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# **A Comparative Analysis of the Economic Effects of Cross-Border Mergers and Acquisitions in European Countries**

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Anita Maček

Additional information is available at the end of the chapter

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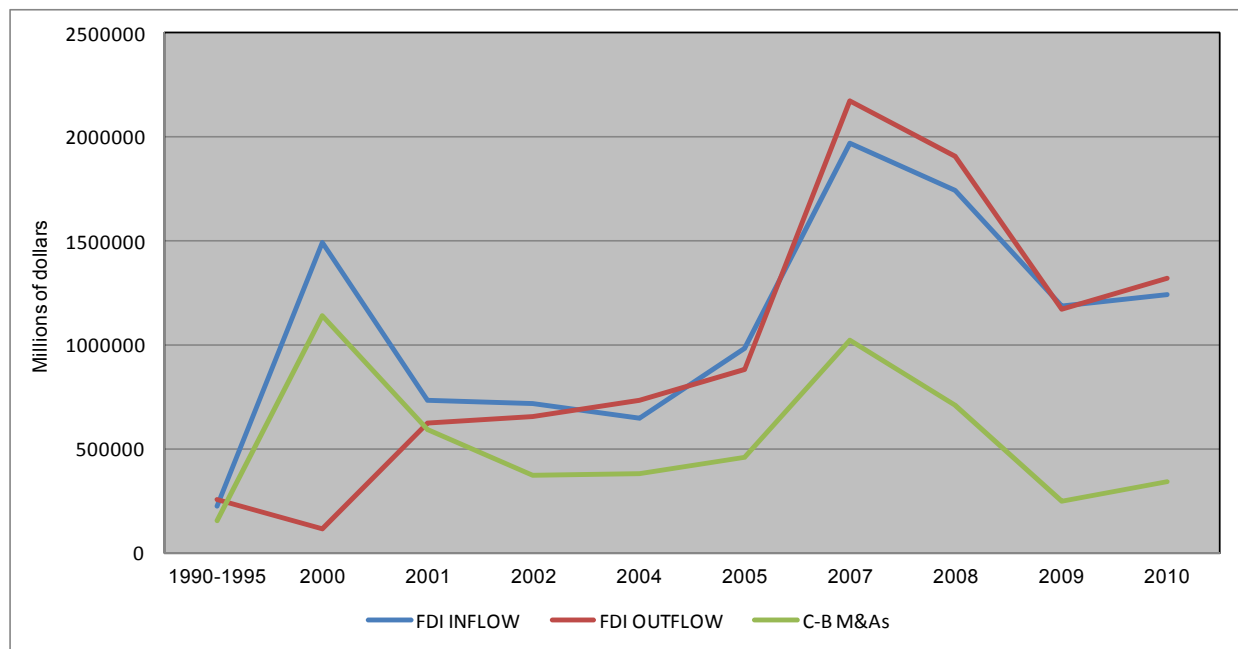
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## **1. Introduction**

International capital flows (ICF) moved very dynamically through time. Their volume changed due to different circumstances and the same applies to their forms.

Compared to the role of foreign direct investments (FDI) in international capital flows today, their role was supposedly much less prominent before the First World War. This can be attributed to differences in their evaluation then and now, while the pre-1914 concept of FDI (in today's sense) was not fully differentiated from other forms of investments in foreign companies that come from the private sector (Lipsey, 2001).

The First World War caused international confidence to plummet and the interventional policy of national governments to increase, while war debts and high reconstruction costs have caused growth of FDI inflows to overseas colonies. The main player in these processes at the time was the United States. After the Second World War, the USA also held the role of the main investor, the general climate was favourable to FDI and FDI into industry prevailed. A bigger increase of FDI volume within the framework of global ICF is evident after 1980. In the period 1983-1989, FDI increased by 29% annually. This is three times faster than global export growth (9.4% annually) and four times faster than global GDP growth (7.8% annually). The favourable climate that increased the volume of FDI was affected by the liberalisation of trade (the Uruguay Round) and on national level by privatisation and the liberalisation of investments. After 1980, the main source of outward FDI was Europe followed by the USA (UNCTAD, 1991; Lipsey, 1999). Figure 1 shows the development of FDI inflow and outflow and of cross-border mergers and acquisitions (C-B M&As) from 1990 to 2010.



