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Corporate Governance Implications and Synergistic Effects of a Shipping Takeover

Dissertation Thesis

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Abstract

This dissertation thesis examines the field of M&A in shipping industry. The basic purpose of this research is to investigate the behavior of shipping firms' stock returns before and after the announcements of takeover deals. Moreover, it brings into focus the corporate governance implications in a potential corporate deal. The sample of employed event study analysis is constituted of the biggest M&A deals during the last decade in order to evaluate the synergistic effects of an M&A in shareholders' value. Furthermore, this paper assesses some major corporate governance characteristics of the acquirer with the most important value creation. The empirical results indicate the positive impact that M&A announcements of company takeovers cause in shareholders' value. This impact of corporate deals is highly important and creates financial value especially for the target firm in the shipping industry. The empirical findings underline the central role of corporate governance in the shipping firms which can influence the response of a firm in a potential corporate deal.

Table of Contents

1. Introduction 4
   i. Shipping Industry and M&A deals 5
   ii. Corporate Governance framework 10
2. Literature Review 13
3. Methodology 20
4. Data analysis & Discussion 24
   i. Stock Price Performance 24
   ii. Corporate Governance characteristics 30
5. Conclusions and Recommendations 34
6. List of References 36
7. Appendices 39

Table of illustrations

List of Tables

Table 1: Average Value per tonne of cargo, international trade, 2000-2006................. 6
Table 2: World Deep Sea Fleet 7
Table 3: Shipping Firms announcements about takeovers (2001-2010) 20
Table 4: Cumulative Abnormal Returns and Statistical Significance of Acquirers..... 27
Table 5: Cumulative Abnormal Returns and Statistical Significance of Targets 28
Table 6: Ownership Structure of Excel Maritime 32
Table 7: Ownesrship Concentration of Excel Maritime 32

List of Figures

Figure 1: M&A deals in Shipping Sector.. 9
Figure 2: Abnormal Stock Price Returns of acquirers 24
Figure 3: Abnormal Stock Price Returns of targets... 24
Figure 4: Cumulative Abnormal of Acquirers 29
Figure 5: Cumulative Abnormal Returns of Targets 29
Figure 6: ROA of the acquirers 33
Figure 7: CAR of Seabulk-Seacor 39
Figure 8: CAR of Moller-Royal 39
Figure 9: CAR of Moller-DS1910 39
Figure 10: CAR of Excel-Quintana 39
Figure 11: CAR of Overseas-Stelmar 40
Figure 12: CAR of General Maritime-Arlington 40
Figure 13: CAR of Moller-Brostrom.. 40
Figure 14: CAR of TUI-CP Ships 40

1. Introduction

In the last two decades, the intensified competition has triggered a major consolidation in all market segments which is reflected in Mergers and Acquisitions (M&A) activity. International competition and financial markets has recently interested many corporations in the link between corporate governance and economic performance. The term of Corporate Governance has to do with the way of managing and controlling in corporations. It has relatively recently come to prominence in the business world and its everyday usage in the financial press is a new phenomenon of the last fifteen years or so. Chistine Mallin, the writer of the relevant book "Corporate Governance", states that the development of Corporate Governance is a quite complex subject which includes legal, cultural, ownership and other structural differences. A lack of effective corporate governance has been linked to past major corporate collapses such as Enron case despite the healthy picture of their annual reports. Good corporate governance not only it could prevent investors from such corporate collapses, but also it could gain their confidence.

Generally speaking, a merger or an acquisition is a corporate strategy which deals with buying, selling, dividing or combining different or many times similar companies in order to create a new larger entity. It is undisputable that this procedure involves great risk for shareholders. Consequently, an event of merger or acquisition affects in a great extent the shareholder's value. However, synergistic effects of M&A activities cannot be realized unless there is a good corporate governance model. Monks Robert A.G. and Minow Nell supported in their book "Corporate Governance" in 2007 that the corporate with better governance and more shareholders rights will survive after an M&A. In other words, if the bidder has better corporate governance than the target firm, this means that it can take advantage of employing the acquired assets more effectively. Hence, it is undisputable that this creates further value to the corporation.

International trade has become an important part of the global economy and more than 80 percent of world trade travels by ship. So, in this rapid growth of global economy, the bigger competition of maritime transportation forced shipping managements to take over heavier tasks and make major strategic decisions of M&As. The cyclical nature of the business favors the strength and momentum of larger groups, so this period could perhaps provide a natural opportunity for firms to seek out mutually beneficial M&A activity. It is also worth noting that Corporate Governance is one of the top issues in the corporations of the shipping industry, for the reason that it plays

important role in value creation after a shipping merger or takeover. In reality, it specifies the responsibilities and the rights of different corporate parties, such as managers and shareholders, and contributes to the balanced function of the firm.

i. Shipping Industry and M&A deals

Grammenos (2010, pp.9) in "The handbook of Maritime Economics and Business" defined shipping industry as a unified sector in the 19th century. During the first 70 years, liner and tramp shipping moved in the same lines. Their shipping activities were not clearly defined. Nevertheless, during the last third of the same century the shipping market split into two categories, liner (finished or semi-finished manufactured goods) and tramp (coal, ore, grain, fertilizers etc.) shipping. Moreover, after the 2nd World War there was an unprecedented increase of world production and trade which caused more structural changes in shipping market. There were new cargoes that they are in need of shipping transportation. Consequently, the appearance of these new liquid and dry bulk cargoes was the reason for building new type of ships and developing specialized bulk markets. On the contrary to the behavioral pattern of tramp shipping which did not involve important changes, the real revolutionary period for liner shipping, and generally in the shipping industry was during the 1960s and even more during the 1970s which called the period of containerization. The world container fleet had increased by six times from 1970 to 1980. At the same time, liner shipping changes demanded excessive investments in infrastructure and led to structural changes of the industry like new designs of vessels, greater production of ships and ports. This total transformation was an important benefit for the shipping companies of liner shipping sector for the reason that it provoked a great decrease in the cost of transportation. During the 1990s, all these intensive capital investments were further provoked by the trend to globalization. Companies of liner shipping were required to meet their customers' expectations and needs around the globe. These circumstances led to mega mergers, strategic alliances and a general consolidation in shipping industry. Hence, global merger and acquisitions was the necessary step forward for the enlargement of companies in order to satisfy the global excess demand for shipping services.

It is undisputable that shipping industry holds a fundamental role in international trade and it is highly correlated with the economic activity of the global economy. The maritime shipping industry offers beneficial influence for the trading activities due to the fact that it is the only practicable and cost effective means of transporting large

quantities of many necessary commodities and goods. The main segments of shipping industry are the following: tankers, which transfer coal, grain etc., containerships which carry only containers, and gas tankers which carry mainly LPG and LNG. The transportation of both goods and passengers are the two cornerstones of the global shipping industry. However, the largest product segment within this industry is international freight transport. The sector of Seaborne international freight transport refers to the transportation of goods globally, between foreign and domestic ports by sea. It has grown almost continuously since the 2nd World War and it continues to be the dominant mode of transport for the international trade. Evident fact is that it occupies 69.1% of industry revenue. Moreover, the percentage of 90% of global production is traded between countries by sea. It is also worth noting that a percentage of 70% of the world's merchant fleet is tankers and bulk carriers, in terms of deadweight tons. Generally speaking, the behavioral pattern of shipping business is related to a number of factors, including macroeconomic, microeconomic and policy-oriented factors. The performance of this industry depends on the same broad factors that determine economic performance such as gross domestic product (GDP), and the level of trade and growth within industries that use ships as a mode to transport cargo. Nevertheless, shipping sector includes many risk factors for the reason that it is prone to market changes. Moreover, it is highly competitive and many times it presents considerable fluctuations. Some of the crucial factors which contribute to the cyclicality and the riskiness of shipping industry are the demand for maritime transportations which derives and is directly related to economic growth, the cyclical nature of freight rates, vessel prices, imbalances of supply and demand.

Table 1: Average Value per tonne of cargo, international trade, 2000-2006

Average value per tonne of cargo ($)	2000	2001	2002	2003	2004	2005	2006
Airborne	56,624	51,241	50,445	54,415	55,503	59,71	63,184
Seaborne	625	601	617	698	772	861	943
Overland and other	1482	1606	1542	1531	1746	1827	1878
All modes	863	836	843	923	1008	1109	1205

Source: Grammenos (2010, pp. 38)

According to recent studies, total annual world seaborne trade was estimated at 7.2 billion metric tonnes, of which drybulk cargoes amounted to 2.6 billion tonnes and oil cargoes amounted to 2.6 billion tones. The following table indicates the growth rates of various cargoes that comprise all shipping and trading activities around the world. As it is easily observable, global container trade holds the highest growth rate (9.9%) which exceeds by far the annual growth rate of world seaborne trade (3.8%).

Table 2: World Deep Sea Fleet

	Fleet			Order Book			
	No.	mill. dwt	% dwt	No.	mill. dwt	% of flt	% of dwt
Containerships	3848	121,8	12,9%	1286	58.1	21,10%	47.7%
Tankers >10.000dwt	4197	357,7	37,9%	1427	118.7	43,00%	33.2%
Tankers <10.000dwt	2050	10,3	1,1%	302	1.7	0,60%	16.9%
Bulkers	6271	358,8	38,0%	877	72.7	26,40%	20.3%
LPG Carriers	1019	11,8	1,2%	193	4.7	1,70%	40.1%
Lng Carriers	213	14,4	1,5%	136	12.1	4,40%	83.9%
Other	6546	68,6	20,2%	2029	65.8	23,90%	34.6%

Source: Clarkson Research

It is obvious that seaborne trade is an inextricable link in the globalized production and distribution chains. In this highly competitive environment, globalization was both a constraint and a strategy for shipping firms to concentrate on the increase of efficiency and cost minimizations which are the driving forces for merger, acquisitions and strategic alliances. M&A activity continue to be a highly popular form of corporate development. It is also worth noting that the tremendous number of 30.000 M&A deals was completed in global market in 2004. In other words, this means one transaction every 18 minutes (Susan Cartwright and Richard Schoenberg 2006).

