The Developing Economies, XL-4 (December 2002): 400–34

M&As AND THE GLOBAL STRATEGIES OF TNCs

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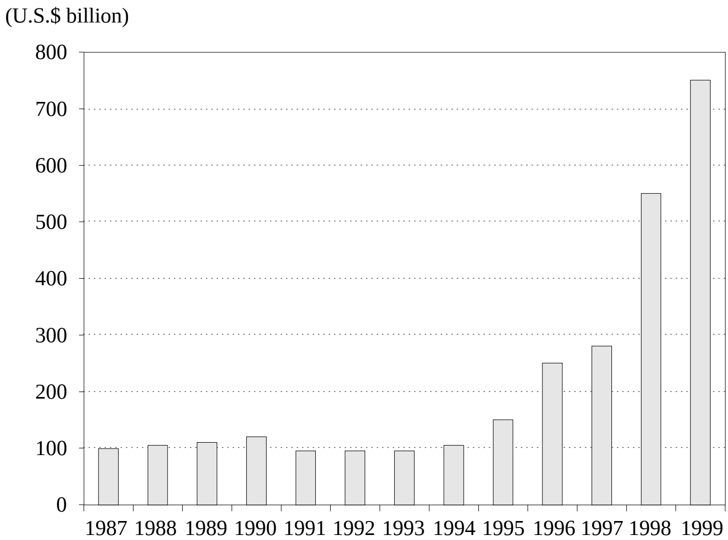
Most of the motivations for M&As that feature in the global strategies of transnational corporations (TNCs) are a means of reshaping competitive advantages within their respective industries. They have some effect on the TNCs of all or most industries and so to that extent they are not necessarily sector-specific. However, it may be that some of the motives which we outline affect some industries more than others, and in that sense they can be expected to be associated with a greater intensity of M&As in certain sectors than others. We identify the likelihood of M&As across industries, and discuss how the general factors that have promoted the recent M&A wave have had a bigger impact on the global strategies of TNCs in the industries in which the propensity to engage in M&As has been the highest. The regional dimension is also considered.

I. INTRODUCTION

The late 1990s witnessed a major mergers and acquisitions (M&A) wave in terms of both the value of deals and the number of cross-border M&As. The clear upward trend in the value of deals is illustrated in Figure 1, which shows that the stable values recorded in the first half of the 1990s increase sharply from 1995 onwards.

The magnitude of this phenomenon has raised questions related to why cross-border M&As occur and whether there is any sector-specificity involved in the phenomenon. Although M&As appear to occur to different extents across sectors, we argue that the boom of M&As is a general phenomenon generated by new global conditions. The factors generating such conditions are identified in the flourishing of regulatory changes at global and consequently at regional and national levels and in the fast pace of technological change which has enhanced business and market opportunities, technological interrelatedness, and communications and cross-border restructuring. It is, therefore, held that M&As can be understood as a corporate strategy in order to better cope with these new global conditions. In this context, the role played by M&As in the U.S., European, Asian, and Latin American scenario is considered. Clearly, as each sector has its own specificities, it may well be that some sectors are affected more than others in the adoption of this corporate

Fig. 1. Value of Cross-Border M&As, 1987–99



Source: UNCTAD (2000a), cross-border M&A database (based on data from Thomson Financial Securities Data Company).

approach. For these reasons, we examine in which industries the propensity to engage M&As has been the highest.

In developing this argument, the paper is structured as follows. In the next two sections we review the wider theoretical literature on why M&As occur as well as empirical studies that aim to assess which major advantages firms seek to acquire through M&As, and what their impact is on their performance. In Section IV, the global trends leading to global corporate restructuring across industries are discussed. Section V examines the sectoral dimension by focusing on six main industries: motor vehicles, telecommunications, computing, pharmaceuticals, oil, and banking. In this context, we examine how the general factors that have promoted the recent M&A wave have had a bigger impact on the global strategies of transnational corporations (TNCs) in these particular industries in which the propensity to engage in M&As has been the highest. In Section VI, the principal regional contexts are considered given that M&As have been motivated in part as a corporate asset-seeking strategy, designed to "buy into" the creative potential of certain productive activities in particular location(s). In this context, the U.S., European, Asian, and Latin American scenarios are discussed. Section VII draws some conclusions.

Before going into the details of the discussion, some preliminary clarifications are needed. M&As are defined as the purchase of the majority of a company's capital by another company, although this may involve deals to transfer some subsidiary or division of a larger corporate group and not just a change in the ownership of the group as a whole. M&As have been classified into horizontal, vertical, and conglomerate. Horizontal M&As refer to a situation in which the merger or acquisition takes place between firms operating in the same industry. Vertical M&As involve firms operating at different stages of a sequential production process. Conglomerate M&As occur between firms which are not related to each other in terms of industrial output.

II. THE THEORETICAL REASONS FOR M&As

The latest M&A wave has stimulated the flourishing of a wide theoretical literature. This literature has focused on the breadth of motivations for undertaking M&As as well as on the disadvantages they can generate. As far as the latter is concerned, despite the popularity in the use of M&As, the main disadvantages generated by M&As have been identified by the literature:

(1) overpaying for the target company, as a result of bidding wars (winner's curse);

(2) overestimation of the ability to (i) manage larger organizations, (ii) deal with unfamiliar markets and technologies, (iii) integrate efficiently by exploiting synergies;

(3) misjudging competition policy restrictions.

Although these issues are of importance, in the present section we discuss the breadth of motivations for undertaking M&As, and refer to these drawbacks in the next section, in which the empirical literature is considered. In the present section, we draw upon three strands of research, originating from the fields of industrial organization, strategic management and international business, and finance.

A. *Competitive Considerations*

Under the label of competitive considerations we can group a range of motives, mainly derived from the *industrial organization literature*, which explains M&As as a means of enhancing corporate competitiveness.

1. *Increasing market or political power*

The desire of firms to achieve or strengthen positions of monopoly power seems to have been a major factor promoting horizontal mergers in the past, certainly in the earlier merger waves of the twentieth century. Although companies may not establish a complete dominance, they still may transform market structure by restraining competition.

2. *Defensive reactions*

Firms have also adopted M&As in order to prevent being taken over by others, to prevent the target from being taken over by others or to prevent other merged entities in the industry from becoming too strong.

3. *Economies of scope or synergies*

Economies of scope arise in situations in which common inputs can be used more efficiently when different product lines are combined, thus when the total cost of producing two different goods jointly is lower than that of producing each of the goods separately. Likewise, synergies exist when related competence can be combined to facilitate new innovations and create new lines of value-adding activities (Teece 1986). R&D-intensive activities are the most prone to economies of scope and synergies as combining formerly separate capabilities might create new knowledge more efficiently, and open up unforeseen (or only imperfectly foreseen) opportunities. Therefore, firms owning different but complementary capabilities may benefit from mergers by enjoying economies of scope.

4. *Reduction of transaction and information costs*

In vertical mergers, costs may be reduced by replacing market transactions between firms with more integrated planning and detailed coordination within firms (Goldman and Gorton 2000). The merger allows the firms involved to have access to better information at lower costs as a result of the greater capacity to monitor the exchange of information within a firm than when exchanges occur between different firms.

B. *Responses to a Changing Environment*

Mergers and acquisitions have been also interpreted as responses to a changing environment. Regulation and access to new markets or technologies are the most typical instigating factors. The latter has been the motive most discussed in the *strategic management* and *international business literature*.

1. *Regulation*

Regulatory reasons may push firms to merge although no wider economic gain is involved in the merger, merely a transfer of resources between activities. In these situations, M&As allow for tax saving (as in the case in which a loss-making firm merges with a profitable one) as well as for reallocation of profits across markets (as in the case in which a firm wants to diversify into an unregulated market, where it shifts profits from the regulated market).

2. *Access to markets or technologies*

In this case, M&As are understood as a means for external growth of the firm (as opposed to internal growth through reinvested earnings). A firm that aims to increase its scope of operation in new markets/technologies faces two options: set up *ex novo* greenfield production or R&D (internal growth through reinvestment in a new line of activity) or merging with a firm which may provide quicker access to the new markets and technologies desired (Chatterji 1996).

C. *Inefficient Capital Markets*

The *financial economics* literature has interpreted M&As as vehicles to correct inefficient capital markets in accordance with a series of motives analyzed below.

1. *Removal of inefficient management*

Hostile takeovers (as opposed to mergers) aim to remove inefficient management. In this context, M&As may promote better management in companies suffering from talent or motivational deficiencies.

2. *Corporate hedging*

Conglomerate mergers may also be dictated by corporate hedging motives. A merger between companies whose profiles of earnings over time are not correlated may enhance coinsurance and reduce diversification risks. Therefore, a firm may thereby smooth its earnings in order to avoid bankruptcy and to save corporate tax.

3. *Internal capital markets*

Mergers and acquisitions allow the creation of internal capital markets that reduce financial costs by facilitating the sharing of information among divisions (Williamson 1970). The presence of an internal (as opposite to an external) capital market allows the cross-subsidizing of divisions within the same firm without incurring the problems of asymmetric information that firms would experience when trying to access external funding.

