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Protection of Domestic Bank Ownership in France and Germany: The Functional Equivalency of Institutional Diversity in Takeovers

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ABSTRACT

We investigate in this article the character of the market for corporate control (i.e. takeovers) in French and German banking. Its key feature is the marked ability of French and German banks to resist unsolicited takeover bids especially, although not exclusively, those from foreign competitors. We present an institutional perspective to account for the restrained character of takeovers in French and German banking. Our perspective is composed of two elements. First, institutional arrangements are important since they structure power relations among firm stakeholders by providing opportunities, as well as imposing constraints, to influence the decision-making process in which takeover transactions take place. Second, institutional arrangements provide firm stakeholders with several, not just one, potential opportunities to block unsolicited bids since takeover contests are composed of sequences of decisions for which approval is needed at each stage. French and German banks have used different mixes of institutional arrangements, themselves located at different stages of takeover transactions, to secure restrained markets for corporate control. Our institutional analysis, in turn, also illustrates an important shortcoming of banking sector protectionism, namely the contribution of protection from unsolicited takeover bids to the building of banks carrying systemic risks.

Introduction

We investigate in this article the character of the market for corporate control (i.e. takeovers) in French and German banking, namely the marked ability of domestic banks to resist unsolicited takeover bids especially, although not exclusively, those from foreign competitors. The market for corporate control in the two largest Eurozone members is characterized by the restrained presence of non-domestic financial institutions as foreign acquisitions of French and German banks of considerable size have been severely limited (Clark and Wojcik, 2007; Culpepper, 2011: 48-81).[1] Yet, from their position of overall protection from unsolicited bids, large French and German banks have themselves been active participants in the market for corporate control as acquirers, thereby enabling them to expand their operations. The fast-paced consolidation of the banking sector in the two countries has largely taken the form of negotiated transactions mainly, although not exclusively, among domestic financial institutions (Carletti and Vives, 2009). This acquisition spree has also resulted in the substantial growth in asset size of French and German banks in relation to the countries in which they are chartered, i.e. they have become too-big-to-fail (Goldstein and Véron, 2011). Thus, our analysis illustrates a shortcoming of banking sector protectionism, an important feature of this special issue on foreign ownership in banking (Epstein, 2014a), namely the contribution of protection from unsolicited takeover bids to the building of banks carrying systemic risks. What, then, accounts for the presence of restrained takeovers in French and German banking?

We present an institutional perspective composed of two elements to account for the ability of French and German banks to resist unsolicited takeover bids. First, institutions are influential in shaping power relations among firm stakeholders by providing opportunities, as well as imposing constraints, to influence the decision-making process in which takeover transactions take place (Hall and Thelen, 2009; Roe, 1993). Institutions enable different categories of actors to push for their favorite outcomes -- an important factor given the wide distributional consequences associated with variations in the prominence of takeovers (Campbell, 2004; Gourevitch and Shinn, 2005). However, an institutional analysis is also counter-intuitive for this investigation of takeovers in French and German banking. Scholars working within an institutional perspective traditionally highlight how variations in institutions provide substantial insights to account for observed differences in outcomes across countries (Dobbin, 1994; Hall and Soskice, 2001; Katzenstein, 1977). The emphasis on institutional variation to explain differences in outcomes also reflects a broader conceptualization of causality. Institutional approaches rarely advance the notion that only institutions matter for outcomes; rather they are conceptualized as mid-level variables (as distinct from macro-structures) that act as mid-range theory (Hall, 1986). Thus, the empirical puzzle for an institutional perspective is that France and Germany reached the same outcome – namely, restrained markets for takeovers in banking via the ability of banks to resist unsolicited bids -- but through some markedly distinct institutions. The institutional arrangements of the two countries exhibit important differences in takeover transactions; most notably, but not exclusively, with regard to the influence of the state in France; and the importance of tightly linked corporate networks of firms and the presence of Co-determined boards of directors in Germany (Gordon, 2004; Jabko and Massoc, 2012; Kogut and Walker, 2001).

Second, we argue that the common outcome of restrained takeovers in French and German banking also illustrates the presence of alternative institutional paths by which domestic banks, through different institutional means, have achieved protection against unsolicited bids. The reason for the presence of alternative institutional paths is that the completion of takeovers takes place along a sequence of decisions characterized by different stages at which actors could rely on institutional arrangements to block unwanted transactions (Roe, 1993; Schneper and Guillen, 2004). French and German banks have used different mixes of institutional arrangements, themselves located at different stages of takeover transactions, to secure restrained markets for corporate control. Our analysis, moreover, provides interesting insights for the causal influence of institutions. Scholars in the social sciences increasingly highlight that institutions are part of a phenomenon of complex causation characterized by greater sophistication than the traditional research design of matching variations in institutions with differences in outcomes (Ragin, 1987). Yet, institutions in settings of complex causation could generate the outcome of interest as a result of an intersection of different factors or, as illustrated by our investigation of takeovers in banking, via different but functionally equivalent paths (Hall, 2003; Mahoney, 2008). We illustrate that there are several institutional paths by which institutions provide protection from takeovers.

The remainder of the article is organized as follows. First, we highlight that low foreign ownership in French and German banking reflects not only the failure of the EU internal market to promote cross-borders competition that would serve as a check on the systemic growth of banks, but also the ability of domestic banks to resist unsolicited takeover bids. Second, we analyze how our institutional approach enables us to capture the process of causal inference by which institutional diversity can generate a similar outcome with a focus on takeovers. The following two sections provide an analytical overview of the different institutional paths by which French and German banks have been largely insulated from foreign takeover attempts and its implications for the building of systemic risks in the banking sector.

The Market for Corporate Control in French and German Banking: Its Contextual Relevance in the EU Single Market

Foreign ownership in French and German banking is relatively low. In France, the presence of foreign banks is limited at around 12 percent of total bank assets (Hardie and Howarth, 2009: 1021). The corresponding figure for Germany is a mere nine percent of total bank assets (IMF, 2011: 44). We highlight in this article the relevance of the study of takeovers to understand this outcome. Our analysis of French and German banking illustrates how different sets of institutional arrangements (independent variable) in the two countries have enabled banks to secure restrained markets for corporate control (dependent variable). In turn, the protection from unsolicited bids has also been conducive to the active participation of French and German banks as acquirers on the market for corporate control (Carletti and Vives, 2009). The character of the market for corporate control in French and German banking has not served as a check on the systemic growth of domestic banks. Therefore, the focus on takeovers expands our understanding of explanations seeking to account for low foreign ownership and the preservation of fragmentation of large EU banking markets along national lines, most notably those that emphasize the problems associated with international expansion via the opening of subsidiaries in foreign markets.