Veljković and Petrović (2011) distinguish between two kinds of takeovers: on condition that target company's board of directors and employees remain stable the takeover process can be characterized as friendly. Hence, the basic characteristics are mutual consent and joint agreement. Moreover, a process of friendly takeover aims to improve operating performance and create synergies. On the other hand, a company

takeover against the wishes of shareholders, management and/or the board of directors is defined as a hostile takeover process. The basic distinction from a friendly process is the tender offer which is often combined with a premium over the market value of "attacked" company. Most of the times the basic motive of a hostile takeover is to achieve economies of scale.

Generally speaking, there are many reasons for wishing to engage in mergers and acquisitions. There is a need of investment in technological innovations, expansion into new areas, improvement of shareholder value, economies of scale, reach global size and reduction of costs. There are two common motives for M&A activity. According to Gaughan 2001, the most important reason is growth. Corporations can grow internally and externally. Internal growth can be quite slow and ineffective when firm tries to make some additional short-term profits against its competitors. On the other hand, there is the faster alternative for the governance of each corporation of merger or acquisition. Even though acquirer has to pay a high premium for a takeover, this total cost is not necessarily higher than the total cost of internal growth. However, according to the majority of the past literature has noted that the most important reason for which a corporation wishes to engage in mergers and acquisitions is future potential synergies. Nonetheless, one can be certain that at least one company will benefit from it. Indeed, it will be probable that the benefit will be mutual and the combined company will be more profitable in many cases. In mathematical terms, synergy can be shown by the following equation:

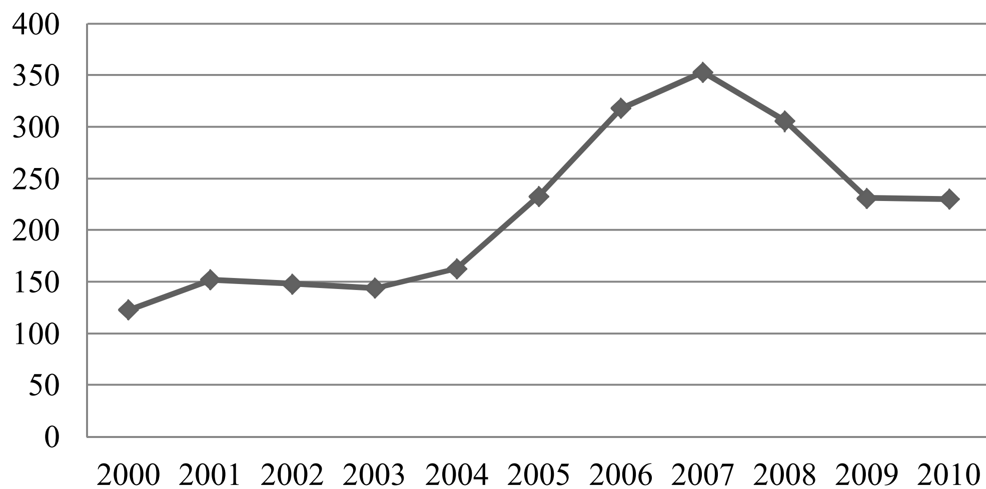
$$Value(A+B) > Value(A) + Value(B)$$

The combination of two firms can lead to a more valuable financial entity than the sum of the value of firms. Furthermore, there are managerial motives of corporate governances which suggest M&As. In some cases, managers make decisions seeking their own-self interest in order to insure their corporate positions or managerial bonuses after such a deal (Syriopoulos and Theotokas 2007). These managerial motives of corporate deals are in contradiction to the fundamental rule of corporate governance that all corporate actions aim to increase shareholders value.

It is undisputable that M&A and strategic alliances are the main corporate strategies for enhancing value creation. Intensified competition triggered firms to find new ways of growth. Consequently, many shipping firms have been formed strategic alliances and equity partnerships. In recent times four of the top five carriers are European owned. Nonetheless, there were a number of many multinational mergers in the past. As it has been mentioned before, containerization period resulted in the restructure of ports and

generally of shipping sector. Maritime companies are challenged to redefine their principal role in the value chain in charge of the survival and the growth of the company. In addition, the experts of maritime industry support that the consolidation procedure will continue and may even accelerate. As far as liner shipping is concerned, it became an important sector in the 1870s and many agreements have been completed with great success which lasted for years. In liner shipping industry, the most common deals in M&A activity were strategic alliances which cause substantial changes, considerable increase of ships' size and notable decrease of freight rates.

Figure 1: M&A deals in Shipping Sector



Source: Bloomberg Database

In this highly leveraged and capital intensive sector, strategic alliances and other types of corporate deals give firms the opportunity to expand their activities by enlarging their fleets directly and allocating more ships to serve more markets.

"Strategic alliances are defined as co-operative agreements in which two or more separate organizations team up in order to share reciprocal inputs while maintaining their own corporate identities.", "Mergers and acquisitions occur when independent companies combine their operations into one new entity." (Aksel and Akca 2006).

According to recent data, most of the top-20 carriers are grouped into three global alliances:

– The NewWorld Alliance: APL, MOL, Hyundai;

– Grand Alliance: P&O Nedlloyd, NYK, Hapag Lloyd, OOCL and MISC;

– CKYHS Alliance: Cosco, K-Line, Yang Ming Line and Hanjin-Senator.

Nonetheless there are some "lonely players". The main ones are:

– Maersk-Sealand, ranked first after the takeover of P&O Nedloyd

–Mediterranean Shipping Company S.A. (MSC)

– CMA-CGM, the world's third largest container shipping company and is ranked number one in France.

– Evergreen Group operates fourth largest container fleet in the world, with over 180 ships by capacity of approximately 650,000 TEU.

– China Shipping, its fleet comprises over 150 vessels with a total operating capacity of 560000TEU, ranking among the world's top 10 liner companies. More than 80 domestic and international services cover more than 100 countries around the world.

This strong upheaval of alternative forms of organization, mergers, acquisitions or strategic alliances over the past decades, increased the attention of academic literature to the effects in corporate performance. Despite the fact that mergers and acquisitions do not always produce the expected synergistic effects, M&A remains a popular strategy for shipping firms who want to concentrate on the improvement of firm's profitability and level of growth. Nonetheless, human resource management problems, high labor turnover, lower workforce morale, higher workplace stress and the direct impact on the stock price after the completion of an M&A are only some of the key reasons that could destroy corporate value.

ii. Corporate Governance framework

Corporate governance issue interest many academic researchers across around the globe, especially during the recent financial crisis which led to devastating corporate collapses. What it should be mentioned is that limited number of studies has researched the interrelation between corporate governance which responds to value creation through mergers and acquisitions and the synergistic effects of such a corporate deal in shipping industry. Most of studies have concentrated on the development of corporate governance, ownership structure, and their interrelation with the stock and bank or firm performance in general.

"Corporate governance is the set of processes, customs, policies, laws, and institutions affecting the way a corporation (or company) is directed, administered or controlled." Wikipedia (2011)

The process of decision making on mergers and acquisitions responds to the actions of board of directors of the company and it takes place in the company's governance. The primary goal of corporate governance concerns the maximization of corporate value for the sake of shareholders and any other contributive part in the

growth of the company. During the last decade, the issue of efficient corporate governance has risen to prominence and concentrated a lot of attention to corporate policy makers.

In the corporate framework, one of the most important relationships is between the managers and owners of the firm. This relationship is a classic example of principal-agent relationship and concerns conflicting goals where the managers behave for their own interest instead of acting for shareholders' interest. Hence, agency theory, which is introduced in the book "Corporate Governance" by Christine Mallin (2006), highlights the principal agent relationship in a corporation. Particularly, in the corporate governance framework the agents are the managers and the principals are the shareholders. However, managers must be monitored and they must provide reassurances that they do not abuse their power. The accrued costs of the corporate governance system to avert managers to act for their self-interest are called "agency costs". Corporate governance can be used to reduce the total agency costs through monitoring managers actions and aligning conflicting interests. Additionally, there is another key issue of information asymmetry when the principal and the agent have not the same level of information.

Moreover, another key corporate issue that concentrates a lot of attention is "transaction cost economics" (Mallin 2006). This theory which affected the development of corporate governance gave the opportunity to many historical authors to highlight the role of corporate governance in strategic decisions. Mergers or acquisitions lead to inflows of new "fresh" internal capital for the corporation. Moreover, there are major incentives for firm conglomerates for the reason that it is much more beneficial to undertake transactions internally than externally. It is undisputable that there are plenty of transaction costs between principal and agent, like costs of negotiating, writing or during the course of the contract. Corporate governance mechanism consist a vital part of a firm in a world of agency problems. Consequently, these particular theories, agency theory and transaction cost economics, are concerned with managerial discretion. Managers may opportunistically make decisions seeking their own self-interest which is many times against the shareholders' interest. The case of a merger or an acquisition is a characteristic example of conflicting interests. On the one hand, managers of the target firm may be in danger of losing their positions after such a deal. Hence, managers prefer their company to be the survivor in the post-merger successor firm with the fear of losing their seats. This consists major disincentive for a merger or an acquisition. Moreover, it is also possible to accept a lower post-merger

premium for the corporation in order to receive a job position in the successor company. On the other hand, shareholders of target firms can get a substantial premium in an M&A deal. Consequently, it is crucial for the corporation to have an efficient corporate governance structure in order to manage these conflicting incentives and interests and avoid opportunistic behaviors. Unless there are appropriate conditions, a takeover may lead to disastrous consequences (Syriopoulos and Theotokas 2007).

The major object of this research is to examine how a potential merger or acquisition could create synergistic effects measuring the post-merger performance and to evaluate the corporate governance implications after a shipping takeover. The biggest M&A deals of the last decade in shipping sector are undertaken in order to apply an event study model. The rest of the dissertation thesis is organized as follows: Section 2 reviews the relevant past literature. Section 3 presents the data and the methodology. Section 4 presents the empirical results and concludes.

