT:

We study transfers of ownership rights, completed between 1996 and 2004, in five major European countries. We use the traditional literature on corporate governance systems to identify expected groups of countries. Results from the supervised cluster analysis show significant dissimilarities between deals according to the target country. These dissimilarities correspond to the traditional classification of corporate governance systems. An exception is Spain. We show dissimilarities between two groups of countries. There are, on the one hand, deals concerning French, German and, to a lesser extent, Italian targets, and, on the other hand, deals concerning British and Spanish targets. This result reflects recent studies, which stress the new situation of the Spanish corporate governance system which now follows British practice more closely.

JEL-CLASSIFICATION : G21, G24.

KEYWORDS: Corporate Governance Systems, Mergers And Acquisitions, Leveraged Buyouts, Initial Public Offerings, Transfers Of Minority Stakes.

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INTRODUCTION

In the context of increasing globalisation, the landscape of financial services has been changing radically since the beginning of the 1980's. To deal with this new environment, two polar positions have emerged. Some scholars argue that the different corporate governance systems, which describe sets of "relationships between a company's board, its shareholders and other stakeholders" (OECD, 2004, p. 1), have converged towards the economically best system at a rapid pace (Coffee, 1999; Hansmann and Kraakman, 2001). Some others maintain that such convergence cannot occur because of a dependence on a given path (Bebchuk and Roe, 1999; Roe, 2000, 2002): "in short, history matters, because it constrains the way in which institutions can change, and efficiency does not necessary triumph" (Coffee, 2002).

As an empirical contribution to this debate, Wojcik (2006) identifies three groups of studies. The first group focuses on the evolution of ownership structures and shows the declining levels of ownership concentration in major European countries. The second approach is based on case studies of individual countries. Many articles analyse, among European countries, the specific cases of Germany (Schmidt and Tyrell, 1997; Vitols, 2005; Hackethal *et alii*, 2005) and France (Plihon *et alii*, 2002). The third strand of research investigates the similarities and dissimilarities in corporate governance systems by using cross-country data. For instance, Demirgüç-Kunt and Levine (2001) found, during the 1990s, significant differences in financial structures in a sample of 150 countries. La Porta *et alii* (1998) show, on a sample of 49 countries in the mid-1990s, that ownership and financial structures still differ because of legal regimes which protect investors in different ways. But their analysis has been criticised as it postulates the superiority of legal regimes on the other dimensions of corporate governance systems (La Porta *et alii*, 1997). All dimensions, however, are intrinsically embedded to define the nature of a corporate governance system (Schmidt and Spindler, 2002; Caby, 2007; Charreaux, 2009).

Another limit of La Porta *et alii* (1998) and previous works is that they did not consider transfers of ownership rights in their analysis: "[...] this paper says little about merger and takeover rules, except indirectly by looking at voting mechanisms. These rules are spread between company laws, anti-trust laws, security laws, stock exchange regulations, and sometimes banking regulations as well. Moreover, these rules have changed significantly in Europe as part of EC legal harmonization. Until recently, takeovers have been an important governance tool only in a few common law countries although the situation may change" (La Porta *et alii*, 1998, p. 1120). Some studies about corporate governance systems deal with mergers and acquisitions (Rossi and Volpin, 2004; Martynova and Renneboog, 2008; Moschieri and Campa, 2009). But most studies on national or cross-country corporate governance systems deal with publicly held corporations that are often multinational firms. Charreaux (2009) points this paradox in the literature on corporate governance systems as most studies that analyze this issue are based on samples of multinational firms whose governance systems result from the embedding of national systems.

To our knowledge, transfers of ownership rights involving both publicly held and privately held corporations have not been studied in the literature on corporate

governance systems yet. The purpose of our research is to fill this gap. Our paper makes indeed a step towards settling the deficit of empirical evidence on transfers of ownership rights whatever the type of deal or target firm. In this study, we retain a broad definition of transfers of ownership rights. We define them as all transactions that imply a transfer of ownership rights and thus lead to a change in ownership structure of the acquired firm. We thus include: mergers (business combinations in which the number of companies decreases after the transaction), acquisitions of majority interests (all cases in which the bidder ends up with 50% or more of the votes of the target), transfers of minority stakes (below 50%), Leveraged Buy-Outs (LBOs) and Initial Public Offerings (IPOs).

Using the Zephyr database, which contains information on multiple deal types, we address the following research question: do the differences in corporate governance systems lead to different transfers of ownership rights across European countries?

We study transfers of ownership rights in the five main economies of Europe (France, Germany, Italy, Spain and the United Kingdom) as their corporate governance systems remain different, despite the European integration process, at least until the mid-nineties (La Porta et alii, 1998) and we use multidimensional data analysis to stress similarities and dissimilarities across countries.

The paper proceeds as follows. In section 1, we begin by describing the differences in the national corporate governance systems that may explain differences in transfers of ownership rights across countries. We describe data and variables in section 2, while we present the results of multivariate analysis in section 3. Finally, the last section concludes with a discussion on the hypothesis of a convergence process in Europe, stressing the specific case of Spain.

