
The Newsletter of the EURO Working Group on Financial Modelling

NEWSFLOW

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NEWSFLOW

Editor

Hélène Molenaar
Erasmus University Rotterdam
Dept. of Finance & Investments, Room H14-01
P.O. Box 1738
3000 DR Rotterdam
The Netherlands

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Subscription is free for members of the EURO Working Group on Financial Modelling. See back cover for information on membership.

Invitation to readers

Readers are invited to actively contribute to the newsletter. Examples are book reviews, announcements, opinions, lists of published papers, etc.

You can also find information about the Euro Working Group on the internet site

<http://www.eur.nl/topics/finance/ewgfm/ewgfm.htm>

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Editorial

Mergers and acquisition in the European financial sector-analysis and future trends

In the last years the banking sector has witnessed tremendous M & A activity everywhere in the world. This has led to a spate of consolidation in the sector and the European banks have not been far behind in their move for consolidation. This movement had for consequence the creation of giants such as Deutsche Bank, UBS, HSBC, Credit Lyonnais and BNPParibas. The trend for consolidation is continuing and it now extends to the insurance sector, the best example being the case of German Bank Dresdner and the German insurance company Allianz(2001).

According to the financial theory, when a firm buys another company, it is a capital investment and the basic principles of capital decisions apply. The acquisition decision should contribute to the shareholder's wealth. The difference between a classic capital budgeting and an acquisition decision is that in the second case the shareholders of two separate firms are involved and it is logical that the wealth of the shareholders of both firms is increased. In other words, the synergy gains from the merger operation should be shared between the shareholders of the two firms. (Meyers).

The economic gain of a merger is obtained by adding the present values of the excess cash flows of the merged firms as compared to the cash flows of the two firms if they operated as independent firms. The discount rate should be the cost of capital of the merged firm. Therefore, a merger operation is only justified if the two firms together are more worth than when they operate separately.

The economic gain is then shared between the shareholders of the two firms. The synergy gains can be due to increased cash flows or decrease in the cost of capital or eventually a combination of both. However, the estimation of the synergy gains is very difficult to estimate, particularly in the case of banks and insurance companies.

Different studies (Jensen and Ruback) have been carried out to see if there are any positive abnormal returns to the acquiring firm's shareholders and to the selling firm's shareholders. The results are not conclusive even if most of the articles published show that the returns tend to be positive for the shareholders of the target company. The financing method used (cash or stock) has an influence on the returns. This is explained by the asymmetric information between the management of the acquiring firm and the acquired firm (Asquith, Bruner and Mullens).

We feel that each M and A operation is to a certain extent unique because the econometrics studies over a period of time do not capture properly the specific factors linked to the economic environment and more specifically the importance of the behavioral and domino effects. We feel that in depth case study approaches are useful to capture the different dimensions of M and A operations particularly in the financial sector.

The available case studies show clearly that in the majority of the cases potential buyers were keen to consolidate their position because they felt that they are likely to be targets for takeover bids given their relative size in terms of market capitalization. The move from their part was more a defence mechanism than a proactive approach for value creation for the shareholders.

Alain Chevalier and Jyoti Gupta
Professors ESCP-EAP
European School of Management

Call for papers EJOR

Thus far, the European Journal of Operational Research has published a number of special issues on Financial Modelling:

Issue 74/2, edited by T. Martikainen, I. Virtanen and P. Yli-Olli;

Issue 91/2, edited by E. Castagnoli and J. Spronk. In 1998, the European Journal of Operational Research together with the EURO Working Group on Financial Modelling decided to start a more regular series of feature issues.

A feature issue on financial modelling is an issue of EJOR partly or wholly devoted to financial modelling. The intended frequency of these feature issues on financial modelling is once or twice per year.

Papers on financial modelling are solicited that help to solve financial-economic decision problems in practice. Papers may relate to new insights, both theoretical and empirical, into the environment in which decision makers operate, new tools available to the decision makers and to the integration of these tools within frameworks for financial-economic decision-making. Papers that stimulate and strengthen the interaction between financial economic theory and the practice of financial decision-making will be especially welcome.

The first feature issue was published as Issue Volume 114, Number 2, April 16, 1999, and edited by J. Spronk. A stream of issues followed this; some of which have been published and the others will follow soon.