2. Literature Review

As it has been emphasized before, sea transportation plays a key role in world trade and economic growth in general. Globalization with continuously increasing competition in an environment with lightning technological changes has increased the number of corporations. Meanwhile, periods of slow growth and generally crises like the most recent with its massive consequences triggered major conglomerates. In this environment, ownership structure and broadly corporate governance implications in a potential takeover rank high in the agenda of economists. Hence, corporate restructuring through M&A rose to prominence important issues related to business decisions.

The separation between ownership and management opens the possibility of insider abuse. Hence, this crucial issue for the sustainability of corporations remains high on the agenda of economists. On the other hand, the separation of control and ownership of corporations was unavoidable after the big industrialization of developed countries, like USA and UK, where there is a robust law system which protects the minorities (Mallin 2006). However, this broad shareholder base is not equally applicable to other corporations. By contrast, ownership concentration is a basic characteristic of governance system of German firms. Even in bad times, German firms keep stable their large stockholders and their ownership structure hardly changes over time (Lehmann and Weigand 2000). Furthermore, corporate collapses and scandals have increased pressure to shareholders to act as owners and not as simple holders of shares. Should shareholders act as owners, they will directly affect the board of each corporation. Hence, boards will be accountable for their actions and the firm control will be returned to shareholders. Moreover, strategic management literature has focused on agency theory as a link between ownership structure and economic performance. Agency problem is an important determinant of firm's operating performance. More specifically, Thomsen and Pedersen (2000) studied the largest European companies and introduced that ownership concentration is not linearly related to economic performance. After a critical point, ownership concentration leads to adverse effects. Furthermore, they supported that corporate restructures may lead to additional gains. The better the relationship between corporate strategy and ownership structure is, the bigger the potential benefits. On the other hand, corporate strategies that do not match corporate governance are not sustainable for the reason that they may not fit decision-makers' intentions. Despite of all these important introduced concepts between ownership structure and economic performance, a lot of attention has been paid in the

owners' identity that has been neglected by past relevant literature. Owner's identity is found to be as important as ownership concentration and this is the key element so as to understand the corporate governance of European firms because of the higher ownership concentration in the European firms.

According to Lehmann and Weigand, for a corporation to be governed, it is vital that the corporate control is separated from the ownership. However, insider control is not panacea for the enhancement of corporate performance. Indeed, the location of control rights can be a more crucial factor for the governed corporation that this of ownership concentration. In many cases and especially in family based firms, large shareholders, who usually are the founders of the firm, are much more strongly interested in the success of the firm than any other simple investor for whom firm's shares are just an additional financial asset in his portfolio. The presence of large shareholder's does not necessarily mean that it enhances corporate profitability. However, operating performance is positively related to investment corporation held shares due to the fact that there is protection of managerial opportunism (Lambertides and Louca 2008). In line to Thomsen and Pedersen's research, there is a negative effect of ownership concentration to firm's profitability. Nevertheless, positive impact of ownership concentration on profitability and lower agency costs are found when the largest shareholders are financial institutions.

The issue of corporate governance on corporate mergers and acquisitions in Greek shipping industry is quite interesting due to the fact that Greek shipping firms are basically family owned. The members of the family are the controlling group and there is not a real distinction between ownership and management of the firm. Hence, in many firms there is a possibility of existence of CEO duality where the same person holds the chairman position and he is the Chief Executive Officer of the Corporation as well. The person who takes over these two crucial positions for the corporation, he concentrates great power and this is something that it can be proved positive for the corporation for the reason that it is much easier for making decisions or negative because he will probably take advantage of his power of this double position which holds in order to satisfy private benefits. From the perspective of agency theory, Chief Executive Officer (agent) is responsible for utility maximizing and risk minimizing in a firm (Iyengar and Zampelli 2009). He makes the appropriate decisions in order to improve the welfare at the expense of shareholders (principals). On the other hand, Board of Directors supervises the options of Chief Executive Officer. Consequently, when a firm present CEO Duality this means that the separation between ownership and

management is probably corrupted. However, many Greek shipping firms have started changing this strategy in order to assimilate a new more serious business style and build up a good reputation to potential investors. Hundreds of firms converted their dual leadership structure to non-dual during the period from 1999 to 2003. It had been proved that many high profile CEOs abused their major power in the corporation at the expense of shareholders (Chen, Li, Yi 2008). Nonetheless, there is no evidence that independent outside investors create a more effective board and better corporate governance system (Core, Holthausen, Larcker 1999). According to the recent study of Syriopoulos and Theotokas, the attitude of the management during the process of a forthcoming deal can reveal the efficiency of the corporate governance towards the shareholder's interests. They highlighted that merger deals can have both expansionary and contractionary implications. In the first case, the replacement of poorly corporate governance systems of the target firms leads to greater efficiency and thus better operating performance. On the other hand, many managers may try to complete a merger deal so as to satisfy their ambitions (hypothesis of managers' self-interest). It is also introduced that managers may overestimate the potential benefits of a corporate deal or underestimate future post-merger costs of integration (hypothesis of managers' hubris).

Wang and Xie (2007) examined poorly managed firms and investigated the crucial issue of value creation. Specifically, the use of corporate governance metrics proved that stronger shareholder rights are associated with higher market value and better operating performance. Most of the times, a merger or an acquisition leads to change in corporate control in the combined firm for the reason that the acquirer, with stronger shareholder rights than the target, replaces the target shareholders rights. Following, this change in corporate governance causes a major increase in corporate performance due to the fact that target's assets can be used more effectively and generates additional value for the combined firm. Higher corporate governance index indicates weaker shareholders' rights because it is more costly and difficult to remove managers from their positions. Higher corporate governance levels are followed by lower firm value. Consequently, the generated synergistic effects are directly related to the difference between the shareholders rights of the bidder and the target. The stronger the shareholders' rights of the acquirer, relative to the target's, the greater the synergistic effects and the better the operating performance of the combined company. Moreover, it is notable that both the acquirer's and the target's abnormal returns increase and reap the benefits from the change in corporate governance. It is undisputable that market

assigns valuate in worse levels firms with staggered boards. In many M&A deals, the competition between acquirers for corporate control benefits the target firms with greater synergistic gains. On the other hand, it is equally possible for targets to compete each other and finally the greater synergies accrue to acquirers.

Kapopoulos and Lazaretou (2007) researched the impact of ownership structure on firm's profitability. Using a sample of 175 Greek listed firms from all sectors of the Greek economy with different ownership concentrations, they documented the existence of liner positive relationship between firm's profitability and ownership structure. Consequently, the results from this specific study suggest that the greater the degree of ownership concentration the better the corporate governance.

If M&A deals are driven by the synergistic effects, the long term performance and corporate governance of the target firm are significantly improved. On the other hand, operating and market performance of acquiring firms decreases significantly after the acquisition, especially in the long term (Zhang and Wang 2008). Empirical evidence from Chinese listed companies demonstrated that if corporate governance is not improved after the deal, it is expected not to be related to the change in the operating performance of acquiring firms. Corporate governance affects operating performance gradually. As far as the market performance is concerned, Zhang and Wang introduced that corporate governance affects positively the firm market performance. However, the magnitude and the significance of this positive reaction decrease gradually. Finally, in the year after the announce date of the deal there are no significant effect on the firm's market performance. Their research reached the conclusion that Chinese listed companies are mainly affected by agency and hubris motive and not by synergies.

The declaration of a merger or an acquisition causes the increase of abnormal stock prices for both the bidder and the target firm during the period before and after the announcement date. Sharma (2010) examined a case study of 5 big mega banking mergers and noted that a forthcoming deal may be able to benefit not only the merging parties but also their rivals due to the general rise of stock prices. On the other, if the market expects that the synergistic effects of the merger are sufficiently large to drive down prices, the stock prices of the rivals drop down as the probability of the merger increases. However, stock prices do not illustrate the real picture of value creation after a corporate deal. Furthermore, using accounting techniques he tried to assess the future situation of firm's assets and liabilities. Nevertheless, using both studies, accounting method and event study methodology, his research ended up to contradicting results. Finally, this specific research of banking mergers proved that accounting methodology

alone cannot predict the value created and each study measures the potential synergistic effects in different terms. Hence, he advocated, in most of the previous relevant literature, both studies can be employed as substitutes.

Sinha, Kaushik, and Chaudhary measured the impact of mergers and acquisitions on the financial efficiency of business firms during the pre and post-merger periods. M&A deals are strongly related to financial performance in the long term and they create synergistic effects for the acquirer. All acquiring financial institutions were able to generate value. Despite the fact that, profit before tax in all merging cases showed a positive trend and an improved financial performance in the post-merger period there was a significant increase of debt to equity ratio.

Kruse, H. Park, K. Park and Suzuki (2002) study investigated the long term performance which follows after corporate merger focusing on the corporate diversification. When a merger or an acquisition concerns diversity of business, then firms gain the highest abnormal returns. In any other circumstance, it is not necessary that a merger or an acquisition will destroy or create corporate value. Moreover, a lot of attention has been given in the volatilities of M&A activities. According to their findings, there was a dramatic increase of M&A activities in the period of reduced demand of Japanese goods and oil crisis. Generally speaking, it is obvious that recession periods are followed by more acquisitions and mergers between Japanese corporations. Finally, their study reported that the long-term operating performance, followed by the completion of the deal, is positive but insignificant. In the case of corporate diversification, the long-term operating performance is significantly greater than the pre-merger corporate performance. The applied event study methodology, in Japanese manufacturing firms, highlighted the positive abnormal returns of bidder firms of diversifying mergers. There is significant possibility of greater synergistic effects, if the target firm is liquidity constrained before the completion of corporate deal. Nonetheless, the researchers advocated that rescue mergers are not likely to lead to inferior financial efficiency.

In the last two decades almost all economic sectors witnessed an enormous wave of mergers and acquisitions. It was notable that energy market grew rapidly and confronted new challenges due to big competition which did not allow many firms to expand as they would expect. M&A activity has a significant positive impact on shareholders' stock returns which indicate that firms of energy sector has the ability to benefit and grow further after a completion of such a deal (Samitas, Kenourgios, Tsakalos 2008). Generally speaking, the market of energy is a relatively new area of investing activity.

Hence, merger and acquisitions indicate that the large energy enterprises are in the process of expansion and growth which clearly nominate the developing aspect of this interesting sector.