1. CORPORATE GOVERNANCE ACROSS COUNTRIES AND TRANSFERS OF OWNERSHIP RIGHTS

Corporate governance systems are usually classified according to the following three key features: the financial systems (development of capital markets and role of market for corporate control), the legal systems (legal protection of investors) and the level of ownership concentration. Different corporate governance systems may influence the characteristics of national transfers of ownership rights. In this section, we describe these systems, their recent evolution and their potential influence on the way ownership rights are transferred in Europe.

1.1. FINANCIAL SYSTEMS AND TRANSFERS OF OWNERSHIP RIGHTS

The financial system has been taken into account in order to establish institutional differences across countries. Rajan and Zingales (1995) use the dichotomy bank-*versus* market-oriented to classify G-7 countries. The former – including Germany, France and Italy – are characterized by the importance of the banking sector in financing firms and have very small financial markets. The latter – including the UK – have well-capitalized stock and bond markets. The UK is thus a typical market-based financial system whereas Germany, Italy and Spain are rather bank-based systems (Demirgüç-Kunt and Levine, 2001). Until the reforms of the mid-1980s (Bertero, 1994), the French case has become more difficult to classify and

the convergence towards the market-based model is often underlined (Schmidt *et alii*, 1999). The Anglo-Saxon markets are much more liquid than the German ones (Kaplan, 1997). Franks and Mayer (2001) confirm that the number of publicly held companies and the market capitalization are far lower in Germany and France, when compared to the UK. In this context, Demirgüç-Kunt and Maksimovic (1996) characterize the Spanish capital market as one of the less developed both in capitalization value and in volume of shares traded, the banking sector being of greater importance in financing Spanish firms (Azofra-Palenzuela *et alii*, 2008).

Banks play a special role for the corporate governance of German firms (Hackethal *et alii*, 2005; Elsas and Krahnen, 2004). The German financial system is characterized by the close ties and intensive interactions between banks and firms, often described as Hausbank relationships. Links between banks and firms include direct shareholdings, board representation, and proxy voting. With respect to the role of banks as monitoring investors, the evidence does not unanimously support a special role of banks for large firms. But most of the recent evidence regarding small firms suggests that a Hausbank relationship can indeed be beneficial. Hausbanks are more willing to sustain financing when borrower quality deteriorates, and they invest more often than arm's-length banks in workouts if borrowers face financial distress.

The role played by the market for corporate control significantly also differs across countries. Hostile takeovers in the UK are common events, and this activism of the market for corporate control compensates the lack of other internal control mechanisms (Pagano and Volpin, 2001). In contrast, in Continental Europe the high concentration of firm ownership constitutes not only an essential control mechanism, but also one of the main structural barriers to hostile takeovers (Moerland, 1995). The markets for corporate control in Spain (Ocaña *et alii*, 1997) or in Germany (Hackethal *et alii*, 2005) are incipient. For instance, the percentage of hostile takeovers registered in the Spanish market (e.g. 4%, Fernandez and Gomez, 1999) is not comparable with the ones in the major markets such as in the UK (e.g. 25%, Franks and Mayer, 1996). Spain is thus clearly a bank-oriented system, in which financial intermediaries play a prominent role (Pollin and Vaubourg, 2006).

All these persistent differences between financial systems may influence the characteristics of national transfers of ownership rights. In Continental Europe, the degree of bank dependence to finance corporate transactions is higher (Moschieri and Campa, 2009). In contrast, we can expect that, in market-based economies, transfers of ownership rights should more often rely on initial public offerings and should more often involve publicly held firms than in bank-based countries. In addition, higher informational standards in market-based countries can reduce information asymmetries between managers and outside investors, which should favour transfers of shares on external markets. As a consequence, we expect that Management Buy-Ins (MBIs), which involve managers coming from outside, should be more numerous in market-based economies, whereas Management Buy-Outs (MBOs), which involve managers working in the target before the deal, should be more widely used in bank-centred economies. We also expect that deals

should be more frequently paid in shares in the UK (Faccio and Masulis, 2005; Rossi and Volpin, 2004).

1.2. LEGAL REGIMES AND TRANSFERS OF OWNERSHIP RIGHTS

The legal system is considered a fundamental corporate governance feature in literature. The evidence in La Porta *et alii* (1997, 1998, 1999) indicates that the degree of investor protection varies across countries in part because of the differences in their legal origin. The common-law countries, such as the UK, have the strongest legal protection of investors, while the French-civil-law ones, such as France, Italy and Spain, have the weakest. Demirgüç-Kunt and Maksimovic (1998) show that the Spanish legal system scores on a legal efficiency index below Anglo-Saxon countries, and even below the remaining Continental European countries. Germany belongs to the group of German and Scandinavian civil law countries, which is intermediate between the common law and the French civil law systems. In the German and Scandinavian civil law countries, the power of enforcement of contracts is better than in the French civil law countries.

