

**WORKING IN TEAMS: EVIDENCE ON THE ROLE OF  
INVESTMENT BANKING SYNDICATES IN MERGERS  
AND ACQUISITIONS**

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## ABSTRACT

This thesis explores the role of investment banking syndication and the cooperation network that it gives rise to in the context of mergers and acquisitions (hereafter M&A). We hypothesize that by combining information channels, expertise and fundraising capacity of different investment banks, syndicates enhance acquisition-related services, primarily in generating information useful for screening and pricing a potential target and in helping acquirers obtain the external funds needed to finance a deal. Because of the free-riding problem inherent in team production, however, the value of a syndicate deteriorates as the scope for free riding increases.

Using a large sample of U.S. M&A transactions announced from 1990 to 2012, we find strong support for our hypotheses. Syndicates are more likely to be hired in difficult situations, where acquiring firms face greater transaction complexity and where they have a higher need for external financing. The choice between a syndicate and a single advisor has a profound impact on transaction outcomes. Compared with individual advisors, syndicates produce higher acquirer abnormal returns when the potential for free riding in a syndicate, as proxied by transaction size, target listing status and information opacity of target industry, is limited. In contrast, when advisors in a syndicate have considerable opportunities to act opportunistically, syndicates are associated with lower acquirer returns. Contrary to common economic wisdom, the lead advisor reputation mechanism does not help mitigate this moral hazard problem. Further analysis reveals that although acquiring firms advised by a syndicate do not pay lower takeover premiums, they create greater shareholder value by making more synergistic deals if their advisory syndicate is

less susceptible to free riding. Moreover, syndicates are better able to complete a deal when the acquirer requires external funds to finance the cash component of the offer. The results are robust to the endogeneity of syndication choice and a wide array of specifications. Overall, these findings suggest that, in M&As, investment banking syndicates perform a very different role from individual advisors. The non-linear association between syndicates and various acquisition outcomes highlights the benefits as well as the nontrivial agency costs associated with the use of M&A syndicates.

In light of the above results, this thesis next examines whether the cooperation network arising from investment banking syndication in M&As helps mitigate the moral hazard problem. We quantify interbank network by density, defined as the relative degree of adjacent ties within a syndicate, where a tie arises if two investment banks in a syndicate have jointly advised on one or more M&A deals during the year before the deal announcement. We hypothesize that inter-investment bank (interbank hereafter) networking raises the ability of investment banks in a syndicate to monitor each other and sanction those shirking members through the withdrawal of subsequent cooperation. This, in turn, facilitates the operation of the peer pressure mechanism leading to improved effort and acquisition performance.

Controlling for the endogenous nature of interbank networking and other likely determinants of acquirer abnormal returns, we find that syndicates characterized by a higher degree of interconnections among participating investment banks are indeed associated with higher acquirer returns. Consistent with peer pressure playing a dominant role in determining the value of interbank networks, we find that such an effect is

concentrated mainly in deals where information asymmetry between the acquirer and the advisors is severe and, hence, where free-riding is most likely to occur. Moreover, even if investment banks in a syndicate are linked to one another, they cooperate only when the expected peer sanction is severe, as indicated by sufficiently frequent interbank interaction in the past and ample opportunities for cooperation in the foreseeable future during market booms. Finally, we find that, with additional implicit incentives generated by peer pressure, interbank networking lowers the acquirer's cost of promoting advisor efforts through advisory fees.

The thesis contributes to the literature by extending existing research beyond the traditional focus on the attributes of individual advisors to the salient feature of peer cooperation in investment banking. Evidence in this thesis identifies syndication as an important organizational form that allows investment banks to enhance acquisition-related services. However, this competitive advantage is hampered if scope exists for an advisor to free ride on the efforts of others in a syndicate. In these situations, interbank networking is valuable in that it turns mutual dependence and relational capital into powerful peer pressure that reduces the cost of moral hazard. These findings offer important implications for the hiring choice of a syndicate versus a single advisor and the syndicate structure that an acquirer can employ to maximize shareholder value through M&As.



## DECLARATION

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