The internationalization of banks can occur via takeovers (external growth) or through the opening of subsidiaries (internal growth) (see also Epstein, 2014b in this volume). From this strategic angle, the promises of greater cross-borders market competition associated with the implementation of the internal market in retail banking did not materialize. The EU's Second Banking Directive (1993) was introduced to promote competition in the sector by authorizing any financial institution to establish branches anywhere in the EU if it is authorized to operate in one of its member states (Story and Walter, 1997). Nonetheless, the (West) European banking market remains segmented along national lines with cross-country penetration being limited (Goddard, Molyneux, and Wilson 2010; Carletti and Vives, 2009). In particular, retail banking services are currently fragmented on a national basis despite the implementation of an impressive series of legal measures of financial integration at the EU level (Grossman and Leblond, 2011).

Foreign banks seeking to enter the markets of Europe's two largest economies via the opening of subsidiaries face important barriers – which constitutes a significant difference with central and eastern Europe, where foreign bank ownership levels are high and subsidiarization is the normal form of expansion for foreign banks (Epstein 2014b). The banking sectors of France and Germany are characterized by having one of the highest number of bank branches per capita among advanced capitalist economies that, in turn, makes it difficult for foreign financial institutions to develop a local presence without incurring important sunk costs (Grossman and Leblond, 2011: 429; IMF, 2011). The extensiveness of bank branching in the two countries reflects the importance of information asymmetries, the high degrees of specialization of the three pillars (commercial banks, saving banks, and the co-operative/mutual sector), and the privileges enjoyed by some financial institutions that, in turn, have promoted competition between sectors in the form of incentives for branch opening (Deeg, 1999; Loriaux, 1991: 65-72). In France, for instance, mutual and savings banks had, until early 2009, a monopoly over the use of the 'Livret A', the most widely used, tax free savings account. The privileged access to state-subsidized credit for agriculture and rural housing of Crédit Agricole, France's giant co-operative bank, acted as an important incentive to build the country's largest retail network. In Germany, on the other hand, the three banking pillars (commercial, regionally-based public sector, and cooperatives) are universal banks that compete extensively for the provision of a series of services to SMEs, most notably in the areas of long-term commercial financing and management consulting. Local proximity in the retail banking sector, as provided by a bank's branch network, is important in order to overcome difficulties associated with the acquisition of financial information on SMEs. Thus, foreign banks seeking to extend their activities by opening branches in France and Germany face serious obstacles from domestic banks with an already established extensive network.

However, the difficulties associated with entering the French and German markets via internal growth (i.e. subsidiarization) do not constitute a complete explanation for the overall low rates of foreign ownership in the two countries. Takeovers would constitute an interesting strategic alternative to overcome these barriers to entry and enable banks to gain a foothold in other EU markets characterized by extensively developed branch networks with high customer loyalty and extensive switching costs.

This is an important factor in why the study of the market for corporate control in French and German banking is particularly insightful. The EU-driven liberalization of the banking sector has indeed favored movements of concentration via takeovers, but at the domestic level, not via cross-border transactions (Carletti and Vives, 2009). Cross-border incursions into France and Germany have remained limited in the area of banking – that is, unsolicited acquisitions of domestic banks by foreign rivals have been rare (Clark and Wojcik, 2007; Culpepper, 2011). Why, then, is the external strategy of entry via takeovers appreciably difficult for foreign banks seeking to develop a presence in France and Germany?

The Restrained Market for Corporate Control in French and German Banking: An Institutional Perspective

The market for corporate control in French and German banking is characterized by the overall protection of domestic banks against unsolicited takeover bids from (foreign) rivals.[2] The two instances of a foreign acquisition of a large domestic bank are that of Credit Commercial de France which fell under the control of HSBC in 2000; and of Hypo Vereinsbank which was acquired by Unicredit in 2006 – both of these being friendly/negotiated transactions. [3] What accounts for the overall restrained markets for corporate control in French and German banking?

We present an institutional perspective composed of two elements to account for the specific characteristics of takeovers in French and German banking. The first element of our institutional perspective highlights that institutions not only constrain courses of action, but also support and empower actors in translating their preferences into outcomes (Campbell, 2004; Garrett and Lange, 1995; Hall, 1986). Institutional arrangements act as constraints that reduce the range of feasible options. They also structure power relations among actors by offering access in an unsymmetrical manner to, and thus influence over, the decision making process in which important decisions are taken (Hall and Thelen, 2009; Steinmo and Thelen, 1992). Takeover contests take place at the firm-level between companies, but do not occur in an institutional vacuum as actors are embedded in different institutional settings across advanced capitalist economies (Schneper and Guillen, 2004). Institutional arrangements provide different categories of actors across national settings with different degrees of power and influence over corporate decisions that, in turn, enable them to defend their interests against other firm stakeholders with opposing preferences (Fligstein, 1990; Gourevitch and Shinn, 2005).

The second element of our institutional perspective highlights that takeover contests are composed of sequences of decisions for which approval is needed at each stage, thereby providing their opponents with several, not just one, potential opportunities to block unsolicited bids at different institutional locations (Roe, 1993; Schneper and Guillen, 2004). The distribution of institutional arrangements located at different points along the chain of decisions for the successful completion of takeovers shapes the relative weight of firm stakeholders to secure their favorite outcomes (see more generally Immergut, 1992). In other words, there are several alternative, and thus non-rival, opportunities by which institutional arrangements enable firm stakeholders to successfully oppose takeover bids (Capron and Guillen, 2009; Culpepper, 2011). Institutions can enable firm stakeholders to defeat actual (and potential) takeover bids in four ways: deterring unsolicited bids from being attempted, limiting the ability of bidders to secure enough outstanding shares during the bidding process, requiring the formal approval of regulatory authorities and policy-makers, and by limiting the ability of an acquirer to restructure the assets of the target company in the post-acquisition reorganization process.

First, national systems of corporate governance characterized by the prominence of the institutional arrangement of ownership concentration, for instance, enable companies to deter unsolicited takeover bids (Culpepper, 2011: 25-47; Roe, 1993). The presence of a large blockholder which is unwilling to depart with its stake can act as an effective deterrent to unsolicited takeover bids. Second, national systems of corporate law characterized by the presence of anti-takeover defense mechanisms and deviations from the one share-one vote standard, on the other hand, make it appreciably more difficult for bidders to acquire other companies during the formal bidding process (Gordon, 2004; Rossi and Volpin, 2004). The presence of insiders with additional voting power, such as double voting rights, for having kept their shares for a pre-determined period of time (usually for two years) would make it easier to defeat the efforts of newcomers who have to acquire shares at their full price but without additional voting power (Dyck and Zingales, 2004; European Commission, 2006). A third institutional arrangement that could enable firm stakeholders to resist unsolicited takeover bids is the regulatory process of approval of takeovers, which is characterized by substantial cross-national differences with regard to the legal mandate and degree of independence of regulatory authorities (Thatcher, 2002; Vogel, 1998). These institutional differences in regulatory frameworks could constitute important factors protecting domestic companies, even those with ownership diffusion, given the perceived unpopularity of takeovers for employment issues – a concern magnified in the case of cross-border deals (Roe, 2000). Finally, the gains associated with takeovers are often contingent upon the ability of the acquiring company to restructure and reorganize the activities of the acquired firm which could entail resource deployment in the form of employee layoffs (Atanassov and Kim, 2009; Capron and Guillen, 2009). The presence of institutional constraints, such as stringent legal rights of employment protection, enable insiders (employees and managers) to better defend their interests by limiting the ability of an acquirer to restructure the assets of the target company in the post-acquisition reorganization process (OECD, 2004; Schneper and Guillen, 2004).