**Figure 1.** The development of FDI and C-B M&As from 1990 to 2010 (Adapted from UNCTAD 2000a, 2001, 2002, 2005, 2011).

Considering the shock caused by the WTC attack in 2001, we can see that compared to 1990 global FDI settled at a high level. This is the result of the favourable FDI policy in the form of liberalisation of trade (the completed Uruguay Round), the removal of capital movement restrictions with privatisation programmes on national level and the expansion of NAFTA and the EU. Also in this period, FDI were concentrated in the more economically developed countries in three global regions – the European Union, North America and South, Southeast and East Asia (UNCTAD 2000a, 2001, 2002, 2005, 2011).

In 2000, worldwide inward FDI reached record levels of \$1,300 billion. The consequences of the 2001 terrorist attacks in the United States caused a decline in confidence and reduced the volume of FDI<sup>1</sup>. In 2003, FDI again stabilised and reached 1997 levels (about \$600 billion). In 2005, FDI already reached \$982 billion, while the main groups of economies, i.e. developed countries, developing countries and the transition economies already indicated growth trends. In 2007 (UNCTAD 2008, 3-9), global FDI already recorded \$1,970 billion. In 2008, growth was interrupted due to the economic and financial crisis. In 2008 and 2009, the volume of global FDI thus reduced. In 2008, it was reduced by 12% compared to the previous year and in 2009 by 32% compared to 2008. In 2010, the volume of global FDI began increasing and thus increased by 5% compared to 2009 (to \$1,200 billion) but was still by 37% lower than the highest volume of FDI that was recorded in 2007 (\$1,970 billion).

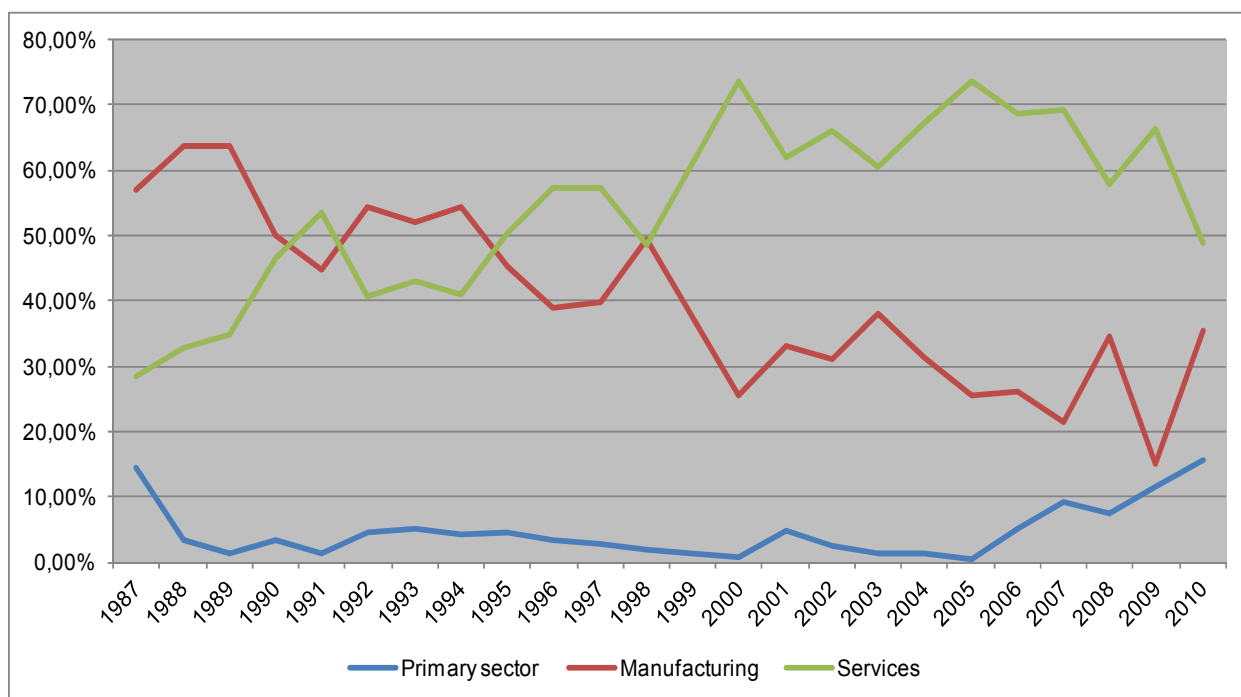
Throughout the years, the highest volume of global FDI was recorded in developed countries, while in 2010 developing and transition economies for the first time together attracted more than half of global FDI flows. International production strongly increased