Furthermore, the decade of 1990 witnessed a massive wave of merger and acquisition activity in the global telecommunication sector. Globalization, deregulation especially in US market and the convergence of digital technologies were the main reasons behind this process. However, during periods of slow growth or deregulation, wide business instability pushed firms to reduce competition and accomplish conglomerates. The bidders succeeded to reduce their exposure to market risk controlling larger share of the market. Moreover, acquiring firms spread their risk through geographical diversification. Hence, firms that acquired financially weakened competitors reaped the benefits of economies of scale (Warf 2003). By contrary, empirical evidence from U.S. telecommunication mergers indicated the adverse effects of joining a venture. In terms of shareholder returns, merged companies outperformed non-merged companies only in the very short term. Furthermore, corporate conglomerates don't generate significant shareholder wealth effects, expected economies of scale and they also lead to inferior growth productivity. Consequently, merger deals remain unattractive to potential investors in capital markets due to the absence of cost-reducing synergies and generally clear effects (Sung and Gort 2007).

On the contrary to the oligopolistic conditions of liner shipping, tramp shipping firms, where vessels do not have a predefined route but it depends on customer's needs, try to remain profitable in conditions of perfect competition. That's the basic reason for the low levels of M&A activity in tramp shipping industry (Samitas and Kenourgios 2007). The announcements of M&A deals in tramp shipping industry has a strong positive affect to stock returns and play a key role to firms' challenges through creation of corporate value. Around the announcement date, these strategic decisions give a primary negative impact. However, it is followed by direct positive impact on stock returns and significant increase in financial value after the date completion of the deal. On the other hand, inside information sometimes leads to differentiated reactions of M&A participants.

Additionally, Panayides and Gong (2002) studied the market reaction to M&A deals announcements in liner shipping industry. They came up to the interesting conclusion that prominent M&As create expectations to investors and a positive climate which causes rapid stock price increase. On the other hand, in the limited shipping literature, Brooks and Ritchie (2005) in their research, of M&As in maritime transport

industry between 1996-2000, concluded the importance of strategic alliance as a corporate internal growth. However, examining the M&A motives they underlined that opportunistic behavior plays a substantial role in strategic success.

To sum up, the majority of the past relevant literature from different sectors has indicated a significant positive impact on shareholders stock returns. Indeed, empirical evidence from banking mega mergers has shown that a forthcoming deal may lead to a general stock price increase in the banking sector. Nonetheless, the evidence from telecommunication industry has approved that merged companies outperformed non-merged companies only in the very short run. The unattractiveness of merger deals in this specific industry come from the fact that they do not lead to expected synergies and they lead to inferior growth productivity. Moreover, a lot of researchers have approved strong corporate governance influence in corporate performance and profitability. Corporate governance system is a key factor for the post-merger performance. The generated synergistic effects are directly related to the difference between the shareholders rights of the bidder and the target. Consequently, the stronger the shareholders' rights of the acquirer, relative to the target's, the greater the synergistic effects and the better the operating performance of the combined company. Despite the fact that there is limited past literature related to shipping sector, present relative literature suggest that prospects of M&A deals give positive stock returns of the participants. Nevertheless, the corporate governance characteristics of shipping firms cannot be ignored for the reason that opportunistic managers' behaviors have substantial role in success of strategic decisions. The dissertation thesis tries to assess the impact of corporate governance on shareholder returns, using an event study model of the biggest corporate deals of the last decade in the shipping industry.

3. Methodology

During the last 30 years, the issue of value creation after a merger or an acquisition has interested many academic researchers. This is for the reason that such a corporate deal may require highly leveraged capital decisions with great risk and cause unprecedented restructures in all contracting parties of a corporation. The basic motive of M&A deals is that the economic result from the combined firm is better than this of two separate corporations.

The data analysis concerns the biggest M&A deals in shipping industry during a crucial period for this specific sector from 2001 to 2010 as shown in Table 3. This decade deserves further research for the reason that all shipping companies entered in "super cycle". More specifically, the period 2002-2007 is a booming period for entire shipping industry with unprecedented increase in freight rates and vessel prices. However, this unique boom cycle with its unprecedented earnings growth interrupted by the onset of global financial crisis in 2008. Daily stock prices, index prices and general corporate information about these specific corporate deals derive from the Bloomberg database and companies' websites.

Table 3: Shipping Firms announcements about takeovers (2001-2010)

Bidder	Target	Announcement date	Deal Value($)
AP Moller - Maersk A/S	D/S 1912	6/5/2003	10901.58M
Excel Maritime Carriers Ltd	Quintana Maritime Ltd	29/1/2008	2.028.93M
General Maritime Corp	Arlington Tankers Ltd	6/8/2008	391.33M
AP Moller - Maersk A/S	Brostrom AB	27/8/2008	1093.43
Overseas Shipholding Group Inc	Stelmar Shipping Ltd	13/12/2004	1305.4M
SEACOR Holdings Inc	Seabulk International Inc	16/3/2005	1023.2M
AP Moller - Maersk A/S	Royal P&O Nedlloyd NV	11/5/2005	2774.85M
TUI AG	CP Ships	22/8/2005	2260.64M

Source: Bloomberg Database

There have been a lot of approaches in order to examine the practical application of this hypothesis. One of the simplest approaches is the research of executives. Despite the simplicity of this study which usually includes interviews with executives, their expressed opinions in M&A issues are not really related to economic value creation. In other words,

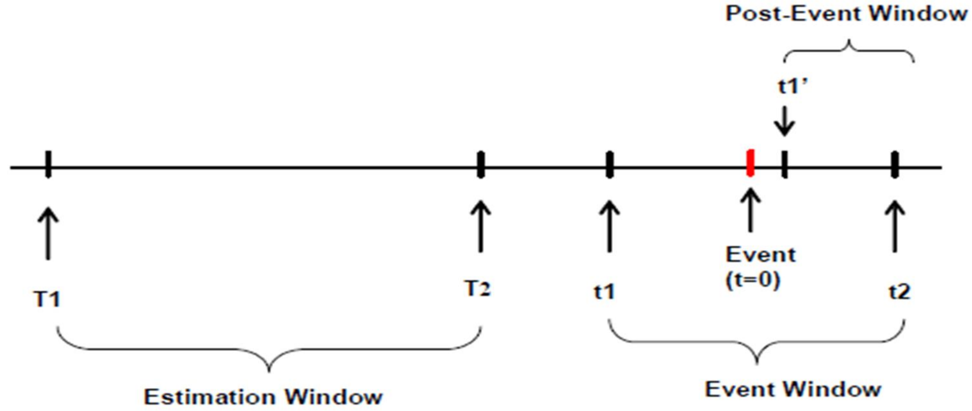
may not receive the desirable conclusions from this type of studies. A second method of studying is the clinical case study. There were many case studies which they research each M&A event in depth. However, they finally revealed that the economic environment is so complicated that we cannot reach clear conclusions about specific benefits and costs of a corporate deal.

Nevertheless, it is worth noting that the majority of M&A studies are empirical. Generally speaking, event study analysis is a widely accepted research tool in finance, business and economics. First of all, event study approach was employed by researchers in order to examine the fluctuations of basic accounting indicators of corporation before and after the announcement deal. This accounting study methodology tried to assess the implications in the operating performance of the bidder and the target firm before and after the announcement date of corporate events. However, it is undisputable that the most common approach is the abnormal returns methodology. These studies have been used to measure the effect of corporate actions in stock price performance in the immediate period around the announcement date of corporate events, mergers or acquisitions. Since this is so widely used, it is worthwhile to undermine that its major weakness is the assumptions that the relative event earns abnormal returns and the benchmark used is the right measure to calculate abnormal returns. Nonetheless, the event study methodology has dominated because of its simplicity and it is indisputably easily applicable. The usefulness of this empirical approach derives from the immediate effect in underlying stock prices as a result of M&A announcement, given the rationality of the market. Consequently, the implemented event study methodology attempts to interpret the market reactions and identify whether the announcements of corporate deals cause significant stock price volatilities.

According to this specific methodology, there are three basic steps in the process of its application which are the following:

- Identify the event window and the particular date of announcement
- Specify a benchmark model for the calculation of stock return behavior
- Calculate and analyze Abnormal Returns over the event window

The events are tested for possible Abnormal Returns (AR). The ARs are defined as the difference between the real and expected returns. The expected stock returns are calculated during the period [T_1, T_2].



Market model parameters are estimated during the period [-360,-31] in order to be unaffected from event announcements. Furthermore, ARs over the event window are cumulated in order to produce Cumulative Abnormal Returns (CARs) for the target and the bidder firm separately. Last but not least, the impact on stock price performance is measured by testing CAR statistical significance.

First of all, ARs are constructed in each deal separately. The following market model (Equation 1) is used in order to calculate the expected returns.

$$R_{it}^{*} = \alpha_i + \beta_i \times R_{mt} + \varepsilon_t\ ,\ \varepsilon_t \sim N(0, h_t) \quad (1)$$

$$AR_{it} = R_{it} - R_{it}^{*} = R_{it} - (\alpha_i + \beta_i \times R_{mt}) \quad (2)$$

Where: AR_{it} is the abnormal attribution of stock i at day t, R_{it} is the real attribution of stock i for event day t and R_{it}^{*} is the expected return of the stock for event day t. Furthermore, α_i measures the mean return on security i over the event period not explain by the market, β_i is the beta coefficient which describes the relation of security's returns and with those of financial market as a whole and ε_t is the statistical error term. The econometric estimation of equation (1) is carried out using the Ordinary Least Squares method for specific period supposing that $AR_{it} \sim N[0, Var(AR_{it})]$ with $Var(AR_{it}) \approx \sigma_{\varepsilon i}^{2}$. Moreover, the CARs are analyzed for specific periods over the event window. In the literature of M&A studies, the researchers usually take into consideration 10 or even 50 days before and after the announcement day. In this specific research, the calculation of CARs and their statistical significance concerns the following event windows: [-20,-16], [-15,-11], [-10,-6], [-5,-1], [-2,+2], [1,5], [6,10],

[11,15], [16,20]. Consequently, the statistical significance of ARs can be checked with the following equation of standardized abnormal returns:

$$SAR_{it} = \frac{AR_{it}}{S(AR_{it})} \tag{3}$$

Moreover, it obvious that CARs can be calculated cumulatively for specific study period $[t_1,t_2]$ over the event window.

$$CAR_{i[t1,t2]} = \sum_{t=t1}^{t2} AR_{it} \tag{4}$$

The statistical significance of CARs can be checked with the following equation:

$$SCAR_{[t1,t2]} = \frac{CAR_{[t1,t2]}}{S(CAR_{[t1,t2]})} \tag{5}$$

The critical values for the hypothesis test of statistical significance were obtained from the t-student distribution for 5% level of significance. The following t-statistic is used to test results' significance level:

$$t = \frac{\bar{x} - \mu_0}{s/\sqrt{n}} \tag{6}$$

where s is the standard deviation of the sample, n is the sample size.