Our institutional perspective on the market for corporate control in French and German banking provides important insights that connect to a broader theoretical issue in political science and economic sociology and, thus, extend beyond the confines of the study of banking and takeovers, namely the influence of institutions in settings of causal complexity. Our analysis helps solve an apparent puzzle of this article, namely how could an institutional perspective account for the ability of French and German banks to achieve a similar outcome, that of overall protection from unsolicited takeover bids, despite the presence of significant differences in their institutional settings (see the following two sections). Our analysis, moreover, also provides important insights on the failure of existing analyses of takeovers to properly conceptualize the role of institutions as independent variables in takeover transactions. We proceed to present the theoretical insights of our institutional analysis in the remainder of this section.

Analyses of the market for corporate control have been dominated by two types of investigations: economic theory of regulation and large N empirical studies. The first standard approach to the study of takeovers is the economic theory of regulation associated with the law and economics literature. The core insight of the economic theory of regulation is that the intensity of the preferences of firm stakeholders for specific takeover outcomes constitutes the most important causal variable (Bebchuk and Ferrell, 1999; Romano, 1987). The main issue is not about the merits of the preferences of different actors for specific takeover outcomes, but reflects the intensity of these preferences that, in turn, is shaped by the extent to which their interests are concentrated or dispersed (Stigler, 1983). Takeovers are often associated with asymmetric distributional consequences for firm stakeholders, with concentrated costs in the form of job losses imposed on managers and employees (Haverman and Cohen, 1994). Minority shareholders of targeted companies, meanwhile, maximize their wealth in the form of the diffused benefits associated with high takeover premiums (Roe, 1993).

However, while the economic theory of regulation performs a useful job in identifying the potential differences in the intensity of preferences of various actors, the perspective remains incomplete. If the market for corporate control is indeed characterized by concentrated costs for managers/employees and diffused benefits for shareholders, what then accounts for the presence of extensively documented empirical differences across economies regarding the prominence of takeovers? More specifically, under which circumstances would companies succeed in securing protection from takeovers? Managers (and employees) with high preference intensity do not always win (Culpepper, 2011). An important shortcoming of the economic theory of regulation, therefore, concerns its failure to analyze the translation of intensity preference into takeover outcomes (see more generally Garrett and Lange, 1995). The incentives and preferences of different categories of actors in takeover transactions do not (necessarily) change across national systems of corporate governance, but their ability to advance their interests is shaped by local institutional settings (Roe, 1993; Schneper and Guillen, 2004). Thus, the first element of our institutional perspective illustrates the importance of institutional arrangements in enabling specific categories of firm stakeholders to secure protection against takeovers.

The second standard approach to the study of takeovers is based on numerous large-N studies designed to uncover the relationship between different types of independent variables and important takeover outcomes (see King et al., 2004 for an overview). These studies of the market for corporate control highlight the absence of consistent empirical results across national systems of corporate governance -- as well as within countries over time – on important indicators: takeover premiums, post-acquisition performance, and the effects of legal reforms protecting minority shareholders (Dyck and Zingales, 2004; Goergen et al., 2005). That is, large-N studies reveal no consistent relationships between hypothesized independent and dependent variables.

Moreover, the failure of existing large N-empirical studies to uncover consistent empirical relationships connects to an interesting counter-intuitive feature of our institutional analysis of takeovers in French and German banking. That is why, despite different sets of institutions, do we nevertheless see the two countries reaching equally restrained markets for corporate control in the banking sector? This outcome is puzzling for important streams of institutional analyses in political science and economic sociology given their methodological aim built around a specific research design, namely how the presence of institutional differences (usually cross-national) account for observed variations in outcomes, especially with regard to distinctive trajectories of change under common challenges (Dobbin, 1994; Hall and Soskice, 2001; Katzenstein, 1977). The selection of this research design reflects the conceptualization of causality of these streams of institutional analyses: institutions acting as mid-level variables that operate at the level of mid-range theory (Hall, 1986; Steinmo and Thelen, 1992). The question then is how, exactly, distinct institutions in the two countries cause a similar outcome in restrained takeovers in banking.

The second element of our institutional perspective builds upon these mid-range institutional streams, since these do not always translate specifically into predictions about takeovers, or indeed other kinds of important macro-political/economic outcomes. Starting from the notion that institutions are important but are not the sole causal factor, we seek to contextualize the influence of institutional arrangements on outcomes by emphasizing the specific characteristics of the complex causal settings in which they are embedded. The insights of institutionally-based approaches in political science and economic sociology correctly highlight the dangers inherent in piecemeal analysis devoid of sensitivities to context, namely that the impact of a single institution is contingent upon the overall institutional configuration in which it is embedded (Hall, 1986; Soskice, 1999). However, these institutional approaches do not always provide enough analytical hints for the identification of the specific form of the complex setting in which institutions are embedded (Hall, 2003; Ragin, 1987). The causal impact of institutions over important outcomes varies across settings of complex causation in which they are embedded. Institutions could generate the outcome of interest on the dependent variable as a result of being part of specific intersections of conditions; [4] or, as highlighted by our investigation of the characteristics of takeovers in French and German banking, via different but functionally equivalent paths (Mahoney, 2008; Ragin, 1987).

Our institutional perspective on the market for corporate control in French and German banking illustrates the precise paths through which institutions and outcomes are linked in different ways across national settings, thereby moving beyond the correlational thinking of research design based on differences in institutions to explain variations in outcomes (see also Immergut. 1992). The concept of substitutability, i.e. the presence of different but functionally equivalent paths, highlights that the causal influence of institutions does not require a constant corresponding match between the joint presence of an institutional-independent variable and the dependent variable

(Braumoeller, 2003). Moreover, the concept of substitutability is also ontologically insightful for the study of the market for corporate control given that institutional arrangements enable firm stakeholders to resist unsolicited bids at four different points along the chain of decisions for the successful completion of takeovers (see above discussion). Finally, our institutional perspective is informative in accounting for the lack of consistent empirical results associated with large N studies of takeovers as presented above. The understanding of causation of large-N studies is built around the notion of an "effects-of-causes" approach, whereby the aim is to estimate and generalize the average impact of independent variables across a large number of cases (Mahoney, 2008). This conceptualization results in the inability of large-N empirical studies to differentiate between types of complex causation in the assessment of the causal inference of hypothesized independent variables (Braumoeller, 2003; Hall, 2003). We suggest that the lack of consistent empirical results can be attributed to the presence of different institutional arrangements that provide protection against takeovers that are not accounted for in large-N studies.