4. *Managerial ego*

A further motive identified by the financial economics literature concerns the desire of managers to control larger firms, which allows them to enjoy power and leads them to favor a policy of acquisition.

III. THE EMPIRICAL LITERATURE ON THE EFFECTS OF M&AS

The popularity of the use of M&As has also stimulated the empirical literature that aims to measure the benefits of M&As to the firms involved. The advantages stemming from M&As have been evaluated in terms of the ability to exploit scale and scope economies, gain market control, economize transaction costs, diversify risks, and provide access to existing know-how. Nonetheless, empirical evidence on M&As

has also suggested that M&As might fail because of over-optimistic expectations of benefits and underestimation of post-integration difficulties (e.g., a lack of market or technology relatedness, business culture clashes, etc.).

The two main approaches to tackle this issue empirically are stock price studies and strategic management studies. These are in turn discussed below.

A. *Stock Price Studies and Company Performance Studies*

Most of the empirical literature on merger outcomes is based on stock price studies, typical of the financial literature. These studies rely on widely available information on stock prices and apply event study methodology (i.e., to single out the effect of the announcement of M&As on stock price performance by focusing on abnormal returns). A major drawback of this approach lies in the fact that stock price movements rely on the anticipation of investors as to the benefits and costs of M&As rather than on actual value creation.

Conversely, studies of corporate performance are less common because of the difficulty in collecting data and constructing valid proxies for performance. An additional problem lies in the difficulty of controlling other determinants when singling out the effect of M&As on firm performance.

Despite these limitations, the issues considered by these approaches are pre-merger profitability (who takes over whom?), post-merger performance (the effects of takeovers), and who benefits most (the acquirer or the target company?). What follows each of these issues is now considered.

1. *Pre-merger profitability (who takes over whom?)*

This stream of research focuses on the study of ex ante corporate performance in order to identify potential acquirers and targets. Mueller (1980) in his summary of the results on company performance studies concludes that there is a negative correlation between performance and the probability of being taken over, although the difference in performance is small and often nonsignificant. The acquirer is typically large, and has higher growth and higher debt levels. Therefore, the weaker the performance of a company, the more likely it is to become a target. Stock price studies reach the same conclusions. This might suggest that the market for corporate control is functioning properly with more efficient companies taking over less efficient ones.

2. *Post-merger performance*

The empirical studies looking at post-merger profitability have mainly used data on stock market returns to assess acquisition performance. In doing so, they focus on market expectations of future cash flow growth in order to capture anticipated outcomes. Nonetheless, these empirical investigations (belonging to the finance literature) have often produced quite diverse results on the conglomerate post-merger performance. The main problem is due to the type of data employed (stock market values) as increases in shareholder value after consolidation may be too limited to confirm efficiency gains. Other empirical studies investigate post-merger performance by examining profit data by line of business (e.g., Ravenscraft and Scherer 1987). However, typically no improvement is detected on average after acquisition. Finally, the phenomenon has been further explored by using accounting data, but no convergent results have been attained. The lack of convergence in the results has been attributed to a lack of consistency in methodology, time frame, merger type, country, and sample size used. In this respect, a step forward has been taken by Mueller (1980), who examines acquisition performance in seven countries during the same period and using the same indicators. Nonetheless, Mueller's effort has not established a consistent pattern either. No consistent improvement or deterioration in the profitability of merging firms in the first three to five years following a merger could be detected.

3. *Who benefits most?*

Empirical research has also attempted to disentangle the performance of acquirer and target companies in order to partition the gains from M&As. This issue has been mainly analyzed in the corporate finance literature, using event studies. The evidence gathered from this literature consistently favors acquired firms as the gains of the acquirer are often found to be nonsignificant (Agrawal et al. 1992; Hayward and Hambrick 1997). This implies that acquiring firms often pay large amounts for target firms gaining little or nothing from the announcement of an acquisition. Two main issues arise in this context. First of all, it has been investigated whether the difference in behaviors between the average target and the average acquirer shareholder allows bidding firms to sustain their bids. The results show that there is a great variation in the acquirers' performance following acquisitions, which suggests that this variation may be more important than the average (mean) performance, and appeal to a more risk-taking category of shareholders. Second, as part of the investigation of the partitioning of benefits between a target and an acquirer, questions related to anti-takeover provisions have arisen. In this respect, it has been shown that management tactics to prevent takeovers reduce the probability of a takeover, but raise the acquisition price if the takeover goes through. Therefore, if these tactics favor shareholders of target firms, they damage shareholders of acquiring firms.

B. *Strategic Management Studies*

Unlike the previous studies discussed above, empirical research from the strategic management field has explored the issue of inter-company relatedness and value creation in greater depth. This stream of empirical studies raises the question of how M&As should be internally managed to realize efficiency gains by effectively transferring and combining technology, which is understood in a broad sense as the combination of tacit and public components. Recently, the issue of relatedness in M&As has also become fashionable in the finance literature, which has attempted to overcome the limitations of analyses that disregard how value is created through acquisition.

1. *Pre-acquisition strategy*

Empirical investigations focusing on pre-acquisition strategies have emphasized the importance of assessing ex ante the target's capabilities and their fit with the acquirer (Seth 1990). The creation of synergies and two-way sharing of resources are not always the outcome of every M&A. Although this line of research has been pioneered by strategic management scholars, the most recent corporate finance work has also attempted to consider the relatedness of merged entities and value creation by studying the efficiency of internal capital markets. The results obtained seem to converge on the prediction that unrelated mergers tend to destroy value by making corporate resource allocation less efficient.

Against the general theoretical prediction that related M&As are expected to create more value, empirical studies have reached mixed results. It has been found that the market reacts positively to announcements of diversifying acquisitions. Similarly, it has been emphasized that the size of the corporate headquarters is positively associated with the relatedness of diversification. The reason is that related diversification requires close coordination between divisions to facilitate appropriate resource transfers, and therefore needs a large headquarter organization in order to generate value from acquisition.

In this context, two dimensions of relatedness have been explored: technological relatedness and geographical relatedness. Each of them is briefly discussed below.

2. *Technological relatedness*

Two companies are defined as technologically related if they own capabilities in similar or related technologies. This does not imply that the two companies that are related are "the same" as they would still be differentiated in terms of their learning paths and of the operational nature of their problem-solving methods. In order to understand this, we need to go back to the concept of technology adopted here. Following Nelson and Winter (1982), technology consists of a tacit and codified elements. The former concerns corporate capabilities, derived from an internal learning process, and embodied in the organizational routines of specific group teams. The latter concerns potentially public and tradable knowledge. Firms interact in their learning or problem-solving processes. This allows firms to exchange or transmit potentially public knowledge as well as to share learning experiences of the building of firm-specific capabilities. This latter coordination of learning activities is more complex as it requires firms to own capabilities in related fields so that they can absorb each other's expertise in fields within the shared areas. Hitt, Hoskisson and Kim (1997) confirm this viewpoint by showing that international diversification is positively related to R&D-intensity. Nonetheless, Cantwell and Santangelo (2001) provide empirical evidence that a distinction has to be made between close and loose relatedness. In that distinction, the former allows for cooperation, while the latter encourages competition due to the coincidence of the markets in which firms operate. Moreover, Hagedoorn and Duysters (2000) show that M&As are independent modes of governance in the sense that previously cooperating firms do not tend to become integrated. Conversely, unrelated companies are more likely to fail in attempts at integration because of the difficulty of interacting on common ground.

In this context, M&As have been classified according to their degree of relatedness in order to assess which synergies can be created through M&As and their successes. It has been argued that conglomerate mergers create the potential for financial synergies, while related M&As generate the additional potential for operational synergies (e.g., economies of scale and scope). The empirical evidence is far from converging on this issue. Hitt et al. (1991) have found that acquisition has negative effects on R&D-intensity and patent-intensity, while Hagedoorn and Duysters (2000) demonstrate that M&As can contribute to improving the technological performance of companies in high-tech environments.

3. *Geographical relatedness*

A second dimension considered concerns the extent of geographical relatedness between merging groups as a result of the growth of cross-border M&As. This phenomenon has raised the question of whether cross-border M&As create more scope for synergies and so may be more profitable than national M&As. In this respect, M&As have been interpreted as an alternative foreign direct investment (FDI) strategy to greenfield ventures when entering new markets. The point that has been made is that complementary capabilities are more likely to be found among international patterns on the grounds of the heterogeneous environments in which they operate. Cantwell and Mudambi (2001) provide the empirical evidence that acquisition as a mode of entry lowers R&D in subsidiaries without competence-creating mandates, but does not do so in mandated creative subsidiaries. This suggests that M&As are a means of supporting international asset-seeking strategies, which are associated with geographical restructuring and redistribution of competence-creating efforts in a newly integrated global internal corporate network. Nonetheless, it has also been pointed out that cultural differences are likely to be wider between international partners, which may exacerbate the difficulties of post-acquisition coordination. As emphasized by the latest *World Investment Report* (UNCTAD 2000a), from the host country perspective it does make a difference whether foreign-owned firms have adopted greenfield FDI or M&As as their mode of entry. The factors that discriminate between the two are the domestic level of economic development, FDI policy, the institutional framework and the specific circumstances of the investment.