<sup>1</sup> The largest decrease in the volume of FDI in 2001 was especially evident in developed countries, when FDI decreased by almost 50% (UNCTAD, 2003).

and national multinational companies played an important role in the ICF market in 2010. According to UNCTAD (2011), there were at least 650 state-owned transnational corporations in 2010, with 8,500 foreign affiliates across the globe. While they represent less than 1 per cent of transnational corporations, their outward investment accounted for 11% of global FDI in 2010.

Figure 1 also shows the development of C-B M&As within FDI. Data for this type of FDI are available from only since 1987, when C-B M&As stood at \$75 billion. In 2000, they grew to \$1,144 billion and in 2007 the value of transactions already amounted to \$1,022 billion. This value plummeted due to the economic and financial crisis and in 2010, the value of this transactions stood at \$338 billion.

The ownership and management of state-owned transnational corporations undoubtedly puts some pressure on national economic objectives and thus the economic policy of host countries (Ovin, 2003), while an additional reason for concern is provided by the increase in volume of C-B M&As and thus their share in total FDI<sup>2</sup> and the changed structure of investments of C-B M&As. Investments of C-B M&As by sector in the period 1987-2010 are shown in Figure 2.



**Figure 2.** Investments of C-B M&As by sector, 1987-2010 (Adapted from UNCTAD 2002, 2005, 2011).

Figure 2 shows that until 1994 (with the exception of 1990 and 1991) the most important investments of C-B M&As were that in manufacturing, while since 1995 there is an increase in the importance of C-B M&As in the service sector (financial services, mobile telephony,

<sup>2</sup> In 2005, C-B M&As represented a 97% share in global FDI, in 2006 this share stood at 79% and in 2007 at 89% (UNCTAD, 2008).

real-estate). The share of investments of C-B M&As in the primary sector was relatively small in the period from 1989 to 2004, while after 2005 there is an increase of investments of C-B M&As in the primary sector, especially in the oil industry. In 2010, the share of investments of C-B M&As in services stood at 49%, in industry at 35% and in the primary sector at 16%.

Increased volume of C-B M&As, investment structure of these flows and the ownership of transnational corporations by individual states represent certain pressure on the economic policies in the receiving countries and this pressure recently caused reactions of economic policy known as economic nationalism.

The first part of the proposed chapter will bring a review of the research of factors influencing the flows of C-B M&As and their impact on the economy of the host country, while the second part of the chapter will provide stylised facts with C-B M&As in European receiving countries as shown in the research Maček (2009).

## **2. Characteristics of international capital flows**

### **2.1. Factors influencing FDI flows and C-B M&As**

Discussions on factors influencing exclusively C-B M&As flows are not as frequent in literature as studies of factors influencing total FDI flows. The reasons for this lie predominantly in poorer accessibility of C-B M&As data, the fact that these transactions usually expose participants to great business risks and the political risks that the national policy is exposed to, as C-B M&As usually deal with “releasing national sovereignty” over strategically important companies or sectors. Due to the share of C-B M&As in global FDI, factors influencing FDI flows can partially be considered also as factors influencing C-B M&As flows.