The Market for Corporate Control in French Banking

The French banking sector is dominated by four financial institutions: two large listed commercial banks (BNP-Paribas and Société Générale) and two mutual banks (Banque Populaire-Caisse d'Épargne (BPCE) and Crédit Agricole). The presence of foreign banks in France is fairly limited at around 12 percent of total bank assets (Hardie and Howarth, 2009: 1021). The French banking sector is also characterized by the systemic character of its banks: the combined financial assets of the top five banks relative to GDP being 344% in 2009 – the similar figure for the United States was 58% (Goldstein and Véron, 2011: 39). The systemic growth of large French banks in the last fifteen years is impressive with the notable exception of Société Générale (see Table 1). While all of the top four French banks experienced growth on their asset side as a result of their (costly) exposure to structured products (securitization) in the United States (Hardie and Howarth, 2009), Société Générale stands out as a financial institution which has been substantially less active on the market for corporate control as an acquirer. In other words, external growth via takeovers constitutes an important component of systemic growth in French banking. The characteristics of the market for corporate control in French banking, namely limited foreign presence coupled with important consolidations among domestic actors, highlight the importance of four different mechanisms through which institutions contributed to this outcome. These mechanisms are: 1) the role of state activism in the construction of ownership concentration, 2) the availability of deviations from the one share-one vote standard as a protective mechanism, 3) the veto power of state officials over takeover approval in the banking and insurance sectors, and 4) the role of the state in protecting domestic banks in the 2008-09 financial crisis.

Insert Table 1 here.

First, French policy-makers were highly influential in the construction of the concentrated character of the ownership structure of domestic companies (including banks). The largest three commercial banks (Banque Nationale de Paris (BNP), Crédit Lyonnais, and Société Générale) were nationalized in 1945, at first to remove bottlenecks in the economy (Hall, 1986: 242-244). The banking system also constituted a powerful instrument in the hands of policy-makers to shape the allocation of capital in the economy from the mid-1940s to the mid-1980s (Zysman, 1977 and 1983).

The new macroeconomic regime of the European Monetary system (EMS) in the 1980s witnessed the continuation of the role of the state in the protection of banks from unwanted takeover bids, but for different purposes. The influence of the state was preponderant in the process of privatization (Société Générale in 1986, BNP in 1993) with the extensive use of a network of hard-core cross-shareholders (Schmidt 1996: 369-392; see also Hancké, 2002: 60-65). French policy-makers picked a group of three to seven companies with an equity stake ranging from two to ten percent to serve as long-term shareholders for privatized companies from the mid-1980s to the mid-1990s – thereby providing a deterrent against unsolicited takeover bids. The design of the privatization process in this period was also driven by the new macroeconomic policy of the EMS whereby French policymakers sought to tackle inflation via higher interest rates that, in turn, pushed French companies to finance investment projects from internal sources rather than from bank loans (Levy, 1999: 264-284). The role of French banks was primarily conceptualized as that of providers of capital in the form of equity stakes in other privatized firms in order to deter takeovers (Morin, 1998b; see also Schmidt, 1996: 369-392). The promotion of domestic firms as national champions experienced a change of means in the banking sphere: from the provision of cheap capital in corporate finance to the provision of protection in corporate governance, thereby illustrating the redeployment of state intervention with the use of the same instrument of ownership concentration but on the behalf of new objectives (Jabko and Massoc, 2012; Levy, 2005).

The privatization process from the mid-1990s onward was characterized by the continuation of protection from hostile takeovers but through the selection of one large blockholder with a controlling stake in newly privatized banks as opposed to reliance on a network of hard-core, cross-shareholders (Morin, 1998b). This new scheme was particularly important in insulating French banks from unsolicited takeover bids and in enabling them to grow via negotiated mergers: the heavily indebted state-owned Crédit Lyonnais became a fully owned subsidiary of Crédit Agricole (France's largest mutual bank); Crédit Mutuel purchased a majority stake in Crédit Industriel et Commercial, thereby creating a regionally-based giant financial institution; and the state-sponsored merger between Banque Populaire and Caisse d'Épargne was designed to contain the financial losses associated with Natixis, their jointly owned investment bank.

Second, the market for corporate control in French banking is also characterized by the use of a second, and alternative, institutional arrangement, namely the ability of companies to rely on deviations from the one share-one vote standard especially, but not exclusively, for those without substantial ownership concentration (Clift, 2009: 69; Culpepper, 2011: 67-77). French firms are the leading European users, alongside Scandinavian companies, of deviations from the one share-one vote standard in the form of unequal voting rights that award additional voting power (usually double voting rights) to investors who have kept their shares for a pre-determined period of time (usually two years), poison pills whereby new stocks could be issued to existing shareholders at discounted prices, shareholder agreements restraining the transfer of securities, and voting right ceilings that limit the amount of votes any shareholder may cast regardless of the number of stocks held (EU Commission, 2006). Moreover, the use of deviations from the one share-one vote standard correlates well with the ownership structure of companies: dispersed ownership firms are more likely to rely on voting right ceilings; medium concentrated ownership firms are more likely to use double voting rights and/or shareholder agreements (see e.g. Goyer and Jung, 2011). Among

French banks without a large controlling owner, Société Générale (diffused ownership) has a by-law provision whereby voting rights are limited to 15% of outstanding shares while BNP-Paribas (medium ownership concentration) has a shareholder agreement with its largest blockholder, namely AXA, which could increase its stakes via the use of poison pills. French corporate law places impediments on unsolicited takeovers by enabling companies to rely on deviations from the one share-one vote standard.

Third, the restrained market for corporate control in French banking also illustrates the ability of policymakers to use their veto over takeover bids in the banking/insurance sectors in order to favor the building of large domestic corporations and, as a result, exclude foreign rivals (Clift, 2009). The BNP-Société Générale-Paribas takeover contest that took place in 1999 illustrates the process by which French policymakers are able to use their legislative autonomy to set deadlines and decide which bank could participate in competing takeover bids, and what percentage is required to pursue for a full bid in the event of a non-majority acquisition (Hernández-Lopez, 2003). In early 1999, Société Générale (a retail bank) announced a friendly and negotiated all-share bid for Paribas (an investment bank). About a month later, BNP (another retail bank) launched a counter, unsolicited takeover bid in the form of an equity swap for both Paribas and Société Générale – the former in order to avoid being shut off from investment banking; the latter in order to become the world's largest bank. In response, Société Générale launched a counter hostile bid for BNP that led to an intensive six months' contest characterized by many counter-bids.