4. *Post-acquisition strategy*

Empirical studies on post-acquisition strategies have been mainly concerned with integration issues. This stream of the literature converges in recognizing resource transfer, redeployment, resource-sharing, and resource-creation as core aspects of post-M&A integration, as the factors that regulate the ability of M&As to capture all potential synergies. In this line of argument, Capron (1999) identifies resource redeployment as a primary source of value creation in M&As due to its impact on efficiency and capability enhancement. Learning on both sides through extensive face-to-face interaction is part of the process by which the merging units absorb each other's technology. Therefore, similarity facilitates the integration of the acquired and acquiring knowledge in both technical and organizational terms. Common skills, languages, and cognitive structure ease communication and learning. Bresham, Kirkinshaw, and Nobel (1999) highlight that the immediate post-acquisition period is characterized by one-way transfer of knowledge from the acquirer to the acquired, but over time this gives way to high quality reciprocal knowledge transfer. Zollo and Leshchinskii (1999) find that high levels of integration of the target within the acquirer's organization improve long-term performance. Furthermore, it has been shown that firms can learn to acquire knowledge by developing a corporate ability to articulate and codify their experience over time (Zollo and Singh 1999). However, while an expert integrator is likely to select better targets, expertise in the prior phase does not necessarily translate into effective integration practices (Zollo 1999). In this sense, Zollo (1996) sees integration as an evolutionary process in which the variety-generating mechanism consists of the stream of activities which precedes the acquisitive events; the selection mechanism can be identified with the decision about the level of integration and the degree of replacement of existing resources; the replication mechanism consists of the process by which the selected routines and resources are transferred across the boundaries of the organization; and the retention mechanism is the process by which an organization routinizes a new practice or experience.

IV. GLOBAL TRENDS LEADING TO GLOBAL CORPORATE RESTRUCTURING ACROSS INDUSTRIES

Mergers and acquisitions are here understood as a general global trend associated with global corporate restructuring across industries. Most of the motivations for M&As discussed above feature the global strategies of TNCs as a means of reshaping competitive advantages within their respective industries. They have some effect on the TNCs of all or most industries and so to that extent they are not really sector-specific (even though in each case the corporate restructuring tends to occur essentially within a particular industry, and partly in response to the M&As of competitors in the same industry). However, it may be that some of the motives identified affect some industries more than others, and in that sense they can be expected to be associated with a greater intensity of M&As in certain sectors than others.

Given the merger wave since 1995, international M&As may be regarded as a new cross-border strategy that aims to increase corporate global competitiveness by pursuing related diversification and by integrating affiliates into a global network. In this perspective, the success of M&As depends upon the ability of firms both to assess ex ante the strategic relatedness between the assets of the partner companies, and to integrate ex post with the target company. In the former case, the difficulty comes in judging in advance the extent of the relatedness between the tacit knowledge of the merging companies, and *hence* the likely extent of synergies from the merger; in the latter case, the ability to codify relevant knowledge eases the process of integration between potentially related activities across which fresh exchanges of knowledge can add new value (Zollo 1997; Zollo and Leshchinskii 1999; Zollo and Singh 1999).

The background trends that have encouraged M&As but which differ in intensity across sectors can be considered under the headings of *regulatory changes* and technological changes (encompassing *new business and markets*, *technological interrelatedness*, and *new communications and competition*). Each of these trends can be linked to the theoretical motives discussed in Section II.

A. *Regulatory Changes*

As far as *regulatory changes* are concerned, they can be related to the motivations for M&As highlighted by the industrial organization literature and related market and political power as well as defensive reactions. In the former case, M&As may be stimulated by regulatory changes promoting a reallocation of market power (e.g., if the target company owns a substantial market share). In this sense, deregulation may imply a transfer of ownership of a position that confers market power, the extent of which depends upon the regulatory regime that follows any privatization process. Conversely, the desire for a linkage with political power is significant in other contexts due to historical circumstances such as the role of the state and other national institutions (e.g., in Central and Eastern Europe). In the case of defensive reactions, regulatory changes may promote M&A strategies as a defensive response in the sense that any restructuring of the market calls forth an unfolding of intercompany reactions as all major players attempt to ensure that they are represented. Equally, M&A strategies may flourish as a result of regulatory changes that impose a new regime which creates changes in location advantages as discussed by the international business literature. Finally, this trend towards deregulation has especially affected the financial markets, and so it can also be easily linked to the motivations for M&A strategies derived from the financial economics literature and discussed in Section II.

Under the label of regulatory changes, liberalization and privatization are the most important factors that have affected M&As. The Uruguay Round and the subsequent GATS (the General Agreement on Trade and Services) negotiations have opened a new global phase in the service sector by promoting the liberalization of international capital movements and investments. Telecommunications and banking are the service sectors most involved in this major international change. Regulatory reforms in these sectors are playing an important role in the dramatic increase in M&As in both developing and developed countries. These industries are starting to open themselves to foreign investors, which are now being allowed full or majority ownership.

Similarly, the privatization of former state-owned enterprises also stimulated cross-border M&As by increasing the number of target companies and opening up economies to increased competition. The significant increase in inward M&As in the Latin American, and Central and Eastern European countries is illustrative of the effects of privatization of state enterprises in telecommunications, energy, and other sectors. The case of Brazil is the most emblematic when looking at the growth of inward M&As in the late 1990s due to the privatization of public enterprises. In that country, inward M&As value partly due to the privatization of public enterprises grew from U.S.$5 billions in 1996 to U.S.$25 billions in 1998 (Kang and Johansson 2000). Regulatory changes have also occurred in the oil industry, in which a large presence of private capitals and foreign investors has now been allowed.

B. *The Rapid Pace of Technological Changes*

As explained already, recent technological changes have created new business and markets as well as increased technological interrelatedness, and new communications and cross-border restructuring.

1. *New business and markets*

The pace of technological changes have generated new business and markets by creating new products and changing the ways in which markets can be served, and it has led to the restructuring of established business combinations owing to increasing R&D costs. In the current uncertain technological environment, M&As are adopted to seek out new opportunities to exploit established competences, and as a risk-spreading tactic, partly to cope with rising R&D costs. Similarly, companies experiencing difficulties in developing in-house R&D due to time or cost constraints may opt for M&As as a means of acquiring technological and human resources. The M&As that have been taking place in the pharmaceutical industry, for instance, are a clear strategy to cope with the increasingly steep R&D costs needed to develop new drugs. Thus, in this context cross-border M&As provide a potential strategic means to obtain access to new (related) business and new markets. Similarly, the new business and market opportunities generated by technological advance may push firms towards M&As for reasons linked to the managerial ego argument (investigated by the financial economics literature) in order to keep abreast of current fashions.

2. *Technological interrelatedness*

The trend towards greater *technological interrelatedness* can be traced back theoretically to the motives for synergies, or economies of scope and complementarities. The increasing role of superadditivity (the whole is greater than the sum of the parts) associated with new technological combinations as a result of establishing innovative new connections between formerly unrelated assets, when discussed in the international business literature, is understood to encourage asset-seeking strategies through cross-border M&As, which bring together locationally differentiated skills and expertise. Similarly, higher technological interrelatedness requires a higher intensity of transactions than before. In turn, the higher level and intensity of transactions has increased the transaction costs of arm's-length exchange even more than those within firms, therefore promoting a shift from external to internal transaction costs by means of M&As.

According to the OLI (ownership, location, and internalization) paradigm, a firm needs to have a firm-specific ownership advantage (embodied in its competencies) in foreign markets in order to pursue successful FDI. This competitive advantage usually arises from knowledge production and skills as well as from effective management capabilities. Therefore, it relates to the firm's intangible assets and its ability to absorb and utilize existing knowledge. Given the fast pace of technological changes, the growing technological interrelatedness, and the consequent technological complexity, firms need to diversify by absorbing and integrating related technologies in order to remain internationally competitive. Therefore, technological interrelatedness has transformed the potential availability of new synergies. In this sense, technological interrelatedness is a motive of increasing significance in promoting M&As since closeness, not sameness, leads to more potential knowledge spillovers and gains from restructuring. In this sense, the technological interrelatedness trend can be linked to the argument of reduction of transaction and information costs put forward by the industrial organization and international business literature in order to explain M&As.