Martynova and Renneboog (2008) propose an analysis based on country-level indices that are more elaborate than the indices developed by La Porta *et alii* (1998). They have created a corporate governance database that comprises the main changes in corporate governance regulation in all European countries over the last 15 years. For each country, they quantify corporate law, stock exchange regulation and corporate practices, and measure their effectiveness in mitigating the conflicts of interest between the various corporate constituencies: management, majority and minority shareholders, and creditors. They find that the countries of English legal origin have the highest corporate governance standards with respect to shareholder protection. They are followed by the countries of French and German legal origin. Results also show that there have been substantial changes in corporate governance standards in virtually every country in Europe since the early 1990s. However, in 2005, the countries of English legal origin still provide the highest quality of shareholder protection. Over time, shareholder rights and minority shareholder protection have increased throughout Continental Europe and the UK, whereas creditor protection has been reduced in Western Europe. In the mean time, many Continental European countries have improved their legal system and moved closer to the standards set by the English legal system. For instance, the French corporate governance system was ranked second (behind the UK) by the Standard and Poor's Transparency and Disclosure Study for Europe in 2003, probably due to the important reforms that have taken place for about twenty years, especially under the pressure from foreign institutional investors who hold nowadays a significant capital share in the principal French corporations (Charreaux and Wirtz, 2007). According to this study, companies in Germany, Italy, and Spain demonstrate notably lower levels of disclosure.

The trend toward convergence in Europe is supported by Armour *et alii* (2009). These authors show that, in the last 10-15 years, there has been some convergence, particularly in relation to shareholder protection. By contrast, Siems (2009) does not confirm this trend. He finds that, between 1970 and 2005, the laws have

converged in shareholder protection, but they have diverged in worker protection and in creditor protection converging and diverging trends even out.

Rossi and Volpin (2004) find that, in spite of globalisation and European Unification, differences in legal systems still have a significant impact on Mergers and Acquisitions across countries. They show significant relations between the origin of the legal system and some characteristics of cross-border Mergers and Acquisitions. Based on the typology established by La Porta *et alii* (1998), volumes of deals are higher in countries with higher informational standards and better shareholders protection, namely in countries with common law as the legal origin. According to these authors, payments in cash are more frequent in countries with better investor protection i.e. in common law countries. We can also expect that financing is more based on capital increases in the regime of common law.

1.3. OWNERSHIP CONCENTRATION AND TRANSFERS OF OWNERSHIP RIGHTS

As it is well known, UK firms are generally characterized by dispersed shareholdings. In contrast, in most of Continental Europe, firm ownership is much more concentrated (Franks and Mayer, 2001; Faccio and Lang, 2002). Studies show a higher concentration of shareholdings in Germany (Franks and Mayer, 2001; Gorton and Schmid, 2000), in France (Bloch and Kremp, 2001; Boubaker and Labégorre, 2009), in Italy (Barca, 1995), and in Spain (Crespí-Cladera and García-Cestona, 2003). Particularly, La Porta *et alii* (1999) report that 85% of Spanish firms have a controlling shareholder⁴, in contrast to only 10% in the UK. While the majority of Spanish firms are owned by domestic capital, the study by Heindrick & Struggles (2005), a consulting firm, notes the following: first, state ownership has fallen dramatically, owing to the massive privatization programme initiated in 1996. Second, there has been a steady increase in the proportion of equity held by domestic firms, suggesting a further strengthening of business groups, or holdings by former state-owned firms and industrial banks. And third, while the percentage of foreign-capital ownership remains low, it has been increasing. Several recent developments stand out. As the proportion of equity held by the state has decreased, so there has been a corresponding dramatic increase in ownership by non-financial firms.

Enriques and Volpin (2007) stress that, going by the median fraction of votes owned by the largest shareholder in all listed companies, ownership is highly concentrated in Germany and Italy, and diffused in the UK, with France in an intermediate position. At the end of the 1990s, the French system underwent drastic changes, such as an increase in foreign ownership and a visible decline in the number of cross-shareholdings, although family ownership remained a dominant factor (Faccio and Lang, 2002). It is also worth mentioning that the State now merely controls a marginal capital stake of about 2% in French listed companies as a result of privatizations of major companies (Charreaux and Wirtz, 2007). These changes in French ownership structure came about as a response to financial resource acquirement leading French firms to adopt selective legal and institutional modifications tending towards the Anglo-saxon model (Lee and Yoo, 2008).

⁴ Shareholder whose direct and indirect voting rights in the firm exceed 10 percent.

Pollin and Vaubourg (2006) explain that the nature of blockholders is also diverse according to countries. In the UK, the biggest blockholders are essentially institutional investors but their power of control is low on average. In Germany, family capitalism, participation in the capital of other companies and participation of financial institutions are the controlling powers. In Italy and Spain, families and pyramidal structures hold this power.

Several studies stress relationships between transfers of ownership rights and concentration of ownership. Thus, according to Shleifer and Vishny (1986), transfers of control are easier in companies with more concentrated ownership structure because they overcome the free-rider problem in takeovers. Indeed, when ownership is dispersed, each shareholder of the target company, if success is anticipated, hopes to benefit from a future increase in share value, which could be higher than an immediate purchase of shares. According to Grossman and Hart (1980), in this case, each target shareholder wants to become the free-rider of the bidder that is to benefit completely from the improvements the bidder intends to bring to the firms' operations. Rossi and Volpin's results (2004) corroborate this hypothesis since they show that countries with a higher level of ownership concentration have more Mergers and Acquisitions.