The role of French policymakers in this takeover contest contributed to the preservation of the domestic character of the banking sector in two ways. In the first place, officials in the Ministry of Finance used their power to decide who could participate in takeover contests when there are multiple offers. In effect, this meant the exclusion from the bidding process of two foreign banks who had in the meantime shown signs of interest, namely Deustche Bank and Lloyd's TSB (Ibid: 168). Moreover, French policymakers used their legislative authority to approve/reject takeover bids by specifying the percentages needed for control in the event of a non-majority acquisition (Ibid: 170). By early August 1999, BNP had succeeded in acquiring 65.2% of Paribas but only 31.8% of Société Générale. French regulators ruled that BNP could have control of Paribas, but not Société Générale and that it had to return all tendered shares of the latter to their original owners. This decision was largely justified on the basis of employment concerns. The investment banking activities of Paribas were highly complementary to those of BNP. However, the retail banking activities of BNP and Société Générale overlapped, thereby generating fears that BNP would have to finance its acquisition of Société Générale via employment reductions.

Finally, the financial crisis of 2008-09 highlighted the ability of French policy-makers to further consolidate the banking industry around the stabilization of large financial institutions immune from unwanted takeover attempts. An important aspect of the role of the state in France, and in other advanced capitalist economies, during the 2008-09 financial crisis has been the provision of liquidity to struggling financial institutions in the form of credit guarantees (Weber and Schmitz, 2011; see also Donnelly, 2014 in this volume). The aim was to prevent the financial crisis from spreading to the rest of the economy. French policy-makers, however, went further than simply rescuing troubled financial institutions. Several features characterized state activism during this period (Jabko and Massoc, 2012). The first feature is that rescue funds did not take the form of individual bank bailouts, but involved the creation of two new fully state-owned corporations -- Société de Prise de Participations de l'État (SPPE) and Société de Financement de l'Économie (SFEF) – specifically designed to recapitalize banks and provide funding to financial institutions in the specific context of the credit crunch. Building on the presence of strong interbank ties and the collective negotiation capacities of French financial institutions, these two newly created entities were designed to enable banks to draw funding irrespective of their financial health, thereby illustrating the collective character of the French rescue scheme as opposed to individualized bailout packages prevalent in many EU member states (Grossman and Woll, 2014). Moreover, the collective character of the French rescue scheme enabled policy-makers to further restrain the market for corporate control. For instance, the investment arm of the French state (SPPE) acquired 17% of the stock of BNP-Paribas in the form of non-voting shares at the same time as the largest French bank was itself buying the Belgian operations of Fortis. Thus, BNP-Paribas tapped the rescue funds not only because of liquidity concerns, but to obtain the financing necessary to acquire a Belgian bank.[5]

The second feature of state activism during the 2008-09 financial crisis is that the provision of funding was a relatively conflict-free operation orchestrated by a small number of individuals working in banks or in the upper echelons of the civil service. They had a common educational and professional background in finance and, perhaps more importantly, the provision of funding was not imposed on banks (Grossman and Woll, 2014; Jabko and Massoc, 2012). In fact, the French government demanded relatively little in return for its financial support: policy-makers did not seek seats on the boards of financially troubled banks, and financial institutions that received state support were still able to continue awarding dividends to their shareholders.

The third feature of state activism in the 2008-09 financial crisis is the state-orchestrated merger between Banque Populaire and Caisse d'Épargne in the wake of significant financial losses. Natixis, the small investment bank owned jointly by these two banks, recorded the highest losses of any French bank as a result of its involvement in the US subprime market (Hardie and Howarth, 2009). Its poor performance acted as a catalyst for Sarkozy's inner circle to put together the merger between Banque Populaire and Caisse d'Épargne (now BPCE) and, in the process, received over seven billion Euros in various forms of state support (Jabko and Massoc, 2012). The specific characteristics of the merger were designed by François Pérol, Sarkozy's chief economic adviser who previously had a key role in the setup of SPPE and SFEF, and who was then appointed as the first CEO of the newly merged group.

We conclude the discussion of the French case with the following two comments that highlight how overall protection against unsolicited bids translated into systemic growth via takeovers (see Table 1). The first one is the crucial role of the French state in the three most important takeover transactions of the last fifteen years: Banque Nationale de Paris-Paribas, Crédit Agricole-Crédit Lyonnais, and Banque Populaire-Caisse d'Épargne. In the BNP-Paribas deal (1999), state officials at the Ministry of Finance allowed Banque Nationale de Paris to keep control of its majority stake in the smaller investment bank Paribas, but forced the relinquishment of its important, but minority, stake in the much larger Société Générale out of fears that the acquisition of the latter would have to be financed by downsizing and employment reductions in its larger rival (Hernández-Lopez, 2003). In the privatization process of Crédit Lyonnais (2003), French policy-makers selected Crédit Agricole over BNP-Paribas to become the new majority owner of the financially troubled state-owned financial institution (Jeffers, 2013). This decision took place in the context of having previously allowed BNP-Paribas to acquire over 15% of the shares of Crédit Lyonnais while the latter was still under state control. French policy-makers expected that Crédit Agricole, a mutualist bank with deposits largely exceeding loans, to be better placed to make substantial investments in Crédit Lyonnais in order to preserve its future growth. In the Banque Populaire-Caisse d'Épargne merger (2009), state officials close to President Sarkozy orchestrated the merger between the two financial institutions in the wake of significant financial losses related to their involvement in the US subprime market – as well as providing significant financial assistance (Hardie and Howarth, 2009; Jabko and Massoc, 2012).

A second important feature of the systemic growth of French banks highlights the importance of equity as a means of payment in takeover contests. The takeover spree of French banks was characterized by the extensive use of non-cash considerations, i.e. either equity swap[6] or the issue of new securities to finance acquisitions.[7] In other words, the ability of French banks to translate overall protection into takeovers was facilitated by the use of equity as a means of payment.

The Market for Corporate Control in German Banking

The German banking sector is dominated by four commercial banks (Deutsche Bank, Commerzbank, Dresdner Bank, and Deutsche Postbank), a system of regionally-based financial institutions owned by regional governments (Landesbanken), and one giant co-operative bank (DZ Bank). The presence of foreign banks in Germany is limited, at a little over nine percent of total bank assets (IMF, 2011: 44). The German banking system is fairly concentrated with the combined financial assets of the top five banks relative to GDP amounting to 151% in 2009 as compared to only 58% in the United States (Goldstein and Véron, 2011: 39). German banks have exhibited striking divergence with regard to systemic growth in the last fifteen years in a pattern reminiscent of the French case. The top four German banks expanded, until 2009, as a result of their exposure to structured products (securitization) in the United States (Hardie and Howarth, 2009 and 2013). However, only Deutsche Bank and Commerzbank recorded overall systemic growth (see table 2). An important aspect of this divergence reflects the involvement of Deutsche Bank and Commerzbank as acquirers of other domestic banks in friendly takeover transactions. DZ bank and Landesbanken, in contrast, face substantial obstacles from becoming active participants on the market for corporate control largely due to their legal status (IMF, 2011) (see discussion below).

Insert Table 2 here.