Literature often mentions political risk, investment environment, infrastructure, regulatory framework, bureaucratic hurdles and red tape, judicial transparency and the extent of corruption in the host country as factors influencing FDI flows (Mottaleb, 2007, 4). Commonly mentioned factors are also the size of the host country, the country risk rating, the availability of skilled labour (Nonnemberg & de Mendonça, 2004, 2), the openness of the market and labour costs (Taylor & Francis Group, 2004; Cheng & Kwan, 2000). Bevan & Saul (2000) add gravity factors and Chen (1996) additionally stresses transportation infrastructure and research and development capability in the host country.

The factors shown by these authors are derived from empirical analyses that the authors used to check the interdependence of FDI flows and the chosen factors. For this reason, individual authors show only a set of factors that influenced the increase of FDI in a country or a group of countries in a specific period of time. A complete set of factors influencing the development of FDI can be found in the World Investment Report 1998. According to this source, factors that determine FDI flows are classified in the group of microeconomic factors (factors related to acquiring new markets, extraction of natural resources and greater efficiency), economic and political factors (the privatisation policy, international FDI

agreements, the trade policy, the fiscal policy, etc.) and factors that are related to business facilitation (investment incentives, promotion of FDI, location attractiveness, etc.) (UNCTAD, 1998, 91). The economic and political framework for FDI in the host country is an important determinant of FDI flows but liberalisation and globalisation have reduced its impact. Business facilitation has become more important and according to UNCTAD (1998), microeconomic factors hold the most important role.

As mentioned before, factors that determine FDI flows within different forms of FDI do not differ substantially, however, literature stresses two special factors in the foreign investor's decision on a "Greenfield" FDI or C-B M&As: speed and access to proprietary assets. In the sense of speed, C-B M&As represent the fastest means of building market presence, gaining market power, spreading risks or realising synergies. In order to increase proprietary assets, C-B M&As can further provide access to assets in the form of R&D, technical know-how, patents, brand names, etc. (UNCTAD, 2000a, 140).

## **2.2. Economic effects of FDI and C-B M&As**

Literature usually does not differentiate the effects for the host country by FDI forms but shows them as part of total FDI effects. Although there is empirical evidence of a partial difference in the effects of »Greenfield« FDI and C-B M&As, it has also been proven that in the long run these effects are equalised (UNCTAD 2006, 2007, 2008).

### *2.2.1. Positive and negative effects of C-B M&As*

There are several studies showing the effects of FDI in different host countries. Some relate to horizontal and other to vertical spillover effects of FDI. The findings of these studies differ. Some show positive effects (Barro, 1991; Barro & Sala-i-Martin, 1995; Lipsey, 2002; Balamoune-Lutz, 2004), other neutral effects (Kokko et al., 1996) and there are also studies indicating negative effects of FDI on domestic companies (Aitken & Harrison, 1999; etc.).

The earliest statistical analyses of FDI relate to studies by Caves (1974) and Blomström & Persson (1983), who studied the existence of spillover effects by testing the effect of foreign ownership on productivity in a domestic firm. They concluded that the effects are positive, while the same conclusions were later also drawn by Nadiri (1991), Blomström & Wolf (1994), Chuang & Lin (1999), Liu et al. (2000), Driffield (2001) and Kolasa (2008). Other studies (Estrin et al. (1997), Ikiara (2003), Torlak (2004), Stephan (2005) and Perez (2008), Lin (2008) show that FDI affect the development potential of the economy as well as reduce unemployment, affect transfer of new technologies and knowledge, generate additional tax revenue for the state, support development strategies of individual sectors, affect the development of managerial knowledge, increase engagement of local companies in supplier and subcontractor networks and generate a better utilisation of the local infrastructure and service activities. According to Borensztein et al. (1995), Pain (2001) and Neuhaus (2006), inward FDI strongly contribute to economic growth in the host country, while Alfaro (2003) believes that FDI have a positive effect only if made in manufacturing, while the results of

his study show that FDI in the primary sector tend to have a negative effect on growth. On the other hand, certain studies even prove negative effects of FDI on economic growth of the host country (Kawai, 1994; Mencinger, 2004).