According to Bolton and Von Thadden (1998), corporate acquisitions and concentration of ownership are two different ways for controlling managers. Lower concentration of ownership makes financial markets more liquid and thus facilitates takeovers. Consequently, according to this argument, acquisitions (in particular, hostile ones) should be more numerous in countries with dispersed ownership as they are easier to implement. In addition, differences in concentration of ownership across countries can also have an impact on deals types. Schleifer and Wolfenzon (2002) argue that concentration of ownership characterizes countries with lower investor protection because companies have no opportunity to sell shares to minority shareholders when investors are not well protected by the law. Transfers of minority stakes should be less frequent in countries with higher concentration of ownership.

Moschieri and Campa (2009) underline that differences in ownership concentration reflect in the acquisition techniques as public tender offers are more frequent in the UK than the rest of Europe, where deals often occur also through private negotiations. These differences also reflect in the friendliness of the bids, payment method, and role of Private Equity firms. In particular, Mergers and Acquisitions in the UK are less likely to be friendly, and more likely to be paid in cash than in the rest of Europe.

To conclude, we can identify in the literature on corporate governance lots of arguments which justify the hypothesis of persisting differences in transfers of ownership rights across the largest European economies. Despite recent changes in most of these countries towards a greater role played by financial markets, higher informational standards and better shareholders' protection, the literature on corporate governance systems stresses the historical opposition between the United Kingdom and Continental Europe. As a consequence, we expect to find an

opposition between the deals involving British targets and those involving targets from Continental Europe.

2. DATA DESCRIPTION

2.1. SAMPLE SELECTION

To study transfers of ownership rights in Europe, we use a sample of deals reported in Zephyr, a database from Bureau Van Dijk. This database contains information on various types of deals including M&A activity, IPOs, joint ventures and private equity deals. It includes deals involving European companies going back to 1996. No minimum is required to integrate Zephyr so that all deals can be analysed in detail, irrespective of the transaction size. In this research, we use the population of completed deals reported by Zephyr for the period September 1996 – May 2004.

We select all transactions that imply transfers of ownership rights i.e. mergers (business combinations in which the number of companies decreases after the transaction), acquisitions of majority interests (all cases in which the bidder ends up with 50% or more of the votes of the target), transfers of minority stakes (below 50%), Leveraged Buy-Outs (LBOs) and Initial Public Offerings (IPOs). Focusing on targets (companies being sold, or companies in which a stake is being sold) from five European countries (France, Germany, Italy, Spain and the United Kingdom), 47,942 deals are selected. The lack of available data on these deals leads us to limit the size of our sample to 21,155 deals for which the deal type is available.

The distribution of deals according to target countries is given in Table 1. We notice the high proportion of deals that involve British targets. In interpreting the results, we must be aware that the availability and quality of the data may be better in the United Kingdom because of broader Zephyr coverage. Moreover, the country's coverage improved over time. To correct these differences in Zephyr coverage, we use a weighting procedure to redress the sample and to make it representative of the total population according to the target's country.

TABLE 1. DESCRIPTIVE STATISTICS OF NOMINAL VARIABLES

Target country		
	Number	% / Total
France	3 495	16,52
Germany	3 424	16,18
Italy	2 232	10,55
Spain	1 655	7,82
United Kingdom	10 349	48,92
Total	21 155	100,00
Deal type		
	Number	% / Total
Acquisition	10 286	48,62
Minority	3 986	18,84
MBO	243	1,15
IPO	1 046	4,94
IBO	469	2,22
MBI	883	4,17
Merger-Demerger	4 243	20,06
Total	21 155	100,00
Deal sub-type		
	Number	% / Total
Capital Pool	1	0,00
Contested bid	19	0,09
Deferred payment	91	0,43
Demerger	20	0,10
Exit	990	4,68
Exit - new stake	7	0,03
Hostile bid	8	0,04
Leveraged build-up	126	0,60
PIPES	28	0,13
Partial exit	115	0,54
Privatization	125	0,59
Public takeover	1 152	5,44
Recommended bid	168	0,79
Reverse take-over	65	0,31
Start up	4	0,02
Unsolicited bid	6	0,03
Total	2 926	13,83

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Deal financing		
	Number	% / Total
Capital increase	647	19,07
Corporate venturing	20	0,10
Development capital	850	4,02
Mezzanine	45	0,21
New bank facilities	416	1,97
Syndicated loan	43	0,21
Venture capital	2 033	9,61
Total	7 441	35,17
Deal payment method		
	Number	% / Total
Cash	9 275	43,85
Converted Debt	20	0,09
Debt	237	1,12
Earn-out	29	0,14
Loan notes	92	0,44
Other	82	0,39
Shares	847	4,00
Total	10 581	50,02

The deal value is very heterogeneous in our sample from a minimum equal to 10 k€ to a maximum of 200,823,000 k€ with an average of 214,573 k€ and a standard deviation equal to 2,444,610 k€. Targets more frequently belong to one of the four following sectors: computer & information technology (15.87%), personal leisure (13.82%), banking and insurance (9.10%) and industrial electric (8.74%). The sector of banking and insurance gathers 22.48% of bidders, far ahead personal leisure (7.04%), computer and information technology (6.41%) and industrial electric (4.37%). Finally, bidders come from the United Kingdom (33.40%), France (11.13%), Germany (9.14%), Spain (5.43%) and the United States (5.41%).