3. *New communications and cross-border restructuring*

The trend of *new communications and cross-border restructuring* can be theoretically traced back to the arguments from the industrial organization literature related to synergies and transaction costs. In fact, new communications and cross-border restructuring generate new opportunities for trading and exchanging across borders as well as for integrating operations across national boundaries. Moreover, this trend can be also linked to the international business motives, as the regulatory environment has facilitated a new scope for e-business, and as management strategies for international technology access have involved the restructuring of cross-border intra-firm networks. Such business restructuring has been further encouraged by the impact of information and communications technology (ICT) on, e.g., real-time control of production processes, on-line procurement and shifts in the nature of the supply chain, etc. In particular, within the realm of international business motivations for M&As, new communications and cross-border restructuring stimulate M&As as a means of accessing those types of technologies that are useful for the meta functions (i.e., communications and integration) in which ICT plays a role. Finally, corporate M&As can be seen as a response to new communications and cross-border restructuring trends from the perspective of being a means to reduce inefficiency by rationalizing activities as emphasized by the financial economics literature.

The drastic decline in communications and transportations costs has also been identified as a major factor behind the latest M&A wave. The sustained reduction of these costs has favored the international expansion of firms seeking to exploit and consolidate competitive advantages. This situation is the result of the ICT revolution, which has enabled companies to grow by maintaining efficiency and flexibility in their management. This factor has mainly impacted on service sectors such as banking, although it has also influenced manufacturing sectors. However, the high costs associated with this evolving scenario have forced firms to look for cooperation in global markets in order to fund research and development. The final aim is to keep pace with the implications of technological changes for each industry in the area of communications and computing, so as to maintain and increase corporate competitiveness across borders. In this context, faster information transfer and delivery facilitate post-merger integration processes as well as amplifying opportunities to learn about profitable targets.

These trends call for global restructuring for the purpose of more effective cross-border integration. Cantwell and Santangelo (2000) show that a change occurred between the late 1970s and the mid-1990s in terms of the balance between diversification and rationalization in large companies. Large corporate groups attempted to reach an "optimum" balance between the extent of diversity and integration of their intangible assets, by pursuing a more related type of diversification. This pattern appeared to be a general one as it was observed across most industries (with the exception of the mechanical group). In the science-based industries (i.e., chemicals and pharmaceuticals, electrical equipment and office equipment, and coal and petroleum products) and in motor vehicles, it seems that, whilst many smaller firms have diversified, "giant" firms have on average rationalized the extent of their technological dispersion.

The overall move towards diversification of "smaller" and hence initially less diversified large firms might be explained as a strategy to tackle technological "fusion" between formerly unrelated technologies, and for the process of creating new technological combinations ICT has served both as an agent and a catalyst. Technological fusion facilitated by ICT has created new opportunities for diversification for firms that were relatively little diversified before, while at the same time encouraging a greater focus of effort in the largest firms. In and around those sectors those firms have become most closely interrelated to one another and to their core strengths. As argued by Kodama (1992), technological fusion is a necessary condition for technological diversification, since it enables companies to establish new and close technological complementarities between different fields of innovation. In this process, ICT is likely to play a particular role in establishing new areas of interconnectedness in the current paradigm. Information and communications technology can be viewed as a "carrier branch" (Freeman and Perez 1988) or "transmission belt" and a core connector for innovation between formerly separate economic activities, in the way in which the capital goods sector was in the mechanization paradigm of the past (Rosenberg 1976).

V. THE SECTORAL DIMENSION

The general factors promoting the recent M&A wave, which were discussed in the previous section, have had a bigger impact on the global strategies of TNCs in the industries in which the propensity to engage in M&As has therefore been the highest: namely, motor vehicles, electronics (distinguished in telecommunications and computing), pharmaceuticals, oil, and banking. The significance of M&As in these industries is further confirmed by Table I, which reports the top four cross-border

TABLE I

TOP FOUR CROSS-BORDER M&As IN 1998

Acquiring Company	Acquired Company	Deal Value (U.S.$ Billion)
British Petroleum (U.K.) *Oil*	Amoco (U.S.) *Oil*	61
Daimler-Benz (Germany) *Motor-vehicles*	Chrysler (U.S.) *Motor-vehicles*	39
Zeneca Group Plc (U.K.) *Pharmaceuticals*	Astra (Sweden) *Pharmaceuticals*	34
Fortis (Netherlands) *Banking*	General de Banque (Belgium) *Banking*	14

Source: KPMG Corporate Finance, 1999.

M&As in 1998. As a result of M&As a significant industry-wide restructuring of activities has taken place, and in the restructuring process those industries in particular have been reshaped.

However, unlike the 1980s M&A wave (in which the acquisitions took place mainly across or between different fields of business and industry), the latest cross-border M&As concern investments in the same or related industries (Kang and Johansson 2000). This might reflect the aim of TNCs to retain global competitiveness as conditions in their own industry have shifted, as well as their desire to reduce competition in the global market. Table I also confirms the cross-border intra-industry character of the recent M&A wave.

Turning to the cross-industry distribution of M&As, Table II shows that oil, pharmaceuticals, banks, and motor vehicles are among the sectors whose M&A deals have accounted for the highest values.

In terms of number of deals, those sectors (with the exception of banking, which is excluded from manufacturing) plus electric equipment and office equipment come out very high as illustrated in Figure 2. These data are drawn from the M&As database developed at the Instituto de Economia of the Universidade Federal do Rio do Janeiro (UFRJ) from Thomson Financial Securities Data. The sample includes the largest U.S. corporate groups which have engaged in M&A deals between 1990 and 1999.

In what follows, a sectoral analysis is carried out in order to discuss the motives behind M&As in each of the selected sectors (i.e., motor vehicles, telecommunications, computing, pharmaceuticals, oil, and banking). The reasons for focusing on these fields are twofold. First of all, in those sectors recent important mergers have taken place as reported in Table I for 1998 (to which the 1999 acquisition of AirTouch Communications Inc. (U.S.) by Vodafone Group PLC (U.K.) amounting for almost

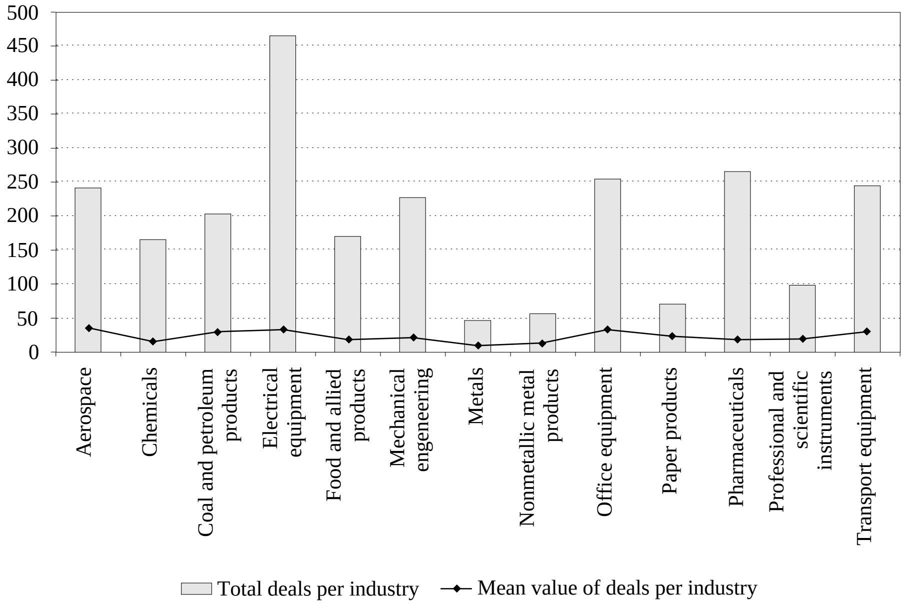
TABLE II

TOP TEN INDUSTRIES FOR CROSS-SECTOR M&As

Industry	Deal Value (U.S.$ Billion)
Extraction of mineral and natural gas	76.2
Manufacture of motor vehicles and parts thereof	50.9
Banking and finance	50.9
Postal services and telecommunications	50.4
Manufacture of paper products; printing and publishing	41.0
Production and distribution of electricity, gas, and other forms of energy	40.3
Business services	38.2
Insurance, except for compulsory social security	37.9
Chemical and pharmaceuticals industry	26.2
Retail distribution	18.0

Source: KPMG Corporate Finance, 1999.

Fig. 2. Total Number of Deals (Buying and Selling) of the Largest Firms in the United States, and the Average Number of Deals per Large Firm, by Industry, 1990–99



Source: M&A database developed by the Instituto de Economia of the Universidade Federal do Rio do Janeiro (UFRJ) from Thomson Financial Securities Data.

U.S.$70 billion can be added). This provides further evidence of consolidation within industries rather than across sectors. Second, strong national political interests are traditionally involved in the sectors in many countries, as shown by the fact that the five selected sectors have been the object of political intervention in the past and of regulatory reforms in the 1990s.