The benefits of FDI are not self-evident and greatly differ among different countries. The results of Lin's study (2008, 31) show that the benefits from FDI are enhanced in an open investment environment with a democratic trade and investment regime, active competition policies, macroeconomic stability and privatisation and deregulation. The distribution of positive compared to the negative effects depends on the economic policy towards these processes and the entrepreneurial environment as well as other factors affecting their consequences. Reisen (1999) points out that positive effects of these transactions usually occur with a time lag. Cantwell (1989) and Perez (1998) believe that the occurrence and intensity of positive effects of ICF depends on the sector in which the foreign investment is entered.

It is important to know, that with unfavourable conditions, FDI can bring also negative effects. These are especially evident in the form of reducing productivity of the host country (Aitken & Harrison, 1999; Kokko et al., 1996; Aslanoglu, 2000), reducing employment (Kokko, 2006), diminished R&D intensity (Hitt et al., 1991; Blonigen & Taylor, 2000), increased concentration in the domestic market and the closing of companies (UNCTAD, 2007), shrinking of the domestic stock market because shares are being transferred to a foreign stock market (Tsang & Hauck, 2007), anti-competitive reactions of the acquired firms (Haller 2005), abnormally low sales prices of companies (UNCTAD, 2000b, 2) or eliminated competition in the domestic market (UNCTAD, 2000a; UNCTAD, 2007, 123). In their studies, Maček & Ovin (2006, 2011) stress the crowding out of domestic firms, too low prices paid for domestic companies and anti-competitive behaviour of foreign affiliates as the most common threats of C-B M&As in European countries. In recent years, negative effects often include also threats to national sovereignty and autonomy of the host country and thus losing control of strategic industries (Lin, 2008), whereby the threat of losing economic independence is especially emphasised (Kamaraj, 2008).

### *2.2.2. Differences in effects of »Greenfield« FDI and C-B M&As*

In studying differences in effects of »Greenfield« FDI and C-B M&As, literature provides studies (Li & Chen, 1998; Meyer & Nguyen, 2003; Jensen, 2003) that prove that among all forms of FDI, »Greenfield« FDI have the highest share of positive macroeconomic effects, especially as they relate to sectors where host countries do not hold sufficient growth capacities. However, it has generally been proven that the difference in effects of »Greenfield« FDI and C-B M&As is especially visible at the moment of entering the foreign market or in the short-term, while later these effects are unified (UNCTAD, 2000a, 196-198).

The differences in the effects of both forms of FDI are supposed to disappear in the long-term, as C-B M&As are often followed by additional investments of foreign bidders, which are especially substantial under the circumstances of privatisation. In the long run, C-B M&As – similar to »Greenfield« FDI – lead to increased investments and manufacturing. C-

B M&As may be followed by transfer of new or better knowledge (organisation and managerial skills), especially if wishing to improve the efficiency of the acquired company. In time, C-B M&As can also increase employment, especially if there are later additional investments made or the links to the acquired company are strengthened.

### **2.3. Real economic policy in the field of C-B M&As in the EU**

Despite the EU's endeavours, it seems that the free movement of goods, services, persons and capital between countries will not happen for some time. Past reactions of individual governments show that they do not fully trust the market activity and thus wish to improve it with their measures. By intervening in ICF, governments wish to protect the domestic labour force from the foreign labour force, reduce the deficit in the state's balance of payments and protect developing sectors or sectors of strategic importance (Salvatore, 1998; Hill, 2005).

In the last years, the countries supposedly increased control of ICF due to the negative experiences from past financial crises. The protectionism against C-B M&As was greatly enhanced by the fact that state-owned firms or firms in which the state holds a share have increasingly become the subject of acquisitions (UNCTAD, 2008). The Global FDI Policy report (Marchick & Slaughter, 2008) lists Russia, Germany, Hungary, France and Greece as countries that stand out in terms of adopting legislation that regulates FDI or C-B M&As. They mostly focus on protection from the entry of foreign investors into companies that are part of strategic industries. On the other hand, there is the United Kingdom that has received the highest amount of inward FDI in the last twenty years since the strong revival of ICF. Its liberal regulation has advanced to such an extent that a foreigner may acquire control shares of the majority of British corporations.