2.2. DESCRIPTION OF VARIABLES

Five qualitative variables are used to describe the characteristics of the deals.

First, the primary deal type is identified. Owners have indeed several options when it comes to transferring ownership of their business. We distinguish acquisitions of majority interests (above 50%), transfers of minority stakes (below 50%), MBOs, IPOs, IBOs⁵, MBIs and mergers and demergers. In Table 1, we observe the high proportion (quite 50% of deals) of acquisitions of majority interests in our sample followed by mergers – demergers (20.06%) and transfers of minority stakes (18.84%).

Second, we then consider a variable that specifies more precisely the nature of deals. This variable, called in Zephyr deal sub-type, makes it possible to distinguish between hostile or contested bids, exits, public takeovers, privatizations, reverse take-over and LBUs (Leveraged Build-Ups⁶).

Third, we select a variable that identifies the deal financing. Several modalities are distinguished: capital increases (with different modalities), debt, and financing by private equity firms (specialized in venture capital or development capital, possibly joined by a standard company). Table 1 shows the large part of deals financed through capital increases (54.21% of deals for which information about deal financing is available) and private equity (38.02%).

The fourth qualitative variable concerns the deal's payment method. This variable indicates whether the price is paid in cash, by shares, by debt or with an earn-out. In Table 1, we observe among the deals for which information about payment method is available the high proportion of payment in cash (87.66%) and the low proportion of debt (4.3%) and earn-out (0.27%).

The fifth variable (target quotation) specifies whether the target company's stock are publicly traded on the stock market (quoted). 67.44% of targets in the sample are privately held firms (unquoted).

For all the variables that allow multiple answers, we retain only the main answer. For instance, if a deal is financed by both capital increase and debt, then we retain only the main financing resource. Table 2 present the variables in the data set and their respective modalities.

⁵ IBOs are Institutional Buy-Outs, that is LBOs, in which a private equity firm takes the majority stake.

⁶ An LBU is an LBO, in which a private equity firm builds up the company it owns by acquiring other companies to amalgamate into the larger firm, thus increasing the total value of its investments through synergies between the acquired companies.

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TABLE 2. VARIABLES AND THEIR MODALITIES

Variables	Modalities
Deal type (D.T)	Acquisition Minority MBO IPO IBO MBI Merger-Demerger
Deal sub-types (D.S.T)	Capital Pool Contested bid Deferred payment Demerger Partial Exit Exit - new stake Hostile bid Leveraged build-up PIPES Partial exit Privatization Public takeover Recommended bid Reverse take-over Start up Unsolicited bid
Deal financing (D.F)	Capital increase Private equity – capital increase Private equity – development capital Private equity – venture capital Debt – Mezzanine Debt – new bank facilities Debt – Syndicated loan
Deal payment method (D.P)	Cash Converted debt Debt Earn-out Loan notes Other Shares
Target quotation	Quoted Unquoted

2.3. METHODOLOGY

Data analysis methods allow collecting a great number of variables so as to obtain the best summary of the information gathered in voluminous data basis. These methods prevent from making any *a priori* assumptions in the modelization of the characteristics of the transfers of ownership rights across countries (Benzecri, 1973).

In this article, a multivariate analysis is carried out in order to find the characteristics of deals according to the target's country. More precisely, in order to stress differences according to European countries, we use a barycentric discriminant model where the target country is the explained qualitative variable and the five variables introduced above (deal type, deal sub-type, deal's payment

method, deal financing and target quotation) are the explanatory qualitative variables. Barycentric discriminant analysis (Nakache, 1981; Nakache and Confais, 2003) is an adaptation of correspondence analysis to the problem of discrimination based upon qualitative variables. It determines the variables that discriminate the most between groups of deals classified according to their nationality. This method is a supervised clustering method, in which the number of target countries fixes the number of classes. It was found to be a suitable approach for identifying the modalities of the explanatory variables that characterize the most each country.

We applied an Ascendant Hierarchical Classification with Ward's criterion (Ward, 1963)⁷ on the significant principal components of the Factorial Correspondences Analysis (Benzecri, 1976). In the cross table, the rows are made up of the five modalities of the target country variable that we want to explain. The columns are built with a juxtaposition of the modalities of the explanatory variables. The Ascendant Hierarchical Classification applied to the results of the correspondence analysis, consists in looking for countries (more precisely here, the centre of gravity of the national deals) that are the closest in terms of distance. The proximity between two countries, a country and a group of countries, or two groups of countries is described by the height of the branch of the hierarchical tree (aggregation index). We also continue with countries or groups of remaining countries until all the countries are grouped together in the same class. So, in the dendrogram, the possible groupings can be presented according to the values of the distances and the aggregation indexes. The more the distance is low, the more the aggregation index is low, and the more the similarity is strong.