A. *Motor vehicles*

The factors behind the great wave of M&As in the motor vehicle sector can be identified as follows: increasing innovation costs which have pushed automakers to look for new business and markets and restructuring of their operations; rapid technological development augmenting technological interrelatedness; new communications and cross-border restructuring; and regulatory changes. M&As in the motor vehicle industry were also necessitated by excess installed production capacity, which required rationalization and associated efficiency gains. This implies that all theoretical motives discussed in Section II seem to contribute, to a different extent,

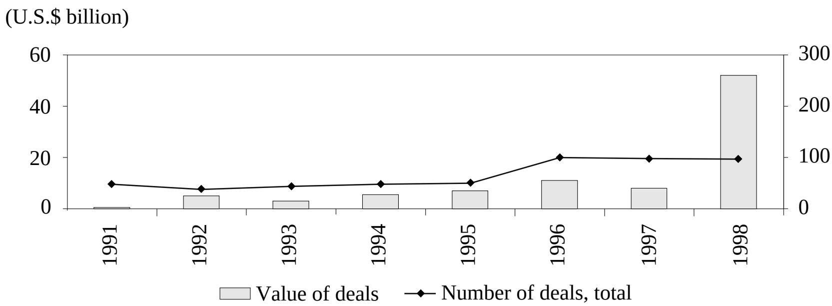
TABLE III

TOTAL NUMBER OF (BUYING AND SELLING) DEALS OF LARGEST AMERICAN MOTOR VEHICLE COMPANIES, 1990–99

Firms	Number of (Buying and Selling) Deals
Goodrich B F Company, The Inc.	67
General Motors Corporation	51
Dana Corporation	34
Ford Motor Company Inc.	31
Eaton Corporation	30
Borg-Warner Automotive Inc.	17
Goodyear Tire & Rubber Company, The Inc.	10
Cummins Engine Company, Inc.	4

Source: M&As database developed by the Instituto de Economia of the Universidade Federal do Rio do Janeiro (UFRJ) from Thomson Financial Securities Data.

Fig. 3. Motor Vehicles and Parts Manufacturing: Cross-Border M&As, 1991–98



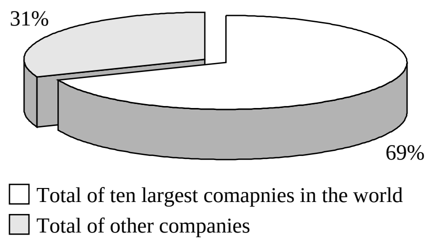
Source: KPMG Corporate Finance.

to an explanation of M&As in this sector. Between 1990 and 1999, the largest U.S. motor vehicle companies were the most active in M&As as illustrated in Table III.

As shown in Figure 3, in terms of the value of deals, the industry's peak year of the M&A wave was 1998, when most of the deals arose from cross-border M&As. The most important of these deals was the one concluded between Daimler-Benz and Chrysler, followed by a series of other M&As: Volkswagen took over Rolls Royce, Ford took over Volvo's car division, and Nissan concluded an alliance with Renault.

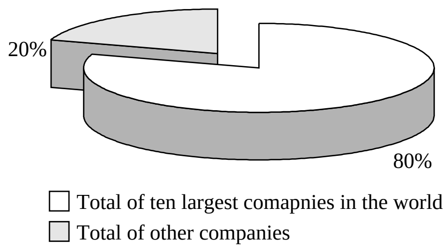
Although the motor vehicle market is notably rather concentrated, as illustrated in Figure 4 and Figure 5, the new M&A wave can be seen as occurring in a somehow new global environment, characterized by market liberalization and by new countries entering the industry. This has raised the need for spatial reorganization in order to access new markets and to sustain a decrease in costs.

Fig. 4. Degree of Concentration of the Ten Largest TNCs, 1996



Source: Authors' calculation on UNCTAD data.

Fig. 5. Degree of Concentration of the Ten Largest TNCs, 1999



Source: Authors' calculation on UNCTAD data.

Other factors should be taken into account besides the industry structure. As anticipated above, new communications and cross-border restructuring have changed the ways of doing business as the transaction and information costs of customers are removed or, at least, reduced. Similarly, technological changes have added new pressures to competitiveness in the light of the cost and risks involved in developing the next generation of cars. Regulatory changes have also played their role in this industry as a consequence, for instance, of the removal of selective distribution arrangements or restrictions. In addition, the Asian crisis has ameliorated the growing problem of excess capacity.

B. *Electronics*

Electronics can be further divided into telecommunications and computing as discussed below.

1. *Telecommunications*

The high propensity to conclude M&As in the sector may be linked to regulatory reforms, which push firms to compete in new markets and technologies by seeking new partners across borders. In this context, the privatization of telecommunica-

TABLE IV

TOTAL NUMBER OF (BUYING AND SELLING) DEALS OF LARGEST AMERICAN COMMUNICATIONS COMPANIES, 1990–99

Firms	Number of (Buying and Selling) Deals
Whirlpool Corporation	3
National Semiconductor Corporation	8
Schlumberger Limited Inc.	13
Harris Corporation	14
Johnson Controls Inc.	15
ITT Industries, Inc.	22
TRW Inc.	27
Motorola, Inc.	36
Texas Instruments Incorporated	36
Intel Corporation	37
GTE Corporation	39
Tyco International (US), Inc.	45
Emerson Electric Co. Inc.	57
General Electric Company Inc.	89

Source: Same as for Table III.

tions services has played a major role in boosting M&As within the sector as many countries have opened up to private ownership. These regulatory changes have impacted on the industry structure, whose concentration has been diluted, increasingly moving from segmented monopolies to open competition (Kang and Johansson 2000). Nonetheless, the role of technological changes in this sector should not be underestimated since cross-border M&As in telecommunications are growing under the pressure of increasing communications and cross-border restructuring.

As shown in Table IV, the largest U.S. communications companies have been heavily involved in M&As. In fact, if a large number of M&As have occurred in the United States among regional companies, a consistent number of cross-border M&As are trans-Atlantic. The reason may be identified in the (mainly) European interest in U.S. technology in order to enhance global competitiveness. The five acquisitions in the United States by France Alcatel, the three acquisitions in the United States by General Electric Co. (U.K.), Royal Philips Electronics (the Netherlands), and Ericsson (Sweden) can be framed within this context. Therefore, in terms of theoretical motives, the M&A wave in telecommunications can be seen as a defensive reaction and a means to enhance market and political power. Similarly, it can be also interpreted as a strategy to exploit synergies, reduce transaction costs, and access new markets or technology, and as a means of removing inefficient management.

2. *Computing*

The trends underlining the M&A wave in this sector can be linked to technologi-

TABLE V

TOTAL NUMBER OF (BUYING AND SELLING) DEALS OF LARGEST AMERICAN COMPUTER COMPANIES, 1990–99

Firms	Number of (Buying and Selling) Deals
Pitney Bowes Inc.	8
EMC Corporation	13
Xerox Corporation	15
Hewlett-Packard Company Inc.	31
Litton Industries, Inc.	33
Honeywell International Inc.	59
International Business Machines Corporation	60

Source: Same as for Table III.

cal changes. With the fast pace of technological development, new and complex kinds of technology have been generated, opening up new business and market opportunities. Similarly, an increasing technological interrelatedness in and around computerization allows firms to exploit synergies, although this has also meant a rise in innovation costs as a result of the greater breadth of competence that firms need to manage. Due to the notable technological expertise of U.S. computer companies, the M&A wave in the sector has heavily involved U.S. firms. In fact, as shown in Table V, the largest U.S. computing companies have played a role as both buyers and sellers. If U.S. companies were targeted by potential buyers interested in their technological competency, they also attempted to look for interrelated expertise that could enhance their technological and market performance. Thus, the adoption of M&As in computing can be theoretically explained in terms of the arguments highlighted by the industrial organization and international business literature as well as some of the arguments of financial economics.

C. *Pharmaceuticals*

Technological factors have impacted on the growing M&A strategy in the pharmaceutical industry. In this industry, internationalization and consolidation have taken place through M&As adopted as a means of achieving cost savings and speeding up innovation in response to the fast pace of technological changes in this sector. Therefore, pharmaceutical companies have undertaken M&As in order to accumulate resources for financing research and development of new drugs. Moreover, the 1990s slowdown in industry growth (in comparison with the 1970s and 1980s) has favored the adoption of acquisition strategies. In fact, the currently leading companies will lose some key areas of patent protection in the next few years, thus coming under pressure from the perspective of potential new entrants into the market. The threat to their competitive position pushes pharmaceutical companies to improve research, marketing, and distribution. In this sense, cross-border unions

TABLE VI

TOTAL NUMBER OF (BUYING AND SELLING) DEALS OF LARGEST AMERICAN PHARMACEUTICAL COMPANIES, 1990–99

Firms	Number of (Buying and Selling) Deals
International Flavors & Fragrances Inc.	1
American Home Products Corporation	4
Mallinckrodt Inc.	6
Schering-Plough Corporation	7
Abbott Laboratories Inc.	10
Warner-Lambert Company Inc.	10
Clorox Company, The Inc.	11
Colgate-Palmolive Company Inc.	11
Lilly, Eli and Company (Inc.)	11
Bristol-Myers Squibb Company Inc.	16
Merck & Co, Inc.	17
Pfizer Inc.	19
Procter & Gamble Company, The Inc.	37
Pharmacia Corp	50
Johnson & Johnson Inc.	55

Source: Same as for Table III.

may provide a means of expanding the corporate asset base and reserves of technological strength. The largest U.S. pharmaceutical companies have massively used this strategy, as shown in Table VI. Similarly, the fusion between SmithKline Beecham and Glaxo Welcome can be framed within this context.