The characteristics of the market for corporate control in German banking share common features with that of France, namely limited foreign presence coupled with important consolidations among domestic actors. However, the sets of institutional arrangements that have enabled German companies to achieve protection from unsolicited takeover bids are markedly different from those found in France in many respects. For one thing, the anti-takeover measures that were previously used by some companies to deter and defeat unsolicited takeover bids, namely deviations from the one share-one vote standard, have been removed. From the early 1990s to the early 2000s, German policy-makers introduced important legal reforms in the financial sphere driven by the goal of financial modernization necessary for the development of liquid securities (Deeg, 2005), and by left-wing-SPD concerns about the power of banks in the German economy (Hoepner, 2007). The 1998 Law on Control and Transparency in Enterprises (KonTraG) included several elements of reforms aimed at strengthening the legal rights of minority shareholders by increasing financial transparency and by changing the voting rules associated with shareholding. Its most important component was the elimination of deviations from the one share-one vote rule, such as voting caps or unequal voting rights in shareholders' meetings, thereby potentially exposing firms without concentrated ownership to unsolicited takeover bids. Also important was the phase-out as of January 2002 of the of the capital gains tax on the sale of corporate shareholdings. This legislative change is conducive to the potential decline of cross-shareholdings since selling shares of other companies is no longer subject to capital gains tax. As a result, corporate law in Germany has become the most minority shareholder-friendly in continental Europe given the changes in deviations from the one share-one vote rule, thereby depriving German companies of important institutional mechanisms of takeover protection even if this was clearly not the intended goal of policy-makers (Deeg, 2005).

Nonetheless, the German economy, and its banking sector, has not witnessed a flurry of unsolicited takeover bids from (foreign) rivals despite the elimination of deviations from the one share-one vote standard (Culpepper, 2011: 25-81). The restrained character of the market for corporate control in German banking highlights the importance of four institutional features. These features are: 1) the presence of tightly linked corporate networks, 2) the legal authority of Co-determined boards of directors to introduce anti-takeover measures, 3) the presence of strong employment protection laws that limit the range of post-acquisition restructuring schemes, and 4) the role of the German federal government in the 2008-09 financial crisis.

First, the ownership structure of the bulk of companies in the banking and the non-financial sectors remains substantially concentrated, thereby deterring unsolicited bids (Culpepper, 2005; Gourevitch and Shinn, 2005: 149-167). Yet, the overall stability of ownership concentration should not be interpreted as the absence of corporate transactions regarding the acquisition of domestic companies. Many negotiated transactions among domestic banks took place: Allianz acquired Commerzbank (2001); Hypo Real Estate became the majority shareholder of Depfa Bank (2007); Dresdner Bank was acquired by Commerzbank (2008); and Deutsche Bank proceeded to buy Norisbank (2006), Berliner Bank (2006) and, most notably, Deutsche Postbank (2010). The consolidation of the German banking sector highlights the importance of collaboration and inter-firm networks in the form of friendly deals by fellow domestic firms (Kogut and Walker, 2001). Negotiated takeovers in the German banking industry, as well as in the non-financial sector, were facilitated by the presence of centrally located actors with ownership and/or director ties with both acquirers and target companies. The negotiated character of corporate transactions illustrates the presence of banks embedded in long-term, pre-existing relationships in the form of interlocking directorships and/or cross-shareholdings (Davis, Kogut, and Walker 2012; Grittersova, 2014).[8] The overall absence of foreign companies in the German banking sector reflects the use of 'thick' information in inter-company relationships built from long-term relations (Clark and Wojcik, 2007). The stability of inter-corporate network ties in Germany also sharply contrasts with the uncoordinated pattern of cross-shareholdings unwinding that took place in France in the late 1990s (see Culpepper, 2005).

Second, an important reform of the takeover code in 2001 enables the Co-determined supervisory board of directors of German companies to introduce a number of defensive measures that could seriously impede the actions of outside bidders in restructuring acquired companies (Gordon, 2004). Basically, the German takeover code constitutes a rejection (via the opting out clause) of the board neutrality principle, itself inspired by the shareholder friendly UK City code, which has been adopted at EU level. The reform of the German takeover code was enacted in the wake of the implementation of the KonTraG corporate law reform and of attempts by the EU Commission to harmonize takeover regulation. German policy-makers felt that domestic companies would be left in a position of asymmetric vulnerability since deviations from the one share-one vote principle had been eliminated in Germany, but not in many other EU member states (Clift, 2009; Hoepner, 2007).

Under the German Takeover Act (2001), several defensive measures are legally available to companies via the actions of their supervisory boards, most notably the search for a friendly competitive bidder ('white knight') with the incentive of new shares issued at discounted prices (but under the principle of one share-one vote), the selling off of coveted assets, and the undertaking of all actions allowed by German corporate law that are approved by the supervisory board and for which no approval of the shareholder assembly is necessary. A potential highly effective anti-takeover measure is the combination of two institutional arrangements that would seriously constrain the ability of a potential successful bidder to restructure the assets of the targeted company in the post-acquisition process: the introduction of a company by-law that would require supermajority vote (75%) for the implementation of post-acquisition restructuring measures (as specified by German corporate law); and the creation of a blockholding position for an existing shareholder or for a 'white knight' at 25% of equity capital of the company (Gordon, 2004: 551).[9] The introduction of these two institutional arrangements, in turn, is itself facilitated by the overall absence of independent directors on supervisory boards: half of the directors are elected by employees; and the other shareholder-elected half is characterized by the prominent role of former managers. The composition of boards of directors works to significantly lessen the emphasis placed exclusively on shareholder interests (Roe, 1999).

Third, the presence of constraints on the ability of a new owner to implement post-acquisition reorganization strategies also highlights the importance of domestic institutional arrangements of employment laws (Capron and Guillen, 2009; Hall and Soskice, 2001). Takeovers constitute an important strategic option by which companies develop new capabilities, gain access to new markets, and secure efficiency gains by the recombination of the resources of the bidding and target companies (Atanassov and Kim, 2009). These potential gains, however, are often contingent upon restructuring schemes that often entail asset restructuring and resource deployment in the form of employee layoffs of the target company. Labor markets in Germany are characterized by legal impediments on the implementation of strategies of external labor market flexibility, i.e. employee dismissals (OECD, 2004). Strong legal rights of employment protection enable employees to better defend their interests and to restrict the ability of the acquirers, even foreign ones, to implement post-acquisition restructuring schemes based on the extensive use of employee layoffs (Schneper and Guillen, 2004; Soskice, 1999). [10]

Fourth, the financial crisis of 2008-09 highlights the continuing insulation of German banks from foreign takeovers, but with the emerging activism of a new actor, namely the German federal government (Hardie and Howarth, 2009; Zimmermann, 2012). German policy-makers have been active in protecting banks listed on the stock market from unwanted takeover bids. As in other advanced capitalist economies, credit guarantees and recapitalization via the injections of fresh funds were provided to domestic banks faced with serious financial problems (Weber and Schmitz, 2011). A budget of 400 billion Euros in credit guarantees and 80 billion Euros for recapitalization was made available under the Financial Market Stabilization Fund (FMSF), a financial assistance scheme set up in October 2008 by the German federal government. However, German policy-makers went further than financially rescuing troubled banks. An important instance of the activism displayed by the German state lies in the rescue of the takeover of Dresdner Bank by Commerzbank. The latter suffered serious financial losses as a result of its exposure to the US subprime market that, in turn, threatened to derail its ability to acquire Dresdner Bank. The role of the German state was crucial in enabling Commerzbank to proceed with the takeover of Dresdner bank (Hardie and Howarth, 2009: 1031-2). Commerzbank was twice able to tap into the Financial Market Stabilization Fund (FMSF), a financial assistance scheme set up in October 2008 by the German federal government, for a total of 32.2 billion Euros. Moreover, the German federal government itself took an equity stake of 25% in Commerzbank. Therefore, the actions of the German state not only saved the takeover of Dresdner Bank, but also ensured the protection of Commerzbank from potential unwanted takeover bids via a 25% equity stake in the bank that provided a veto on major company decisions.