4. Data analysis & Discussion

i. Stock Price Performance

In this research, the basic objective is the assessment of the implications in an M&A deal announcement. In line with past empirical evidence, we examine the impact of corporate takeovers on the security price of both the buyer and the target firm of the deals, measuring the abnormal returns in specific periods over the event window. This stock reaction after a corporate takeover is easily observable for both the bidders and the targets of the shipping deals in Figures 2 and 3.

Figure 2: Abnormal Stock Price Returns of acquirers

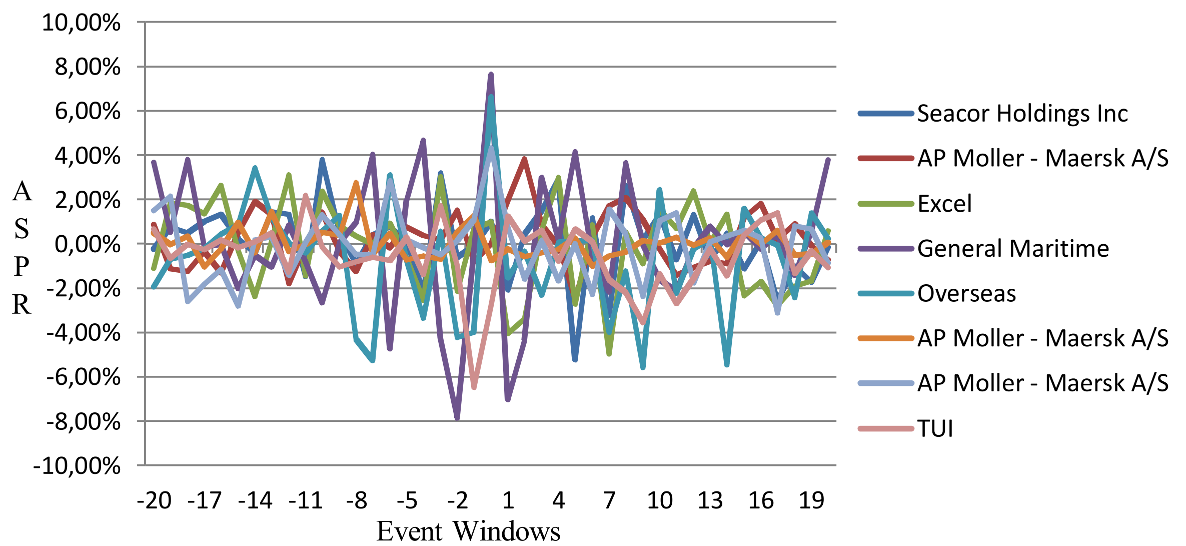
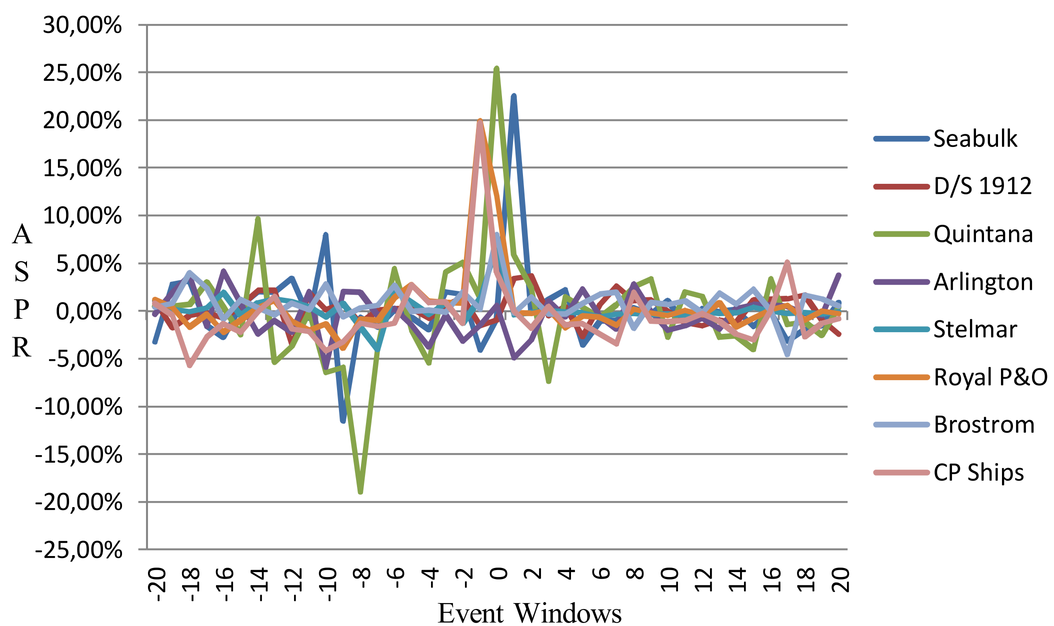


Figure 3: Abnormal Stock Price Returns of targets



In order to draw useful results, following tables show the cumulative abnormal returns over specific event windows and their statistical significance. More specifically, the announcement of the corporate deal between Moller-Maersk A/S and D/S 1912 affect the performance of stock prices in a positive manner in general. Hence, the announcement of the deal gave strong positive CAR to the bidder even 5 days prior the event date. The positive impact is easily observable in the event windows [-5,-1], [-2,+2], [+1,+5], and [+5,+10]. Meanwhile, the same positive ad statistically significance impact on stock price performance is obvious for the target firm. The biggest and statistically significant CAR are easily seen in the event windows [-2,+2], [+1,+5], and [+5,+10]. As far as the other two deals of Moller- Maersk A/S are concerned, Moller Maersk realized much smaller CAR around the event date. It is also worth mentioning that the results presented in Table 4 show that Moller's CARs seem to be negative. This reaction after an M&A announcement should be positive, but results do not follow the expectations. However, these two particular cases of takeovers by the Norwegian shipping giant are noticeable for the reason that the empirical research indicated significant positive impact for the target firms. Market reacted extremely positively in these two corporate deals. It is worth noting that Brostrom AB realized positive and statistically significant CARs except for the last event window [+16,+20]. Furthermore, investors' preferences affect even more positively the stock performance of Royal P&O Nedlloyd NV because of the prominent deal. Specifically, we can note that stock returns note impressive increase during the period [-5,-1], [-2,+2]. Even though there were positive climate immediate before and after date of announcement, during the period [-10,-6] gave significant negative CARs and all the periods after [+1,+5], [+6,+10], [+11,+15], [+16,+20], indicating investors' doubts about the deal expectations. Moreover, the takeover of Quintana Maritime Ltd by Excel Maritime Carriers Ltd announced is another corporate deal in our study. Despite the negative CAR in the first two event windows [-20,-16], [-15,-11], the announcement of the deal gave positive CAR around the event date. However, the strongest and statistically significant CAR came up in 5 days period after the announcement. As we see Table 4, target firm realized very big positive CAR (40.14%) and this reverses the negative result of the period [-10,-6].

The case of the deal between General Maritime and Arlington Tankers is a remarkable event. In most of the event windows [-15,-11], [-10,-6], [-5,-1], [-2,+2],[+1,+5], [+6,+10] and [+11,+15] the bidder firm realized negative returns with the lowest ones two days before and after the event date. The same negative investment

climate is observable in the target firm with the most negative and significant event windows [-5,-1] and [-2,-2].

In the case of Overseas Shipholding-Stelmar Shipping takeover, the biggest positive returns are received again by the target. The event windows after time zero may indicate a correction by the market. On the other hand, we have to mention that Shipholing Corporation realized mainly negative returns over the event windows. It is remarkable the evidence of five days before the announcement [-5,-1] where there are high negative returns [-11.74%].

Additionally, Seabulk is another target firm which after the announcement of its takeover by Seacor shown the same behavior. In this case, we can see extremely high positive and significant CAR in the [+1,+5]. During the first three event windows [-20,-16], [-15,-11], [-10,-6], there is positive stock reaction, however, the event windows [-5,-1], [-2,+2] and [+1,+5] indicate low expectations for the corporate takeover.

Examining the last case of TUI-CP Ships, we can easily observe the positive impact on target's stock performance. Even though CP Ships realized negative CARs during the last event windows [+6,+10], [+11,+15], [+16,+20], the presence of high positive expectations of this corporate deal gave high positive and significant returns is totally undisputable. Except for the event windows [-15,-11] and [+1,+5], indeed the low positive CARs are statistically insignificant in the former, the bidder of the deal is affected negatively.

Empirical findings from both Table 4 and 5 indicate the positive impact especially for target firms which are involved in these kinds of announcements. As we can also clearly observe in Figure 5, there are negative CARs only for Arlington Corporation. Positive CARs indicate that target companies usually create financial value even though they have been acquired from another one. Furthermore, findings show that announcement referring the acquirers does not necessarily mean value creation for the acquirer's shareholders value. Generally speaking, empirical research has shown that some investors have inside information about prominent deals which justifies the stock price increase and the big positive abnormal returns before the announcement date. The graph presented in Figure 4 which shows the biggest cumulative abnormal returns of Excel Maritime from all the other deals are the signal for further research of its corporate governance characteristics (see more in Appendix).