This implies that the search for new business and markets triggered by new technological opportunities might be seen as the underlying trend explaining M&As in the sector. In turn, this trend can be theoretically traced back to particular motives for M&As emphasized by industrial organization specialists (i.e., market power and defensive reactions), international business researchers (i.e., access to markets or technologies), and the financial economics literature (i.e., managerial ego) as discussed in Section II.

D. *Oil*

The recent M&A wave can be understood as a further restructuring phase in the oil industry. If the 1970s witnessed an epoch of nationalism, in which foreign concessions were taken over and the OPEC cartel regulated oil supply, the 1980s saw an age of hostile takeovers, as illustrated, for instance, by the acquisition of Texaco by Getty Oil. Conversely, the trend in 1990s has been characterized by a large presence of private capital and foreign investors and consequently a great number of cross-border mega-mergers, with the public sector still playing a significant role.

As illustrated in Table I, in 1998 the oil industry accounted for the largest value M&A (i.e., the deal between British Petroleum and Amoco). This has furthermore

TABLE VII

LARGEST OIL COMPANIES, BY REVENUES, 1998

	(U.S.$ billion)
Exxon + Mobil	175
Royal Dutch/Shell	126
BP Amoco + Arco	99
Total + Petrofina	45
Elf Aquitaine	44
ENI	43
Texaco	42
Cheveron	41
Conaco	40
Marathon	39
Nippon Mitsubishi	38
Repsol	37

Source: *Economist*, May 13, 1999.
Note: Excluding state-run firms.

TABLE VIII

TOTAL NUMBER OF (BUYING AND SELLING) DEALS OF LARGEST AMERICAN OILS COMPANIES, 1990–99

Firms	Number of (Buying and Selling) Deals
Cabot Corporation	3
Phillips Petroleum Company Inc.	14
Chevron Corporation	25
Ashland Inc.	26
Texaco Inc.	29
Exxon Mobil Corporation	51
DuPont, E. I. De Nemours and Company Inc.	55

Source: Same as for Table III.

transformed the industry structure, which is characterized by a growing firm size. Table VII shows the biggest companies in the industry in question. As can be seen from the table, the first four companies are the results of cross-border mega-mergers.

As reported in Table VIII, the U.S. largest oil companies have been particularly active in M&As.

One of the main factors behind the 1990s industry restructuring through M&As can be identified as the technological advancement, which has increased competitive pressure. By improving extraction techniques, technological changes have kept up supply and augmented the pressures on prices. In addition, the regulatory reform, which took place in petroleum-rich countries, has also impacted on the oil industry. In those countries, the opening up to foreign companies in the extraction of national resources has created a stimulus for M&As. However, the oil market has also been affected by the Asian crisis, as the Asian region used to be a source of demand for oil. As far as this event is concerned, M&As have been regarded as a strategy to exploit synergies, access new sources and reduce overheads. The alternative strategy to M&As (adopted so far by small and medium-sized companies) has been to focus on a special geographical or technical niche.

A final factor explaining M&As in the oil industry features the need for economies of scale in the production and distribution of oil. In fact, cross-border mergers have helped to spread political and financial risks as well as to access newer and cheaper oil fields outside Europe and North America. In this sector, regulatory changes as well as the need for new business and markets, and the cross-border restructuring stimulated by technological advance (together with associated theoretical motives) seem to play a role, to a different extent, in explaining M&A strategies.

E. *Banking*

Like in motor vehicles and pharmaceuticals, in the banking sector M&As have provoked a greater industrial concentration. Deutsche Bank–Bankers Trust New York Corporation, HSBC Holdings–Republic New York Corporation, and HSBC Holdings–Safra Republic Holdings are just three of the cross-border M&As accounting for more than U.S.$1 billion each (UNCTAD 2000a). Deregulation and liberalization are among the factors accounting for the structural changes taking place in the banking industry through M&As strategies. The GATS negotiations together with the elimination of the borders between banking and securities in the United States, the financial liberalization in Japan and the deregulation in the EU have all contributed to a cross-border merger strategy for the sake of competition. Similarly, the development of ICT and, consequently, of e-commerce has also created new profit opportunities across borders, which, however, pose the problem of coping with fast and uncertain technological changes. In both cases (i.e., deregulation and liberalization of financial markets as well as increasing profit opportunities linked to technological changes), M&As have provided a means for exploiting geographical and sectoral synergies in order to compete globally. Due to the major underlying trends affecting this sector (i.e., regulatory changes, and new communications and cross-border restructuring), the theoretical motives which appear most valid for explaining M&As in this case are market power and defensive reactions, synergies and reduction of transaction costs as well as the theoretical arguments suggested by the financial literature.

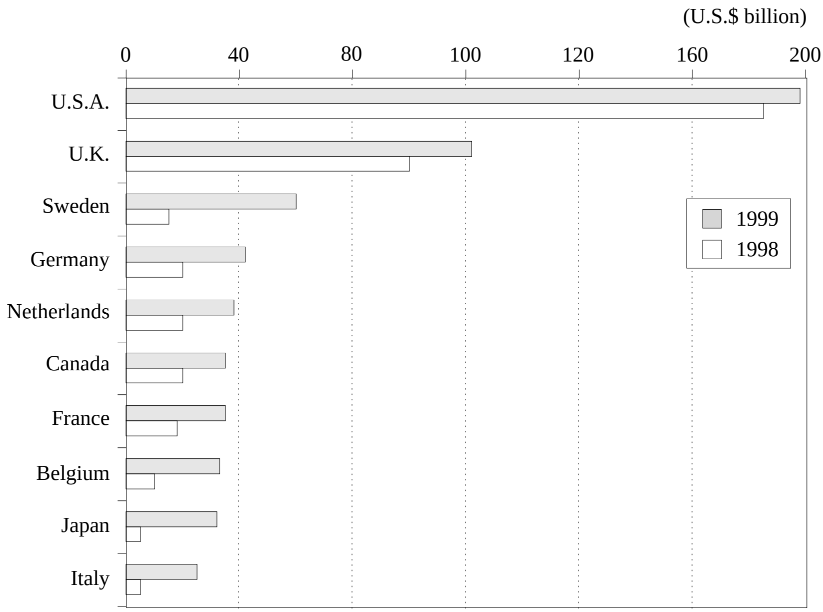
VI. REGIONAL FRAMEWORKS

Mergers and acquisitions can also be understood as an element in global strategies in the particular context of the shift towards increasingly internationally integrated or networked TNCs, in which regard asset-seeking types of M&As are especially relevant. In this context, regional scenarios as frameworks providing additional specific explanations to the M&As phenomenon gain particular attention. Therefore, M&As are analyzed in the U.S., European, Latin American, and Asian context.

A. *The U.S. Scenario*

As reported by UNCTAD (2000a), the United States is the single most important target country. This is clearly illustrated in Figure 6, in which the United States is the leader among the top ten developed countries in terms of cross-border M&A sales. The acquirers have been mainly European companies, which have targeted U.S. companies under the pressure of an increasing globalization of their industry and have been attracted by the rapid growth of the U.S. economy. Among the Euro-

Fig. 6. Developed Countries: Cross-Border M&A Sales, Top Ten Countries, 1998 and 1999



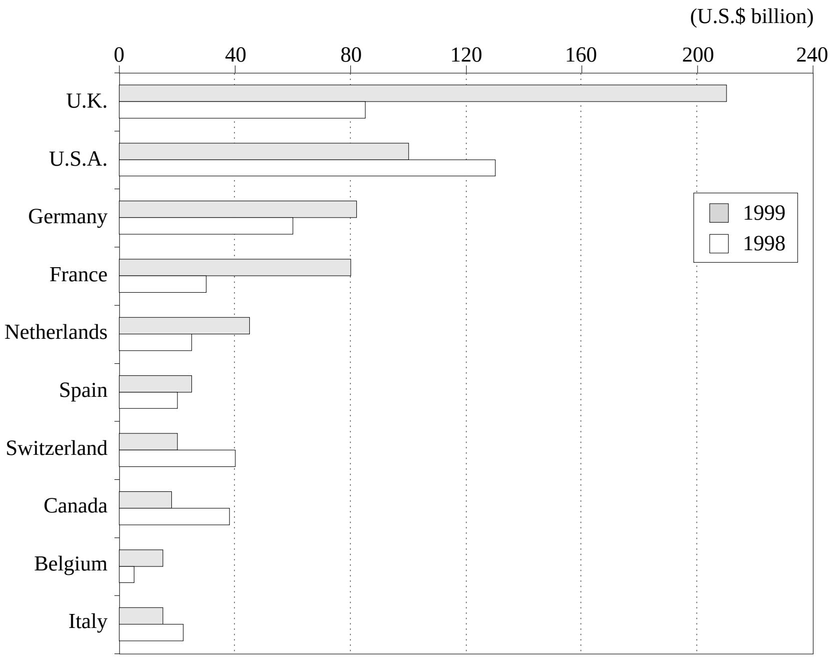
Source: UNCTAD (2000a, p. 119), cross-border M&A database (based on data from Thomson Financial Securities Data Company).

peans, U.K. companies have been the most active, most likely as a result of the structure of the U.K. corporate sector, grounded as it is to a greater extent on liberalization and laissez-faire than in the continental EU members. This pattern clearly emerges when considering the top ten largest developed countries in terms of cross-border M&A purchases as revealed in Figure 7, where the United Kingdom ranks first. Moreover, as discussed below, a discrete portion of U.S. corporate sales has been absorbed by Mexican companies, which adopted an acquisition strategy in order to expand in the region by riding on the NAFTA integration effect. Mexican companies have been using M&As as an additional tactic (besides or in support of export integration within NAFTA) to gain a portion of the U.S. market.