We issue two final comments on the German case that illustrates the links between overall protection against unsolicited bids and systemic growth via takeovers (see Table 2). First, the largest two German commercial banks have been able to proceed to fund their strategy of external growth without incurring debt. The use of cash has been limited in the largest takeover transactions involving Commerzbank and Deutsche Bank.[11] Thus, the largest two German commercial banks have been able to pursue a takeover spree at home without committing extensive financial resources.

Second, the (hybrid) German banking sector is characterized by substantial divergence with regard to systemic growth. Commercial banks located in the first pillar have experienced systemic growth in the last 10-15 years. Regionally-based public sector banks (second pillar) and DZ Bank (third pillar), the central institution for about 900 cooperative financial institutions, in contrast, have failed to grow in the last 10-15 years as measured by the ratio of their total financial assets over German GDP despite being insulated from unwanted takeover bids (concentrated ownership structure). This divergence reflects the legal status of banks in the second and third pillars that prevents them from becoming active participants as bidders on the market for corporate control.

The second pillar is composed of public sectors banks, namely the thirteen (now eight) regionally-based Landesbanken (LBs) and a little under 500 savings banks (Sparkassen). This segment of the German banking sector has been traditionally characterized by the prominence of a few large regional banks; most notably Bayern LB, LB Baden-Württemberg, LB Berlin, and West LB. Public sector banks are owned by their regional authorities and, therefore, are perfectly insulated from unsolicited takeover bids. They also operate in single regions, thus not entering into direct competition with LBs located in different geographical areas. The third pillar consists of about 2,000 cooperative banks, which often specialize in specific economic sectors. This segment of the German banking sector is dominated by DZ bank, the country's fourth largest bank (in terms of assets), which served as the central institution for about 900 cooperative financial institutions. Cooperative banks are owned by their members who are also their depositors, making it virtually impossible for them to be acquired by outsiders. Cooperative banks, like public sector banks, are geographically segmented and, thus, do not compete directly with other financial institutions belonging to the same pillar in other regions (Brunner, Decressin, Hardy and Kudela, 2004; IMF, 2011).

Nonetheless, the largest LBs and DZ bank have not experienced systemic growth in the last fifteen years despite being effectively insulated from unwanted takeover attempts. The lack of systemic growth of banks in the second and third pillars of the German banking system, instead, reflects their inability to become active participants as bidders. Their legal status acts as a barrier to the development of an external growth strategy based on acquisitions: mergers between financial institutions located in different regions are a cumbersome process, as legislative changes in the legal mandate of LBs is required; the involvement of private investors faces significant hurdles, namely the restricted business opportunities that flow from the regional principle and the legal constraints associated with the obligation to meet the liabilities of all creditors (not just depositors); also the issuing of new equities as a means of payment in takeover transactions is difficult to perform since many of these banks are not listed and private shareholders of targeted companies would be reluctant to accept an equity swap and, thus, become minority investors in LBs (Brunner, Decressin, Hardy and Kudela, 2004).

Conclusion

This article examined the market for corporate control in French and German banking. Cross-border incursions into the Eurozone's two largest economies, most notably those in the form of non-negotiated takeovers, have remained severely restrained in the area of banking. This outcome illustrates the marked ability of domestic banks to resist unsolicited takeover bids. Yet, most large French and German commercial banks have themselves been active acquirers of other financial institutions, thereby taking advantage of their position of overall protection against unsolicited takeover bids to expand their operations. This specific process of consolidation of the banking sector of the two countries, in turn, has resulted in the growth of French and German commercial banks in asset size in relation to the domestic GDP of the home country. The systemic growth of French and German banks in the last 10-15 years has been recorded by financial institutions that have been active participants on the markets for takeovers as acquirers as well as being exposed to structured products (securitization) in the United

States, thereby illustrating the insights of institutionally-based approaches for the analysis of systemic risks in French and German banking.

We have argued that the institutional settings in which individual banks are embedded constitutes an important explanans (independent variable) to account for the restrained character of takeovers in France and Germany (dependent variable). Institutions have enabled banks in the two countries to resist unsolicited bids by providing them with influence over corporate decisions related to takeovers. Yet, the similar outcome of low levels of foreign ownership in banking, via the ability of domestic banks to resist unsolicited bids, has been achieved through markedly distinct institutions. French and German banks have relied on different sets of institutional arrangements, themselves located at different points along the chain of decisions of takeover transactions, to secure protection from takeovers. The French case is characterized by the prominent role of the state in three areas: the privatization of the banking sector, the regulatory approval of takeover bids, and the management of the 2008-09 financial crisis. Individual French banks, moreover, have also been able to insulate themselves against unsolicited bids via their ability to enact deviations from the one share-one vote standard. The presence of restrained markets for corporate control in German banking, in contrast, highlights the importance of tightly linked corporate networks, the legal authority of Co-determined boards of directors to enact anti-takeover measures, the presence of strong employment protection laws that militate against takeover bids contingent upon the implementation of post-acquisition restructuring schemes, and the (more recent) activism of the German federal government in protecting domestic financial institutions from their exposure to securitization-related financial losses.

This study of takeovers in French and German banking illustrates a specific instance of the shortcomings associated with the larger phenomenon of banking sector protectionism (see Epstein, 2014a in this volume), namely the systemic growth of banks that are often perceived as being too-big-to-fail. The presence of domestic banks that are systemic in character constitutes a dilemma for policy-makers since restructuring, or unwinding, some of these banks would be particularly costly given their interconnecting role in the economy. Moreover, French and German banks might also be too big to receive a comprehensive and full bailout given the magnitude of the (potential) sums involved and the constraints associated with membership in the Eurozone, namely the inability of governments to print money or to implement currency devaluations (Blyth, 2013: 71-75). The overall exposure of French and German banks to the rest of the Eurozone (private and sovereign debt) rivals the sums committed (debt guarantees and recapitalizations) by their national governments in the 2008-09 financial crisis (Degryse, 2012; Guardian, 2013).