Authors who want to submit to the upcoming feature issue are kindly invited to submit four copies of their paper to the Guest Editor Financial Modelling:

Nico van der Wijst
The Norwegian University of Science & Techn.
Dept. of Managerial Economics &
Techn. Management

Alfred Getz vei 1
N-7034 Trondheim
NORWAY
Tel. + 47.73.597712
Fax + 47.73.593603
E-mail: Wijst@iot.ntnu.no

With respect to format and other requirements of submitted work, the authors are kindly referred to the Instructions to Authors, which can be found in every issue of EJOR. For the feature papers there is a separate board of editors, consisting of

Wolfgang Bühler, University of Mannheim, Germany

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Paris 12-14 May 2004

Program

The Program of this meeting and other information can be found on the Internet site:

<http://www.escp-eap.net/conferences/ewgfm/index.html>

Information

This meeting is organized by:

Alain Chevalier and Emmanuel Jurczenko

For further information please contact the conference secretariat at:

Email: compte@escp-eap.net

Next meeting(s)

2005

The Spring meeting will be held in Brescia (Italy).
The Autumn meeting will be held in Frankfurt (Germany).

2006

One of the meetings will be held in London (UK).
Another possibility is Indonesia.

For more information about organising a meeting, please contact Jaap Spronk (spronk@few.eur.nl) or H el ene Molenaar (molenaar@few.eur.nl)

35th EWG Meeting

The 35th meeting will be held in Almeria (Spain), from 14 - 15 October 2004.

This meeting will be organized by:

Juan Evangelista Trinidad

For further information please contact the organizing committee at:

Email: jetrinida@hotmail.com

More information about this meeting can be found on the Internet site, which is being set up at the moment. It will be regularly updated as information becomes available. Calls for papers, venue information, registration instructions, etc. will be posted on this webpage.

As soon as this website is available, it will be announced on:

<http://www.eur.nl/topics/finance/ewgfm/ewgfm.htm>

so please check this site on a regular basis.

Announcement

Interesting possibilities to publish your papers electronically, without losing your rights to submit these papers to journals:

www.ssrn.com

and

www.finance-research.net

Working Papers

ERIM

You can find publications of the Erasmus Research Institute of Management (ERIM) on the following website:

<http://www.fbk.eur.nl/ERIM>

ECFR

From the *Erasmus Center for Financial Research* (ECFR), Erasmus University Rotterdam, Room H11-01, P.O. Box 1738, 3000 DR Rotterdam, The Netherlands, some papers can be ordered:

For more information:

<http://www.few.eur.nl/few/research/ecfr/publications/>

TINBERGEN INSTITUTE

For more information:

<http://www.tinbergen.nl/>

EURO Working Group on Financial Modelling

The EURO Working Group on Financial Modelling was founded in September 1986 in Lisbon. The primary field of interest for the Working Group can be described as “financial models that help to solve problems faced by financial decision makers in the firm, intermediaries and the investment community. From this the following objectives of the Working Group are distinguished:

- providing an international forum for exchange of information and experience on financial modelling;
- encouraging research in financial modelling (new techniques, methodologies, empirical studies, software, etc.);
- stimulating and strengthening the interaction between financial economic theory and the practice of financial decision making;
- cooperating and exchanging information with other universities and financial institutions throughout Europe.

It can be stated safely that the Working Group has become an established one. To give an idea: over 400 members, 33 international meetings and an own newsletter (*NEWSFLOW*) are three examples of the success until now.

Meetings

The meetings of the Working Group are organized twice a year, in April/May and in October/November. Earlier meetings were held in Belgium, Curaçao, Cyprus, Finland, France, Hungary, Italy, Lithuania, the Netherlands, United Kingdom, Germany, Greece, Croatia, Poland and Spain. There are now members in 34 countries spread over 4 continents. The meetings are attended by 80-100 members on average, most of them scientists but also representatives from the financial institutions, and are usually organized on Thursday, Friday and Saturday morning. The organizers are expected to schedule three types of sessions: a round table session with invited speaker(s), regular sessions with the presentation of refereed papers and balloon sessions in which unrefereed papers, new topics and ‘loose’ ideas can be discussed.

Newsletter

NEWSFLOW, the newsletter of the Working Group is published twice a year, about one month before each meeting. Newsflow is also published on the Internet site <http://www.eur.nl/topics/finance/ewgfm/ewgfm.htm>

It contains general information about the Working Group and the next meeting(s), letters from readers, announcements of financial seminars, calls for papers, a list of working papers, etc. For information about *NEWSFLOW* or for publication of your contributions please contact the editor: H  l  ne Molenaar, address below.

Membership

For information about membership of the EURO Working Group on Financial Modelling, you may write to:

H  l  ne Molenaar
Erasmus University Rotterdam
Dept. of Finance and Investments, Room H14-01
P.O. Box 1738
3000 DR Rotterdam
The Netherlands
Phone: +31.10.4081282
Fax: +31.10.4089165
E-mail: molenaar@few.eur.nl