3. RESULTS OF MULTIVARIATE ANALYSIS

The results of the barycentric discriminant analysis are given in Table 3. This table presents the statistical description of the content of each class i.e. the most significant discriminant modalities of the explanatory variables. The standard profile of a class (country) is based on qualitative variables whose identification is based on comparisons of percentages of the modality in the class and of this same modality out of the class (sample) taking into account the degree of inclusion of the class in the modality. The most characteristic modalities that come out of each class stem from the gap between the relative values of the class and the global values. These values are converted into a test-value criterion (Value-Test). This last value is given in Table 3 in a decreasing order with a risk of error (Probability) inferior to 5%.

This table reports the typology of the transfers of ownership rights, that is to say the characterization of the 5 classes according to the characteristics of deals. The modalities of qualitative variables characterize the 5 classes of target countries. The qualitative variables are: deal type (D.T), deal sub-type (D.S.T), deal financing (DF), deal's payment method (D.P), target quotation (quoted/unquoted).

⁷ Upon generalized Ward's criterion, aggregation is based on the criterion of the loss of minimal inertia.

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TABLE 3. RESULTS OF THE BARYCENTRIC DISCRIMINANT ANALYSIS

French deals						
Characteristical frequencies	% of frequency in sample	% of frequency in class	% of class in frequency	Value-Test	Probability	Weight
Profile						
D.T: Minority stake	6.30	12.08	29.96	23.61	0.000	3986
D.T: IBO	0.74	1.67	35.26	10.38	0.000	469
D.F: Development capital	1.34	2.35	27.33	8.69	0.000	850
D.F: Venture capital	3.21	4.62	22.47	8.17	0.000	2033
D.S.T: Acquisition	16.26	18.42	17.69	6.20	0.000	10286
D.S.T: Public takeover	1.82	2.56	21.94	5.62	0.000	1152
Unquoted	22.55	24.59	17.03	5.20	0.000	14267
D.T: IPO	1.65	2.26	21.37	4.87	0.000	1046
D.T: MBO	0.38	0.70	28.39	4.87	0.000	243
D.S.T: Partial exit	0.18	0.40	33.96	4.80	0.000	115
German deals						
Characteristical frequencies	% of frequency in sample	% of frequency in class	% of class in frequency	Value-Test	Probability	Weight
Profile						
D.T: Minority stake	6.30	10.76	25.27	17.87	0.000	3986
D.T: IPO	1.65	3.91	35.00	16.33	0.000	1046
D.F: Capital increase - o	0.29	0.85	43.00	9.08	0.000	186
D.T: MBO	0.38	0.94	36.26	8.09	0.000	243
D.T: Acquisition	16.26	19.11	17.39	7.90	0.000	10286
D.T: IBO	0.74	1.34	26.76	6.62	0.000	469
D.F: Capital increase	1.02	1.70	24.52	6.41	0.000	647
Unquoted	22.55	24.96	16.38	5.94	0.000	14267
D.S.T: Privatization	0.20	0.43	32.13	4.80	0.000	125
Quoted	10.89	11.61	15.78	2.36	0.009	6888
D.P: Debt	0.37	0.50	19.75	1.86	0.031	237
Other	0.13	0.20	23.25	1.67	0.048	82
Italian deals						
Characteristical frequencies	% of frequency in sample	% of frequency in class	% of class in frequency	Value-Test	Probability	Weight
Profile						
D.T: Minority stake	6.30	24.10	33.63	46.16	0.000	3986
Quoted	10.89	22.45	18.13	26.12	0.000	6888
D.T: Privatization	0.20	0.55	24.34	5.02	0.000	125
D.T: IBO	0.74	1.02	12.11	2.25	0.012	469

Spanish deals						
Characteristical frequencies	% of frequency in sample	% of frequency in class	% of class in frequency	Value-Test	Probability	Weight
Profile						
D.T: Merger-Demerger	6.71	14.62	16.25	19.97	0.000	4243
Unquoted	22.55	27.45	9.07	8.17	0.000	14267
D.T: Acquisition	16.26	17.94	8.22	3.17	0.001	10286
D.S.T:	0.20	0.38	14.30	2.30	0.011	125
Privatization	0.18	0.31	12.86	1.70	0.044	115
D.S.T: Partial exit						
UK deals						
Characteristical frequencies	% of frequency in sample	% of frequency in class	% of class in frequency	Value-Test	Probability	Weight
Profile						
D.T: Merger-Demerger	6.71	10.33	82.16	40.70	0.000	4243
D.T: MBI	1.40	2.48	94.76	27.59	0.000	883
D.P: Cash	14.66	17.33	63.02	20.37	0.000	9276
D.F: Capital increase - p	2.25	3.14	74.62	16.69	0.000	1421
D.F: Capital increase - v	2.20	2.97	72.15	14.48	0.000	1389
D.F: New bank facilities	0.66	1.06	85.50	13.97	0.000	416
D.F: Loan notes	0.15	0.27	97.72	9.66	0.000	92
D.S.T:						
Recommended bid	0.27	0.41	83.11	8.06	0.000	168
D.S.T: Exit	1.57	1.93	65.58	7.82	0.000	990
D.S.T: Reverse take-over	0.10	0.18	94.12	7.08	0.000	65
D.S.T: Deferred payment	0.14	0.23	85.21	6.20	0.000	91
D.P: Shares	1.34	1.60	63.79	6.18	0.000	847
D.F: Debt	0.37	0.47	66.59	3.97	0.000	237
D.P: Earn-out	0.05	0.07	88.01	3.86	0.000	29
D.T: Demerger	0.03	0.06	94.24	3.83	0.000	20
D.F: Mezzanine	0.07	0.11	82.39	3.79	0.000	45
D.F: Capital increase - c	0.19	0.25	70.51	3.60	0.000	118
D.S.T: Contested bid	0.03	0.05	82.95	2.56	0.005	19
D.F: Converted Debt	0.03	0.04	77.11	2.06	0.020	20
D.F: Capital increase - r	0.42	0.48	60.02	2.04	0.021	268
D.S.T: Leveraged build-up	0.20	0.24	62.78	2.03	0.021	126