B. *The European Scenario*

In terms of M&As, the European scenario is somehow different and more varied. As reported in Table IX, the European markets have experienced a major M&As boom, although there are factors acting in favor as well as against this new corporate strategy.

Fig. 7. Developed Countries: Cross-Border M&A Purchases, Top Ten Countries, 1998 and 1999



Source: UNCTAD (2000a, p. 119), cross-border M&A database (based on data from Thomson Financial Securities Data Company).

TABLE IX

EUROPEAN M&A TOP TEN DEALS (BETWEEN JANUARY 1 AND JUNE 19, 2000)

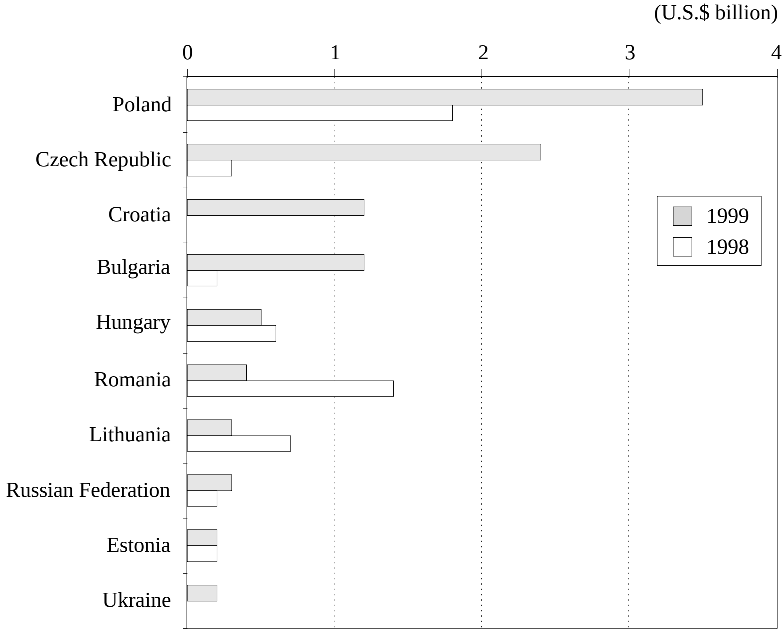
Target	Acquirer	Value of Deal (U.S.$ Million)
Smith Kline Beecham (U.K.)	Glaxo Welcome (U.K.)	78,384.5
Orange (Mannesmann) (U.K.)	France Telecom (France)	45,967.1
Allied Zurich (U.K.)	Zurich Allied (Switzerland)	19,399.1
Seat Pagine Gialle (Italy)	Tin. it (Italy)	18,694.3
Norwich Union (U.K.)	CGU (U.K.)	11,658.3
Credit Commerciale de France (France)	HSBC Holdings (U.K.)	11,223.0
Mannesmann Atecs (Germany)	Investor Group (Germany)	9,394.1
Tella AB (Sweden)	Investors (Unknown)	8,897.0
AOL Europe, AOL Australia (Germany)	America Online (U.S.)	8,250.0
Dordtsche Petroleum (Netherlands)	Investor Group (Netherlands)	8,125.0

Source: Thomson Financial Securities Data.

First of all, the introduction of the single currency has stimulated cross-border M&As among European companies, which are attempting to gain a pan-European presence in order to compete in other European countries as well as globally. A second factor driving European corporate strategy towards M&As is the liberalization of telecommunications and services, which has created major opportunities in the member countries, as well as the privatization process, which has taken place most recently in Central and Eastern Europe. In these areas, cross-border M&As (mainly related to privatization and infrastructure) rose substantially in 1999 as clearly illustrated in Figure 8. Here, the involvement of Western European (rather than U.S.) companies has been massive particularly in technology-related sectors, notably banking and telecommunications.

However, besides these factors encouraging and stimulating mergers and acquisitions, there are other counteracting factors such as the effect of EU competition policy. In fact, the European Commission has tended to discourage cross-border mergers in order to maintain competitive markets so as (it would argue) to encourage industrial efficiency, optimal allocation of resources, technical progress, and the flexibility to adjust to a changing environment. Within this context, the merger regulation which came into force in September 1990, represents an attempt to provide a system of controlling mergers. The aim is to eliminate agreements, which restrict competition and abuse of dominant positions; to liberalize monopolistic economic sectors (e.g., telecommunications); and to monitor state aid in order to avoid a State grant designed to keep a loss-making firm in the market, despite a lack of recovery prospects. Nonetheless, the recent change in the EU policy concerning M&As should also be taken into account. From June 2000, a takeover directive by the EU has been in force which protects minority shareholders and encourages cross-border mergers. With this directive, the EU competition policy moves to-

Fig. 8. Central and Eastern Europe: A Cross-Border M&A Sale, Top Ten Countries, 1998 and 1999



Source: UNCTAD (2000a, p. 123), cross-border M&A database (based on data from Thomson Financial Securities Data Company).
Notes: 1. The countries of the former Yugoslavia are included.
2. Ranked on the basis of the magnitude of sales in 1999.

TABLE X

U.K. M&A TOP TEN DEALS (BETWEEN JANUARY 1 AND JUNE 19, 2000)

Target	Acquirer	Value of Deal (U.S.$ Million)
Smith Kline Beecham (U.K.)	Glaxo Welcome (U.K.)	78,384.5
Orange (Mannesmann) (U.K.)	France Telecom (France)	45,967.1
Allied Zurich (U.K.)	Zurich Allied (Switzerland)	19,399.1
Norwich Union (U.K.)	CGU (U.K.)	11,658.3
Compass Group (U.K.)	Grancia Group (U.K.)	8,069.6
Robert Fleming Holdings (U.K.)	Chase Manhattan Corp, NY	7,697.6
MEPC (U.K.)	Leconport Estates (multinational)	5,233.2
Burmah Castrol (U.K.)	BP Amoco (U.K.)	5,104.4
Pearson Television	CLT-UFA (Cle Luxembourg) (Lux.)	4,249.1
Flextech	Telewest Communications (U.K.)	3,705.5

Source: Thomson Financial Securities Data.

wards a more U.K.-oriented approach to M&As. In fact, the United Kingdom is more relaxed about foreign purchases of U.K. companies, as shown by the liberal British attitude towards this matter. This is not by chance as confirmed by the fact that, among developed countries, the United Kingdom ranks second after the United States in terms of M&A sales and first in terms of M&A purchases, as reported in Figures 7 and 8. Moreover, in 1999 the United Kingdom was the world's most acquisitive country for cross-border business, as shown in Table X.

Corporate financiers increasingly regarded pan-European consolidation as the biggest single source of business.

C. *The Asian Scenario*

As far as M&As are concerned, the Asian scenario has been rather quiet, mainly as a result of the debt crisis which affected these countries. In fact, the financial crisis impacted upon the traditional structure of ownership. Many Asian firms have huge debts, and may have in effect defaulted on loans. Potential buyers want them to clear the decks, asking banks to forgive the debt or trade it for equity as part of the deal. Potential two-way negotiations (i.e., between the acquired and the target) become three-way negotiations, as they involve the banks owning the financial assets of the target company. Therefore, the new ownership structure created by the financial crisis has acted as a constraint on M&A deals. This situation allowed little scope for M&As, unless they were formally orchestrated by a major bank. The situation has relaxed lately with some regulatory reforms of M&As taking place in the Republic of Korea and Japan among other countries. As far as Japan is concerned, the Ministry of Economy, Trade and Industry (METI) has started introducing legislation that will make it easier for companies to spin off subsidiaries.