Table 4: Cumulative Abnormal Returns and Statistical Significance of Acquirers

(T_1, T_2)	**(-20,-16)**	**(-15,-11)**	**(-10,-6)**	**(-5,-1)**	**(-2,+2)**	**(+1,+5)**	**(+6,+10)**	**(+11,+15)**	**(+16,+20)**
AP Moller - Maersk A/S[1]	-3,12%	1,99%	0,12%	2,07%	6,53%	4,12%	4,99%	-2,92%	2,14%
	(-1,69550)	(4,12940)	(1,85953)	(4,43578)	(2,25666)	(5,61877)	(3,54468)	(-6,32242)	(10,46517)
Excel Maritime Carriers Ltd	-9,71%	-22,95%	7,22%	5,59%	12,26%	4,26%	1,87%	2,20%	-7,55%
	(-4,393036)	(-5,370778)	(0,021751)	(2,33543)	(1,010514)	(4,674982)	(0,220572)	(4,80943)	(-1,112518)
General Maritime Corp	7,89%	-3,47%	-2,34%	-5,89%	-12,00%	-4,05%	-0,71%	-1,00%	3,20%
	(6,452964)	(-9,71164)	(-1,42214)	(-0,02613)	(-3,96184)	(-6,60990)	(-0,660925)	(-7,304773)	(0,350808)
AP Moller - Maersk A/S[2]	-1,87%	-3,61%	3,57%	0,80%	4,79%	-2,29%	-1,54%	0,72%	-2,18%
	(0,764107)	(-10,85831)	(3,490133)	(0,140318)	(2,960321)	(-1,85599)	(-3,238305)	(1,000986)	(-3,050122)
Overseas Shipholding Group Inc	-2,89%	5,14%	-4,58%	-11,74%	-3,42%	-3,97%	-8,18%	-6,03%	-0,53%
	(-11,4321)	(4,880575)	(-1,41963)	(-2,94475)	(-3,68537)	(-5,30336)	(-2,98229)	(-3,572653)	(1,3306)
SEACOR Holdings Inc	1,49%	4,06%	5,78%	-1,39%	-2,04%	-3,69%	2,73%	0,00%	-8,63%
	(2,16154)	(2,08582)	(19,15625)	(0,10482)	(-2,23951)	(-0,68685)	(0,696212)	(-0,493794)	(-3,24039)
AP Moller - Maersk A/S[3]	-0,42%	1,65%	3,65%	-0,11%	0,29%	-1,17%	-1,70%	0,49%	-0,29%
	(1,005907)	(5,196241)	(3,45801)	(-3,46459)	(3,52306)	(-4,53479)	(-10,15086)	(2,622919)	(0,014495)
TUI AG	-0,05%	1,36%	-3,31%	-6,81%	-8,79%	1,92%	-8,54%	-5,50%	-0,20%
	(0,550474)	(0,406025)	(-3,34463)	(-1,06586)	(-4,44366)	(9,270743)	(-2,526583)	(-8,067747)	(2,507534)

[1] Results concern the deal AP Moller - Maersk A/S- D/S 1912
[2] Results concern the deal AP Moller - Maersk A/S- Brostrom AB
[3] Results concern the deal AP Moller - Maersk A/S- Royal P&O Nedlloyd NV

Table 5: Cumulative Abnormal Returns and Statistical Significance of Targets

(T_1, T_2)	(-20,-16)	(-15,-11)	(-10,-6)	(-5,-1)	(-2,+2)	(+1,+5)	(+6,+10)	(+11,+15)	(+16,+20)
D/S 1912	-1,88%	3,31%	0,10%	0,16%	6,13%	4,47%	5,67%	-3,72%	0,92%
	(-1,407897)	(3,397647)	(0,776569)	(1,161831)	(1,447389)	(7,605258)	(4,330749)	(-5,285491)	(3,901027)
Quintana Maritime Ltd	5,12%	-1,79%	-30,60%	3,25%	40,14%	2,84%	3,24%	-5,77%	-1,26%
	(2,674262)	(0,347607)	(-4,026414)	(-0,776868)	(3,168473)	(3,057293)	(1,895237)	(-0,129467)	(0,693326)
Arlington Tankers Ltd	7,89%	-2,74%	-1,93%	-10,09%	-11,74%	-5,04%	-1,53%	-3,04%	4,18%
	(2,536736)	(-2,405571)	(-4,077791)	(-4,116232)	(-3,887086)	(-10,58818)	(-1,210753)	(-6,139684)	(2,016268)
Brostrom AB	6,88%	2,22%	5,87%	2,25%	11,60%	1,48%	3,45%	5,90%	-0,87%
	(2,915786)	(8,404011)	(5,117521)	(1,656674)	(3,458718)	(2,931499)	(6,928332)	(3,135655)	(-2,377394)
Stelmar Shipping Ltd	3,52%	3,21%	-3,27%	1,56%	6,29%	-0,76%	-1,90%	-0,56%	-0,79%
	(3,839953)	(2,209639)	(-2,045173)	(3,89051)	(2,097629)	(-9,679302)	(-5,324073)	(-6,756091)	(-2,715144)
Seabulk International Inc	0,24%	9,35%	-4,13%	-1,93%	20,29%	22,64%	0,95%	-0,14%	-6,80%
	(-0,169743)	(3,269511)	(-0,866661)	(-1,470278)	(1,374614)	(34,66204)	(-6,231194)	(-4,419621)	(-3,581247)
Royal P&O Nedlloyd NV	-2,49%	-2,43%	-5,58%	25,41%	32,37%	-2,57%	-2,47%	-1,75%	-0,40%
	(0,020745)	(-1,50309)	(-5,119763)	(1,971335)	(3,846371)	(-2,221803)	(-5,803214)	(-1,135309)	(0,216018)
CP Ships	3,33%	5,67%	-0,69%	8,82%	12,84%	3,05%	-0,52%	-2,45%	-3,02%
	(5,889163)	(5,366796)	(-1,125614)	(4,693367)	(3,935146)	(5,583466)	(1,190954)	(-2,337797)	(-7,537752)

Figure 4: Cumulative Abnormal of Acquirers

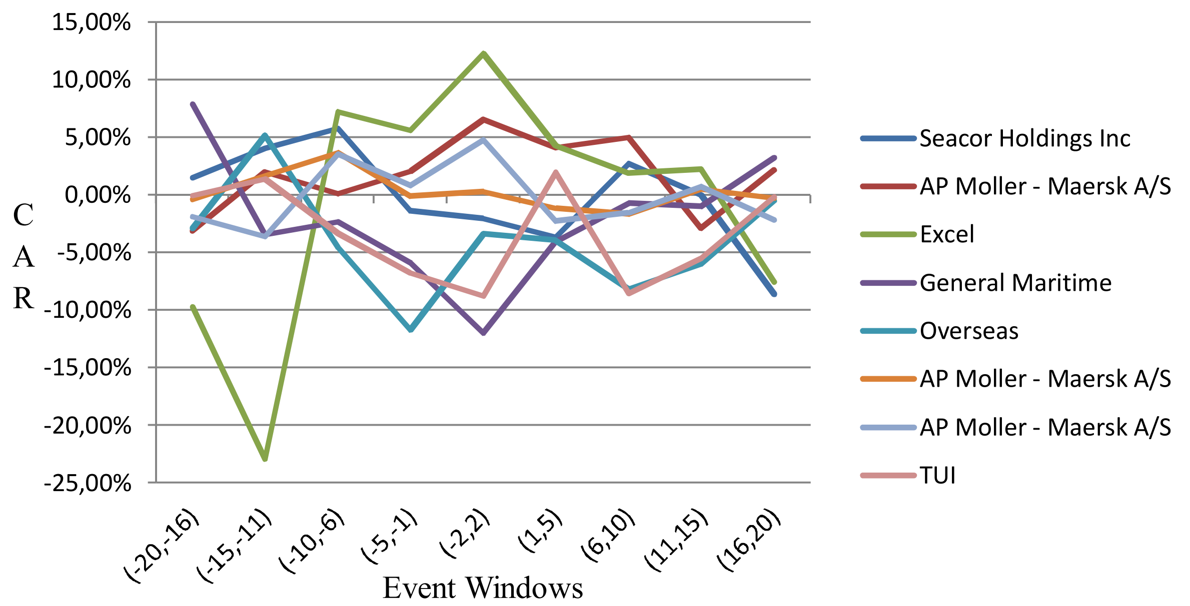
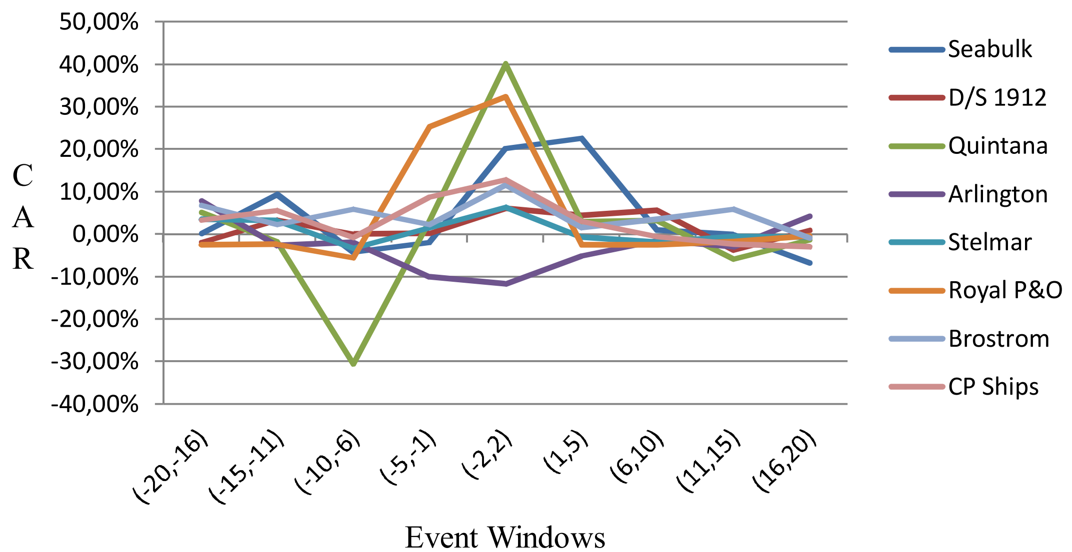


Figure 5: Cumulative Abnormal Returns of Targets



ii. Corporate Governance characteristics

The globalization of the world economy in combination with a highly competitive environment has increased the number of shipping companies which are interested in corporate governance issues. Consequently, ownership structure, CEO duality, the board of directors in particular and corporate governance more broadly, ranks high in the strategic agenda of maritime corporations. The question arises naturally whether the corporate governance system of each firm can follow prominent challenges. According to OECD principles, there are specific characteristics which define how well-organized each corporate governance system is. Corporate governance possesses a vital role for each firm and may play a catalytic role in takeover decisions. The possibility that a takeover deal may be motivated by managers' personal incentives given large premiums cannot be ruled out.