Concerning the deal types and deal sub-types, we observe that in France, Germany and Italy, deals are more often than in other countries transfers of minority stakes and IBOs and, for the first two ones, IPOs and MBOs as well. In Spain like in the

UK, we observe the higher proportion of mergers-demergers among transfers of shares. Finally, we notice among UK deals the high frequency of MBIs in comparison with the other countries. These results on deal types do not confirm our expectations on the relative role of MBIs and MBOs according to the nature of financial systems. As expected, MBOs are indeed more frequent among transfers of ownership rights in traditional bank-based countries than in rather market-based countries where MBIs are more frequent. In contrast, we do not find any evidence to support the idea of a higher proportion of IPOs in market-based countries. We indeed observe a higher proportion of IPOs in rather traditional bank-based countries, i.e. in France and in Germany. Finally, our results do not confirm at all the expectations based on the analysis of the influence of ownership concentration on transfers of ownership rights. Transfers of minority stakes are more frequent in countries with higher concentration of ownership, i.e. France, Germany and Italy.

Concerning the deal financing, we observe the great diversity of modalities used in the UK in comparison with all other countries. The class of UK deals is indeed characterized by the significant use of both capital increases and a large range of debt financings (mezzanine, loan notes, new bank facilities and converted debt). This result is in line with Pollin and Vaubourg (2006) who find a high level of bank intermediation in the UK market-oriented system. The significant use of all financial tools may illustrate that the UK is a more mature financial economy than the others. It is interesting to notice that in Germany whose financial system is often considered as bank-oriented, the financing of transfers of ownership rights is more often based on capital increases. This result contradicts the analysis of the influence of financial systems on the nature of transfers of ownership rights. It coincides with the conclusions of previous studies that show that the level of debt financing is not so high in Germany (Pollin and Vaubourg, 2006) and that it is wrong to regard German firms as depending more than UK firms on bank loans (Edwards and Fisher, 1994). Nonetheless, Hackethal et alii (2005) argue that there is a need to differentiate. Large corporations have become increasingly independent from long-term bank financing but banks still offer loans to small- and medium-sized enterprises. In France, we can underline the high frequency of deals financed by private equity. Finally, in Italy and Spain, the deal financing does not appear as a significant characteristic.

Concerning the payment method, cash is largely dominant in the UK where all other forms of payment (shares, debt and earn-outs) are significantly used too but with very low frequencies. This result is in line with Moschieri and Campa (2009) who also highlight the preponderance of cash deals in Mergers and Acquisitions involving publicly held targets in the UK. German deals are, as expected in a bank-based system, characterized by payments by debt. In the other countries, the way the deal is paid is never significant. This result rather confirms the opposition between traditional market-based countries, like the UK, and historical bank-based countries, like Germany. The use of payment methods is indeed totally in line with our expectations based on the analysis of the influence of legal regimes on transfers of ownership rights.

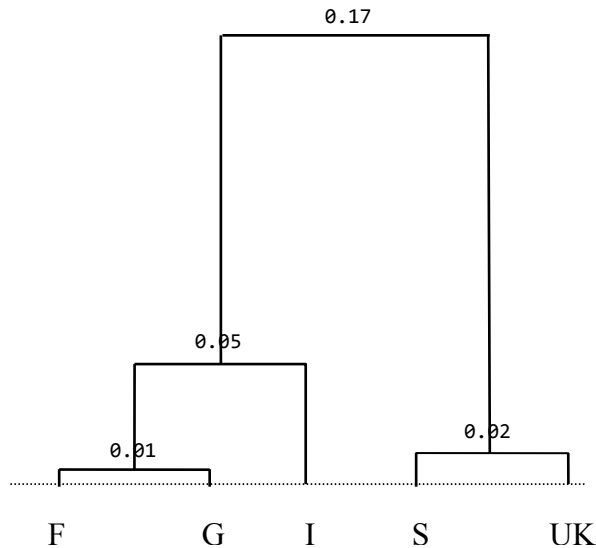
Finally, companies involved in transfers of ownership rights are rather privately held in Spain and France whereas they are rather publicly held in Italy. In Germany,

these two kinds of firms are involved with a higher proportion of privately held ones. In the UK, the fact that the firm may be listed or not does not account among characteristics, which discriminate the most transfers of ownership rights.