Besides changes in the regulatory framework, the main factor explaining the recent growth of cross-border M&As can be identified as the changes in business culture and corporate structure (UNCTAD 2000a). As far as the former is concerned, Japanese business culture understood business as a collection of human resources, thus refusing to sell or buy human beings. In addition, a business used to be considered as a family. Therefore, loyalty to management and lifetime employment were important implications in this conception. The changes in corporate culture are reflected in the reconsideration of *keiretsu* relationships as they make it difficult for foreign and domestic firms to conclude M&As as a result of crossholdings of shares (i.e., shares held by *keiretsu* firms in one another).

D. *The Latin American Scenario*

As shown in Table XI, Latin America has been a booming area for M&As since the mid-1990s with the exception of 1997 and despite a negligible decline between 1998 and 1999. The growth in the volume of M&As in the region has also been remarkable in comparison with the worldwide trend (see Table XII).

TABLE XI

LATIN AMERICA ANNOUNCED M&As VOLUME

	(U.S.$ million)
1996	35,473.5
1997	7,959.0
1998	85,352.1
1999	73,435.9
2000	90,252.9

Source: Thomson Financial Securities Data.

TABLE XII

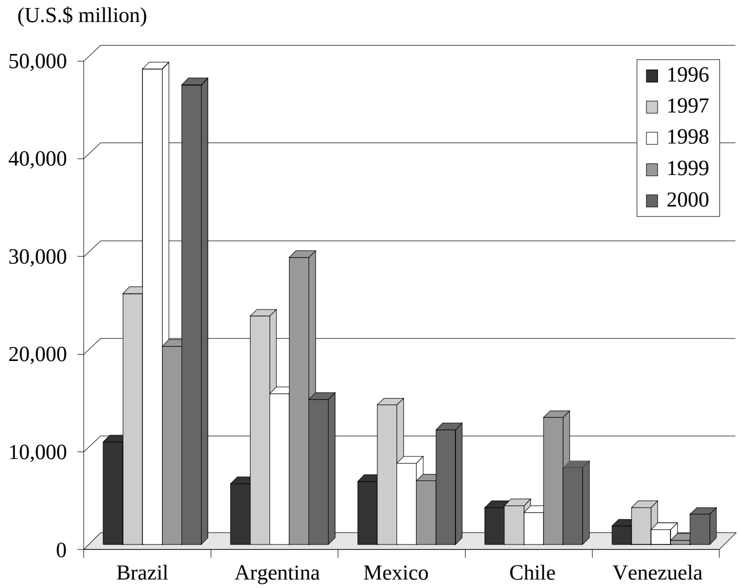
WORLDWIDE VS. LATIN AMERICA M&As VOLUME GROWTH

(%)

	1996	1997	1998	1999
Latin America	105	250	280	250
Worldwide	100	300	450	460

Source: Thomson Financial Securities Data.

Fig. 9. Latin America Announced M&As Volume, 1996–2000



Source: Thomson Financial Securities Data.

TABLE XIII

THE TOP TEN TNCS IN LATIN AMERICA RANKED BY FOREIGN ASSETS, 1998

(Assets and sales in U.S.$ biliion)

Corporation	Economy	Industry	Foreign Assets	Foreign Sales	Foreign Employees
Petróleos de Venezuela	Venezuela	Petroleum	7.9	11.0	6,026
Cemex S.A.	Mexico	Construction	5.6	2.3	9,745
Petrobras	Brazil	Petroleum	3.7	1.3	417
YPF S.A.	Argentina	Petroleum	3.3	0.9	1,754
Vale de Rio Dolce	Brazil	Transportation	1.9	3.0	7,076
Enersis S.A.	Chile	Electrical	1.7	0.4	9,342
Pérez Companc S.A.	Argentina	Petroleum	1.1	0.2	836
Genre S.A	Chile	Electrical	1.1	0.2	217
Cervejaria Brahma	Brazil	Foods	N.A.	N.A.	N.A.
Gruma S.A.	Mexico	Foods and beverages	0.7	0.8	7,736

Source: UNCTAD (2000b).

However, some interesting differences exist between the Latin American countries. As illustrated in Figure 9, Brazil and Argentina have recorded the highest M&A volume between 1996 and 2000. Mexico, Chile, and Venezuela follow in this order.

Among these countries, Argentina and Brazil were the largest sellers. In both countries, privatization can be identified as the main factor driving this pattern. In this respect, the privatization of Telebras in Brazil (1998) and Yacimentos Petroliferos Fiscales (YPF) in Argentina (1999) are emblematic. The 1998 decline of the overall volume of M&A announcements can be read as a consequence of the slowdown in privatization. Within this framework, it is not by chance that the sectors involved concerned telecommunications, commercial banking, and oil, which have been traditionally state-owned sectors. In Argentina and Brazil, M&As have been used as a mode of entry into these countries by North American and European companies (particularly Spanish). Spanish Telefonica, for instance, spent the most of any acquirer in Argentina in order to buy Telefonica of Argentina and Cointel, and the largest Spanish company Repsol made a U.S.$13.2 billion investment in YPF (UNCTAD 2000b). Similarly the Spanish giant BSCH acquired Banco Rio de Plata. Thus, the major M&As wave occurring in the United States and Europe has involved Latin American companies as potential targets. In this sense, the Latin American countries were affected by the spillovers of the changes taking place in the United States and Europe.

Nonetheless, if the lion's share of inward FDI by means of M&As can be attributed to European companies, outward FDI originating in this region has been mainly intra-regional.[1] The Mercosur countries as a group (Argentina, Brazil, Paraguay,

[1] Intra-Mercosur FDI concern mainly Argentina, Brazil, and Chile, while Uruguay and Paraguay have attracted less investments in general (Bonelli 2001).

and Uruguay, with Bolivia and Chile as associated partners) and particularly Brazil hold the largest share of regional FDI despite the economic stagnation and instability due to the currency devaluation in early 1999. Moreover, as illustrated in Table XIII, the ten largest Latin American TNCs operate in the sectors in which the propensity to engage M&As has been the highest worldwide.

In the northern part of the region, NAFTA exercises a strong influence on M&As, particularly in the case of Mexican firms. In fact, in Mexico M&As have been used to expand corporate operations abroad particularly in the neighboring NAFTA countries. In 1999, Mexico recorded the largest external cross-border activity, accounting for eighteen transactions that involved target companies outside the Latin American region.

Therefore, Mexico has attempted to amplify the NAFTA integration process by strengthening the link with the United States. Similarly, Mexican companies have been targeted by European and Asian TNCs in order to benefit from the NAFTA rules of origin, thus as a means to access a wider market than Mexico by participating in the integration effect.

VII. CONCLUSIONS

The late 1990s M&A wave has been understood here as a major corporate restructuring strategy due to some general trends. First of all, we argued that liberalization in the financial sectors (e.g., telecommunications services and banking) has provided new market opportunities by means of M&As. Second, the fast pace of technological changes has acted as a major influence for different reasons. In fact, it has encouraged technologically related types of M&As as a means of coping with an increase in innovative complexity and interrelatedness. Similarly, it has pushed firms to look for new business and markets in order to cope with cost increases. This is the central consideration in the case of the electronics and the pharmaceutical sectors. The development of new communications and cross-border restructuring has facilitated faster communications allowing for international expansion of firms seeking to exploit and consolidate competitive advantages by means of M&As. These general trends have affected some industries more than others because of sectoral specificities. Motor vehicles, telecommunications, computing, pharmaceuticals, oil, and banking are the sectors particularly affected by these trends and so unsurprisingly they account for a high portion of the value and the number of M&A deals.

The analysis conducted at a regional level has also revealed that, despite the global significance of the M&A phenomenon, some specific regional patterns emerge also, one being the desirability of U.S. targets as a result of the rapid growth of the U.S. economy and of the local availability of corporate technological competency. In Europe the introduction of the single currency and the liberalization of services within the EU and the privatization in Central and Eastern Europe have provided a great stimulus to M&As. Conversely, the EU competition policy has tended to act as a constraint, as the European Commission claims the right to investigate any merger involving a firm with a significant presence in the EU markets for the sake of competition. Asia has become involved in the M&As wave only recently as a result of the debt crisis and a rooted business culture skeptical of the rationale behind M&As. Latin American countries have been the most involved in M&As mainly as a result of the privatization of public enterprises. However, unlike M&As within the region, M&As instigated from outside the region do not seem to have been much associated with Mercosur integration, as Latin American firms were targeted by either U.S. or European companies interested in exploiting other aspects of local liberalization and other new opportunities. Conversely, Mexican companies have adopted M&As to enhance their integration in the NAFTA area and particularly in the U.S. market.

Mergers and acquisitions, understood as a global strategy of TNCs, have impacted differently on national economies when considering developed and developing countries. Within national borders, M&As can be used for the sake of domestic development and growth. In the case of developing countries, the conclusion of M&As may allow national governments to pursue development policy. In fact, the location of the new corporate entities (which are supposedly stronger than the merging partners) can be a useful tool for the takeoff of the national economy. As far as developed countries are concerned, M&As can be used to reduce or eliminate economic unbalances within national borders by encouraging the location of some affiliates of the new corporate entities in depressed regions, thus stimulating national growth.

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