Nowadays, some firms allow their Chief Executive Officer to hold the position of Chairman of the Board of Directors while other firms choose to split those two positions between two different individuals. Shipping firms are mainly family. The members of the family are the controlling group and there is not a real distinction between ownership and management of the firm. Hence, in many firms there is a possibility of existence of CEO duality where the same person holds the chairman position and he is the Chief Executive Officer of the Corporation as well. The person who takes over these two crucial positions for the corporation, he concentrates great power and this is something that it can be proved positive for the corporation for the reason that it is much easier for making decisions or negative because he will probably take advantage of his power of this double position which holds in order to satisfy private benefits. From the perspective of agency theory, Chief Executive Officer (agent) is responsible for utility maximizing and risk minimizing in a firm. He makes the appropriate decisions in order to improve the welfare at the expense of shareholders (principals). On the other hand, Board of Directors supervises the options of Chief Executive Officer. Consequently, when a firm present CEO Duality this means that the separation between ownership and management is probably corrupted. Finally, firm's performance is negatively affected due to the fact that Chief Executive Officer has major power and he makes decisions for his own private benefit. Moreover, many other recent studies support the idea that agency theory is very restrictive for Chief Executive Officers. On condition that chairman of the board of the directors and the firm's Chief Executive Officer as well, the firm can reap the benefit of this for the reason that there is

a focused leadership which boosts the CEO's flexibility to make strategic decisions. Furthermore, this produces a further incentive to him to do his best and it will be profitable for the whole firm.

One major supervisor on management is the Board of Directors which is elected by shareholders. In extreme circumstances, it is responsible for making decisions on crucial corporate issues. In fact, there is not an optimal size of the board, though it is no acceptable to be larger than this which is predicted by the law.

Another crucial point for firm's sustainability is ownership structure for the reason that it plays a key role in agency problems between managers and shareholders. Many times, managers may divert firms' resources thus increasing their personal wealth and the possibility that they make decision for a potential takeover deal based on their own interests cannot be ruled out.

Governance is indisputably a key characteristic which defines how a corporate entity reacts in a potential takeover. On the other hand, a takeover attempt could be a key reason to make policy makers rethink the strategies of the firm. However, corporate governance mechanisms are not expected to affect the overall deal value but they could affect the short-term stock returns between acquirer and target shareholders. In relation to CEO duality, it cannot guarantee corporate profitability after a takeover but there is no doubt that the separation of control and ownership is one of prerequisite for significant and positive abnormal returns because of positive market expectations related to a possible deal (Raghavan, Iyeyangar, Ernast, Zampelli 2009).

Examining with greater caution the acquirer of the deal with the biggest Cumulative Abnormal Returns in our sample, it is worth examining the corporate governance model of Excel Maritime. Despite the fact that it presents CEO duality, its Board of Directors consists of just 10 members. When a firms presents CEO duality, manager could act based on their motives. As potential takeover deals are major threats for managers' positions, this creates further doubts about the maximization of corporate value for the sake of shareholders and any other contributive part. Only if investors hold a substantial part of the voting capital, they will be able to control managerial actions and force them to distribute profits to shareholders. In a period of crisis, an independent board in Excel Maritime may react more efficiently and implement the necessary strategies for change or improvement. As far as the ownership structure is concerned, the majority of shareholders are investment managers. Nevertheless, ownership concentration may not be a good indicator of corporate governance efficiency due to the

fact that corporate owner identity can be a more important determinant of corporate control (Lehmann, Weigand 2000).

Table 6: Ownership Structure of Excel Maritime

Investor Type	Investors	% O/S	Pos	Val ($MM)
Investment Managers	144	14,86	12.619.909	40,22
Brokerage Firms	21	0,49	417.590	1,29
Strategic Entities	3	46,10	39.161.739	220,48
Holding Companies	1	39,05	33.170.966	186,75
Corporations	1	5,92	5.032.520	28,33
Individuals	1	1,13	958.253	5,39
Government Agency	0	0,00	0	0,00
Total - All Holders	168	61,45	52.199.238	262,00
Insider Filings (As Reported)				
Insider	0	0,00	0	0,00

Excel Maritime's characteristic (Table 6) is in line with the empirical evidence of Lambertides and Louca (2008) that foreign shareholders and investment corporation shareholders may facilitate better corporate governance and monitor management effectively. However, it is not apparent that internal control by insiders, family interests, banks, allied industrial firms and Holding Companies guides to the improvement of corporate performance.

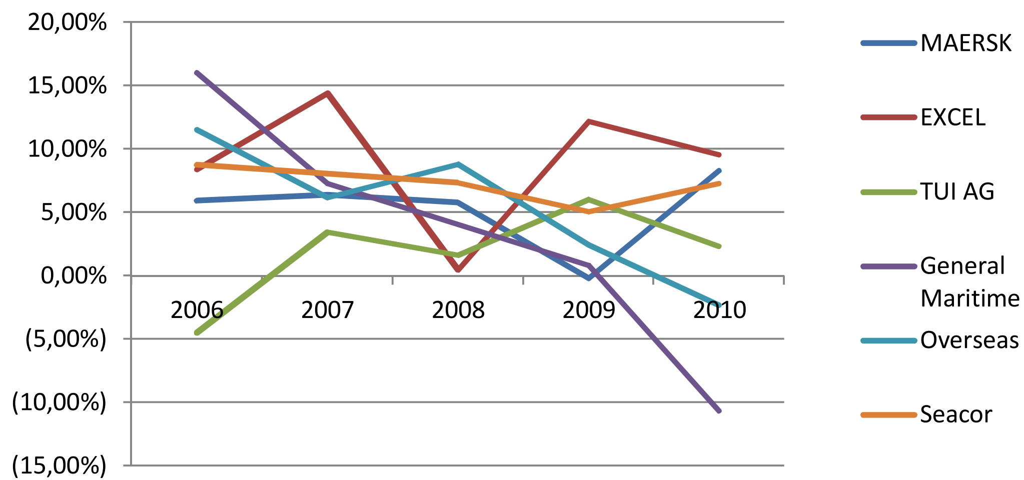
The opposite may hold if there is a large shareholder attached to the firm who motivates managers and all contributive parties in a corporation. In this specific case, it is also worth mentioning that there is significant concentration of managerial ownership and this is easily observable from the simple fact that top five investors holds more than 10% of the total ownership. Indeed, it is notable that Lhada Holdings holds 39.05% of the firm's ownership. On the other hand, on condition that this large shareholder takes on a know-all strategy and creates major conflicts between the interested parties, a neutral investor, such as a bank, is better for the corporate governance and corporate performance.

Table 7: Ownesrship Concentration of Excel Maritime

Top Ten Investors			
Investor Name	**% O/S**	**Pos**	**Investor Type**
Lhada Holdings, Inc.	39,05	33.170.966	Strategic Entities
Argon, S.A.	5,92	5.032.520	Strategic Entities
Dimensional Fund Advisors, LP	3,52	2.990.459	Investment Managers
BlackRock Institutional Trust Company, N.A.	1,81	1.535.206	Investment Managers
Mende (Hans-Juergen)	1,13	958.253	Strategic Entities

To sum up, corporate acquisitions are among the largest investments and they can rise from obscurity conflicts of interests between managers and shareholders. Past empirical findings from relevant literature have shown that family CEOs contribute to the improvement of shipping firm's financial performance measured by profitability ratios (ROE, ROA). Despite the fact that an independent Board of Directors is an important determinant for an efficient corporate governance system, shipping firms have taken advantage of a family based ownership model and have experienced very strong growth rates.

Figure 6: ROA of the acquirers



5. Conclusions and Recommendations

The primary object of this dissertation thesis is the corporate governance implications and the economic result of a corporate deal between shipping firms. The M&A announcements tested for both the acquirers and the targets shareholders returns in specified event windows. It was clearly indicated that the biggest abnormal returns are observed in two days before and after the date of announcement. M&A deals gave significant positive impact mainly in target firms for the reason that they are followed by positive market expectations. On the other hand, examining the stock price performance of the acquirers, the Cumulative Abnormal Returns (CAR) are positive around [-2, +2] and after [+1, +5] [+6, +10] the announcement date. In relation to the targets, it is easily conceivable that the big CARs for the targets even five days prior the announcement date clearly indicate the presence of inside information about prominent deals. Hence, there is a significant increase of cumulative abnormal returns in the event windows [-5,-1] and [-2, +2]. However, the results in Tables 4 and 5 show some differences in the behavior of participants to M&A announcements. Generally speaking, the results support that the announcements of M&As have direct positive impact in the stock price performance of the target shipping firms. This specific dissertation thesis ensures that takeovers, except for the developing aspects for the contributing corporations, add financial value increasing shareholders' wealth. In line with past relevant literature, this kind of corporate deals can improve target firm's performance by replacing inefficient corporate governance systems, corporate restructurings or introducing new technological methods to meet modern market conditions. Although this study supports the perception that specific corporate governance characteristics can influence the response of a firm in a potential corporate deal, there also many other factors that influence takeovers. It underlines the central role of corporate governance in the shipping firms, taking into consideration CEO duality, ownership structure and ownership concentration. This specific research examined the case of Excel Maritime, due to the fact that it experienced the most important cumulative abnormal returns from all the other bidders. The major characteristics of Excel Maritime's governance model are the presence of CEO duality and high ownership concentration. All these findings verify all relevant past literature that indicates the traditional corporate governance model of Greek shipping firms. However, it should be mentioned that this type of governance gave high profitability levels in the past. Strategic decisions related to corporate governance issues are quite interesting for further research with a wide range

of corporate governance elements in order to assess the level of impact of an M&A announcement.