Thus, we suggest that an understanding of the character of takeovers in French and German banking improves our grasp of one important feature of the multi-faceted process of the management of the Eurozone sovereign debt crisis, namely the formation of preferences of large creditor countries. A comprehensive analysis of the institutional context of the Eurozone policy-making process is clearly beyond the scope of this article (see De Grauwe, 2013; Hancké, 2013: 1-14). Nonetheless, it is interesting to note that the costs of adjustment to the turbulence on bond markets have been imposed disproportionately on debtor countries, not on lending institutions of creditor countries (Hall, 2012). The content of the bailout packages aimed at assisting Eurozone members targeted by bondholders were highly favorable to the interests of 'exposed' banks as financial assistance enabled creditor countries to service existing debts. The positions of the French and German governments in the negotiation process were also highly insightful. They stringently opposed proposals by the IMF to impose losses on holders of senior bonds, i.e. French and German banks, during the negotiations of the Irish and the first Greek bailout packages (Bastasin, 2012: 135-159 and 233-236). French and German policy-makers also agreed on debt relief for the Greek government in the second bailout package, but only after domestic banks were able to off-load a substantial proportion of their Greek sovereign debt which was purchased by the European Central Bank as part of its Securities Markets Programme (Ibid: 218 and 270). The asymmetric character of adjustment in the Eurozone is important since French and German banks are not only the biggest creditors to countries targeted by private bondholders, they are also large and susceptible to systemic risks (Goldstein and Véron, 2011; Guardian, 2013). Previous international debt crises highlight how the presence of large, and heavily exposed, banks in creditor countries heightens the incentives of their own governments to push for policy agreements that assign the burdens of adjustment on debtor countries (Frieden, 1988).

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Table 1

Total Assets (% of French GDP) of Largest French Banks: 2000-2010

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
BNP-Paribas	48.2[1] [2]	55.1	46.3	49.3	54.4	73.2[3]	80.1	89.8[4]	107.2	109.1	100.8
Crédit Agricole	35.5	36.5	32.7[5]	55.1	55.2[6]	68.1	76.4	81.6	92.2	89.2	80.4
Societé Générale	31.6[7]	34.3	32.4	34.1	36.3	48.6	53.7	56.8	58.4	54.2	57.1
Banque Populaire (BP)	NA	NA	14.3	14.9	15.1	16.7	16.9	16.7	10.8		
Caisse Epargne (CE)	NA	NA	23.1	23.9	32.8	34.5	30.1	31.8	32.7		
BPCE										54.5	52.9

Source: Annual Reports, various years

[1] In 1999, the total assets/GDP ratio of BNP- Paribas a stand-alone financial institution was 28.3%. It climbed to 48.2% with its integration of the activities of Paribas (France).
[2] Year preceding the acquisition of Banwest (United States).
[3] Year preceding the acquisition of Banco Nazionale del Lavaro (Italy).
[4] Year preceding the acquisition of Fortis (Belgium).
[5] Year preceding the acquisition of Crédit Lyonnais (France).
[6] Year preceding the acquisition of Keytrade Bank (Belgium).
[7] Year preceding the acquisitions of TCW Group (United States) and Komerchi Banka (Czech Republic).

Table 2

Total Assets (% of German GDP) of Largest German Banks: 2000-2010

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Deutsche Bank	45.9[8]	46.3	35.9	37.4	38.3	44.5[9]	48.6	79.2	80.9	63.2[10]	76.3
Commerz-Bank	NA	NA	11.2	11.5	11.4	20.1[11]	26.3	25.4	25.2[12]	35.5	30.2
DZ Bank	16.8	16.6	15.7	15.1	16.2	18.1	10.9	11.0	17.2	16.3	13.1
L.Baden-Württemberg	NA	15.1	15.0	15.1	17.7	18.0	18.0	18.2	18.1	17.3	13.1

Source: Annual Reports, various years

[8] The ratio of total assets/GDP of Deutsche Bank stood at 31.9% in 1998. It climbed to 41.9% after its integration of Bankers Trust (United States).
[9] Year preceding its acquisitions of Berliner Bank (Germany) and Norisbank (Germany).
[10] Year preceding its acquisition of Postbank (Germany).
[11] Year preceding its acquisition of Eurohypo (Germany).
[12] Year preceding its acquisition of Dresdner Bank.

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[1] Foreign acquisitions of large French/German banks have been friendly/negotiated transactions and limited to two cases: Credit Commercial de France fell under the control of HSBC in 2000; and Hypo Vereinsbank was acquired by Unicredit in 2006.

[2] The discussion of low foreign ownership in this article refers to the limited number of takeovers of domestic companies (French/German) by foreign bidders. The banking sector of French and Germany is characterized by the overall restrained presence of foreigners in the two countries with regard to the market for corporate control. Minority participations by foreign mutual and hedge funds with a primary interest on shareholder value, in contrast, have skyrocketed with a specific concentration in France (Goyer, 2006 and 2011; Morin, 1998a).

[3]The retail operations of HSBC in France, in turn, were themselves purchased by the French mutual group Banque Populaire in 2008.

[4] This form of complex causation, conjunctural causation, emphasizes how different institutions interact with each other to generate a specific outcome that would not occur in the absence of any of these institutions (Ragin, 1987). Individual institutions as causal variables are necessary but not sufficient to generate the outcome of interest on the dependent variable.

[5] BNP-Paribas paid 9 billion euros in new stock issues and 5.5 billion euros in cash for Fortis.

[6] The use of equity swaps as a means of payment was prominent in the following transactions: Crédit Agricole-Crédit Lyonnais; Banque Populaire-Caisse d'Epargne; BNP/Paribas-Fortis; and BNP/Paribas-Banco Nazionale del Lavoro.

[7] Banque Nationale de Paris issued a substantial number of new stocks (in percentage of outstanding shares) in order to finance its acquisition of Paribas in 1999.

[8] For instance, Commerzbank and Dresdner bank were united by their shared long-term relationship ties with Allianz while the acquisition of Postbank by Deutsche Bank was facilitated by their common, and long-term, ties to Deutsche Post.

[9] In other words, a stockholding position of 25% would enable a large owner to exercise a veto power over the actions of a potential acquirer.

[10] For instance, the only major foreign incursion in the German banking sector, i.e. the acquisition of HypoVereinsbank by Unicredit in 2006, did not lead to a restructuring of the former. The total number of HypoVereinsbank employees based in Germany was 20,343 in 2005, i.e. the year preceding its acquisition by Unicredit. The corresponding figure for 2012 was 19, 247. Similarly, the total financial assets of HypoVereinsbank were 312.4 billion euros in 2005 and 348.3 billion euros in 2012 (see HypoVereinsbank, annual report, various years).

[11] The use of equity swap was prominent in two transactions, namely Deutsche Bank-Deutsche Post and Commerzbank-Dresdner Bank. The issue of new shares to pay for the acquisition of another financial institution was particularly important in three deals, namely Deutsche Bank-Bankers Trust, Deutsche Bank-Postbank; and Commerzbank-Eurohypo.