The dendrogram in Figure 1 synthesises the analysis of similarities (and dissimilarities) between countries. It is a clustered graphic tree (ClustanGraphics tree) that summarizes the final classification of the five target countries obtained using Ward's method.

The 5 classes of target countries are France (F), Germany (G), Italy (I), Spain (S) and the United Kingdom (UK).

FIGURE 1. HIERARCHICAL TREE OF THE NATIONALITY OF TARGETS ACCORDING TO THE CHARACTERISTICS OF TRANSFERS OF OWNERSHIP RIGHTS



Results in Figure 1 and Tables 4 and 5 stress two relative proximities between countries: first, the proximity between France and Germany (smaller distance and index), and at a lesser extent Italy, and second, the proximity between the United Kingdom and Spain.

TABLE 4. MATRIX OF DISTANCES BETWEEN CLASSES

	F	G	I	S	UK
F	0.000				
G	0.243	0.000			
I	0.754	0.828	0.000		
S	0.806	0.708	1.240	0.000	
UK	0.787	0.822	1.174	0.433	0.000

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TABLE 5. AGGREGATION INDEX

Order	1	2	3	4
Aggregation	{(F , G)}	{(S , UK)}	{(F , G) , I}	{(F , G , I) , (S , UK)}
Aggregation Index	0.01	0.02	0.05	0.17

French and German deals gather because they concern, more often than the others, minority transfers, IBOs, acquisitions, IPOs and MBOs. In these two countries, a large proportion of targets are privately held. However, some differences remain. In France, we observe, with a higher frequency than the average, public takeovers and partial exits and deals financed by private equity. In Germany, we observe, more often than elsewhere, acquisitions and privatizations, deals financed by capital increase or debt. Finally, German targets are more frequently publicly held. This result is not in line with Hackethal et alii (2005) who find that capital markets still do not play an important role in Germany.

French and German deals are close to Italian ones. Italian deals concern, more often than elsewhere, minority transfers, privatizations and IBOs on quoted firms. British and Spanish deals are close together because they concern, more often than the others, mergers and demergers. This result is surprising because differences in ownership concentration levels between these two countries should have led to a very different result with a higher proportion of minority transfers in Spain. The Spanish case is interesting, as it cannot be explained by the traditional literature on corporate governance systems. The highly concentrated firm ownership, the lower level of capital market development, the low activism of the takeover market and the limited legal protection of investors are characteristics peculiar to the Spanish corporate governance system – characteristics that differentiate it from those of the UK. One possible explanation to this unexpected result is that several changes have occurred in the Spanish corporate governance system. In particular, the massive privatization programme initiated in 1996 has modified the ownership structures of the main Spanish companies and has certainly favoured mergers and acquisitions transactions initiated by both domestic and foreign firms. This interpretation is in line with the Heindrick and Struggle's study (2005) which notes a steady increase in the proportion of equity held by domestic firms, suggesting a further strengthening of business groups, or holdings by former state-owned firms and industrial banks and an increase in the percentage of foreign-capital ownership.

CONCLUSION

Discriminant analysis on a large sample of transfers of ownership rights completed between 1996 and 2004, in the five major European economies, highlights persistent differences between deals, according to targets' country. However, results also show strong similarities between deals on French, German and Italian targets. Moreover, deals involving British targets are different from those involving

Continental ones, except Spanish ones. This is surely one of the most interesting results underlined by this empirical study: Spanish deals are close to British ones.

This result was not expected from the literature on corporate governance systems. It is, however, in line with some studies, which indicate the new position of Spain in Europe. Boutillier *et alii* (2002) find on a sample of publicly held firms that the largest shareholder holds on average almost half of the capital in France and in Germany. Pollin and Vaubourg (2006) add that in Italy the largest shareholder of a publicly held firm owns about 40 % of its market capitalization, whereas in Spain and in the UK he or she holds nearly 20 %. In another study by Kirchmaier and Grant (2005), Spain also appears as somewhat of an outsider in Continental Europe in terms of ownership structure. They find that the predominant investor type of the largest public companies is family ownership in France, Germany and Italy, whereas corporate and financial owners are the most prominent in Spain. They also show that large Spanish firms have more in common in terms of dispersed ownership structures with the UK than with Continental Europe.

Our study confirms the specific situation of Spain among Continental European countries when we focus on transfers of ownership rights. The Spanish case is interesting because, despite the dominance of banks, Spain can be seen as an example of the general tendency of national financial systems to become more market-oriented as they become richer. One possible explanation to this unexpected result is that several changes have occurred in the Spanish corporate governance system. In particular, the massive privatization programme initiated in 1996 has modified the ownership structures of the main Spanish companies. Moreover, Spain, like many Continental European countries, has improved its legal system and moved closer to the standards set by the English legal system since the early 1990s (Martynova and Renneboog, 2008). These changes have certainly favoured mergers and acquisitions of Spanish firms initiated by both domestic and foreign firms. The unexpected position of Spain could be explained if the Spanish legal system has converged towards the British one at a more rapid pace than in other French-civil law systems.

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