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Databases

Bloomberg

Business Source Complete powered by EBSCO

SSRN (Social Science Research Network)

Thomson One

7. Appendices

Figure 8: CAR of Moller-Royal

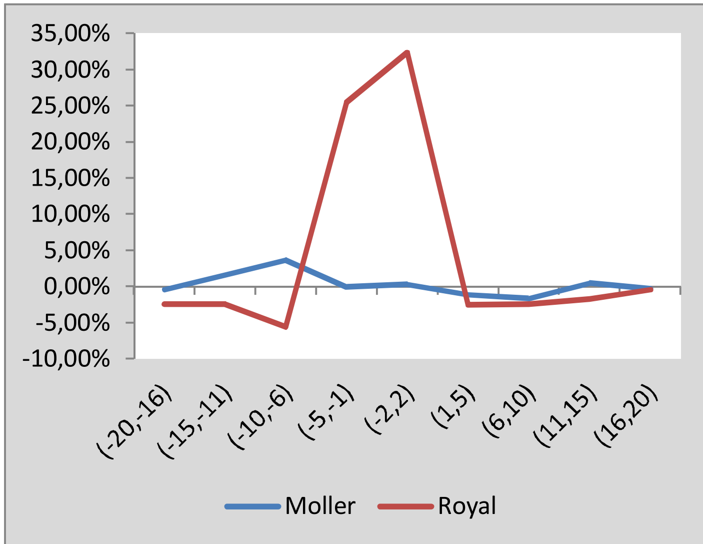

Figure 7: CAR of Seacor-Seabulk

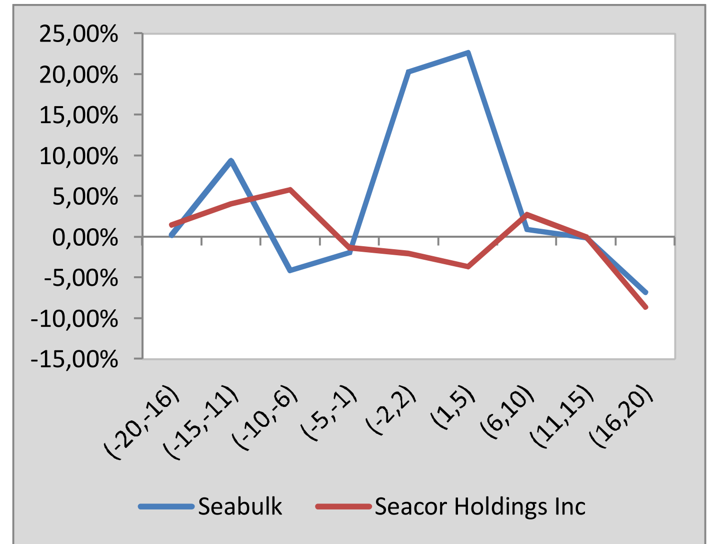

Figure 10: CAR of Excel-Quintana

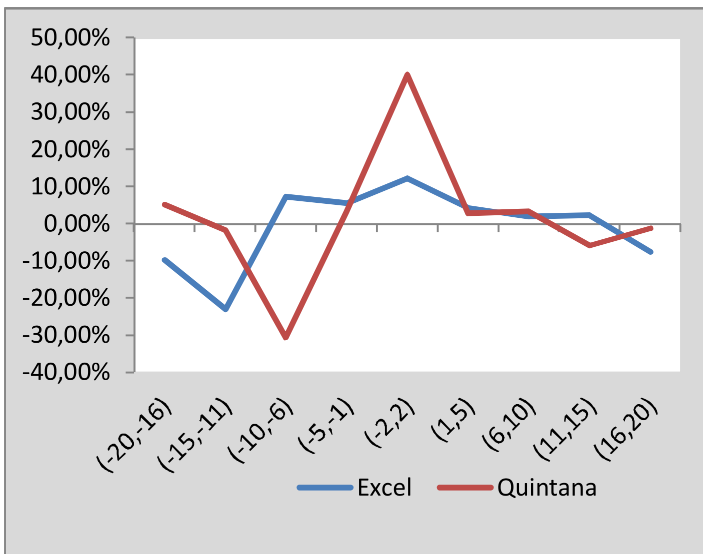

Figure 9: CAR of Moller-DS1910

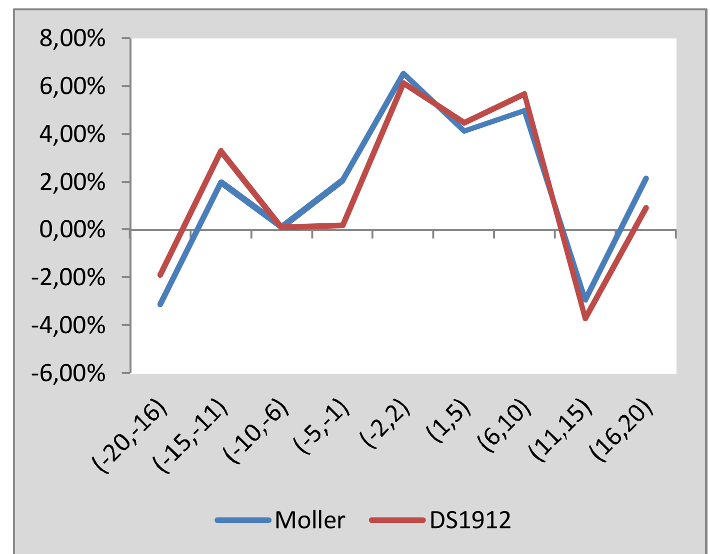

Figure 11: CAR of Overseas-Stelmar

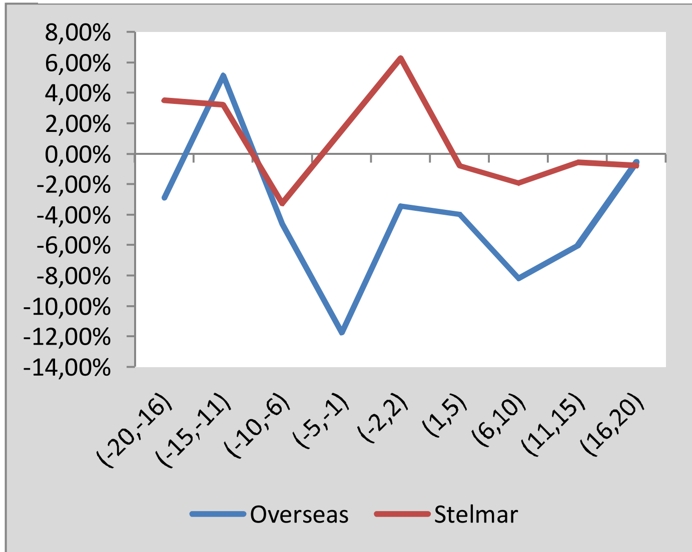

Figure 12: CAR of General Maritime-Arlington

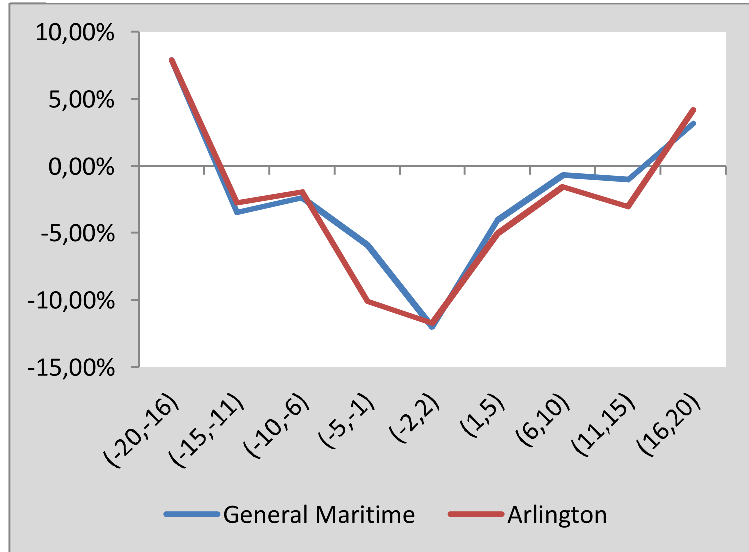

Figure 13: CAR of Moller-Brostrom

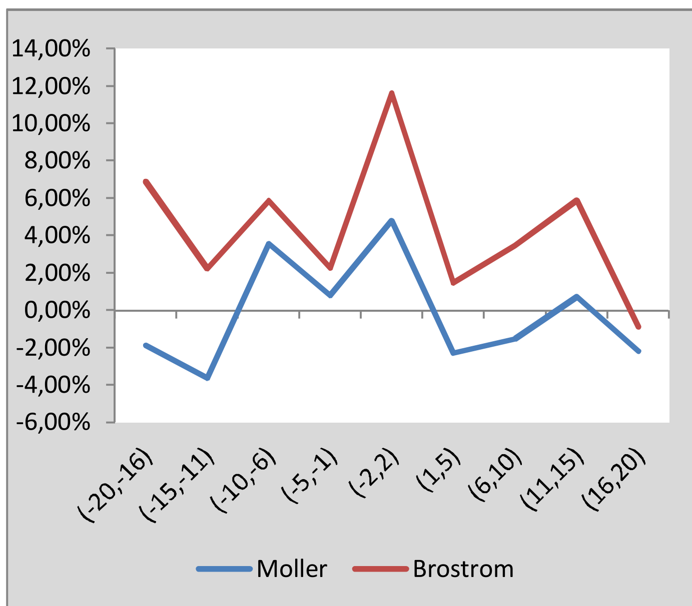

Figure 14: CAR of TUI-CP Ships