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# Geography of Mergers and Acquisitions in the Container Shipping Industry

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**Abstract**

The paper examines the geographic dimension between acquiring and target firms to take into account the information cost which decreases synergy effects generated by M&As in the container shipping industry. The paper finds that the geographical distance has a negative impact on takeover flows. M&A activities were more intense among firms located closely each other. The paper provides evidence that the firm size raises the relative acquiring probability for inter-regional and cross-border M&As. While the existing literature suggests that financially underperforming firms are more likely to be targeted by a firm, the paper argues that the smaller and unquoted public firms are more vulnerable to M&As.

Key Words : Shipping Industry, Mergers and Acquisitions, Geographic Distance, Information Cost, Synergy Effect

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# I. Introduction

Many scholars have examined mergers and acquisitions (M&As) from different perspectives. This includes the financial and economic implications, operating-wise implications[1], and the motives and the underlying environmental circumstances leading to M&As[2]. Researches with regard to their motives are primarily focused on the empirical verification of theories, such as synergy effects, cost efficiency, managerial discretion or hubris[3].

As the container shipping industry is characterized by the capital intensity, shipping companies intend to rationalize their business activities, to create economies of scale in order to minimize financial risks[4]. Studies examining implications of mergers and acquisitions in shipping industry is relatively limited[5]. In ocean liner shipping, the announcement of merger and acquisitions has a direct positive impact on the stock price of the companies[6]. This finding is supported by Samitas and Kenourgios (2007) who investigated mergers and acquisitions in the tramp shipping industry and found that mergers and acquisitions increased shipping firms' stock prices and financial value.

Camerlynck and Ooghe (2002) test the hypothesis that acquiring firms are superior to target firms who are underperformers in terms of profit, solvency, liquidity, performance and failure risk. They found that larger targets had higher short and long term failure risk compared to smaller targets. They suggest that the acquirers are interested in acquisition candidates, which complement them regarding sales and growth. The candidate firms should possess high growth and investment opportunities. Merikas, Polemis, and Triantafyllou (2011) argue that the acquirers appear to implement a takeover in order to solve their own resource imbalance.

When two identical sized firms, located in different areas, present nearly similar synergy effects or cost efficiency after an M&A, which firm should the acquiring shipping firm choose for a target to maximize the

1) Carbone and Stone(2005), pp.495-510.

2) Fussillo(2009), pp.209-226; Brooks and Ritchie(2006), pp.7-22.

3) Krishnan et al.(2007), pp.709-732; Lane et al.(1998), pp.555-578.

4) Merikas et al.(2011), pp.9-22.

5) Andreous et al.(2012), pp.1221-1234.

6) Panayides and Gong(2002), pp.55-80.