The research report on protectionism with respect to FDI by CMS (2008) that surveyed concrete cases and policies in 17 European countries shows that – except for the United Kingdom and the Netherlands – rules exist which discriminate against foreign investors.

Especially in 2005, 2006 and later years, we witnessed high-attention cases of protectionism with regard to foreign investments in developed countries. In 2006 for example, German Chancellor Angela Merkel stopped Russia's Sistema holding company from acquiring a stake in Deutsche Telekom. In the same year, the Italian infrastructure minister blocked plans of the Spanish Abertis to acquire the Italian motorway toll operator Autostrade. The Spanish government repeatedly and successfully blocked E.ON's bid for Endesa. Former French Prime Minister de Villepin helped in the merger between Suez and Gaz de France in order to prevent a takeover of Suez by Italy's energy company ENEL. In 2007, the Italian Olimpia began negotiations with AT&T and the Mexican operator America Movil to sell them Olimpia's stake in Telecom Italia. However, political pressures of protection against foreign investments prevented the deal to succeed. In the same year, a much-noted case was also that of the French intervention when the French government, ensuing speculation that the French bank Societe Generale would be taken over, emphasised that the bank will remain in state ownership (CMS, 2008).



The obstacles placed by the economic policy to stop FDI affect the duration of the transaction, price and subsequent development of FDI. And in the long run, hindering FDI flows can also cause a reduced FDI flow (Marchick & Slaughter, 2008).

Even though governmental interventions in individual foreign bids have in the past proven to be negative, governments still favour the idea of “national champions”, because it has the potential of benefiting them twice. Insisting on national ownership of important companies gives them positive publicity and once companies are in trouble, they provide help and appear as guardian angels (Heufers, 2008). They obviously count on the poor memory of the political market that forgets that these same companies lost their competitive edge precisely due to the extensive government support and dependence. From the economic viewpoint, the growing protectionism in the field of FDI is unfavourable, as it triggers a revolt of global capital with substantial consequences for the global economy. We must not forget that arbitration in terms of ICF is not made only on the basis of different marginal rates of return and investment security. Private investors are also searching for stable conditions that are predominantly characterised by the attitude of the real policy towards FDI and C-B M&As (Maček, 2008, 33).

### **3. Empirical study**

#### **3.1. The data, sample and method**

Studies dealing exclusively with the effects of C-B M&As on the economy of the host country are not as common as studies on total FDI, especially due to problems with obtaining data. Furthermore, they mostly focus on the analysis of individual macroeconomic or financial consequences of such processes or relate to a group of companies or sectors. While the first group of studies are too broad to be able to recognise the differences among individual groups of countries, the latter are too narrow to be able to explain and establish stylised facts. Researchers and real economic policy undoubtedly find them interesting, as they provide insight into what actually occurs in the mentioned field.

In order to be able to recognise stylised facts and eventual differences among groups of countries, we used the total analysis (Walras) in our study. Empirical facts about the experiences of individual microeconomic units or countries were thus joined on the level of a group of countries. This methodological approach allowed us to gain relevant information and obtain robust results.

Studies employing a similar methodological approach replace the lack of data on C-B M&As with interviews of government officials or journalists from individual countries (Vaara et al., 2001; EGIP, 2005; GFC/Net, 2007), where authors rely on information obtained from editors and renown journalists. They are thus exposed to risks of either biased information or lacking knowledge of the subject matter. In order to avoid these risks to the highest possible extent, the sample in our total analysis comprises scientists, professors and experts employed at European business schools. The risk of bias was reduced as deans of schools invited their colleagues to participate, whose research or pedagogical work deals with the

treated phenomenon. The respondents were to some extent included in C-B M&As or were at least very familiar with the professional and public debate in local circles and the media. When testing the size of the difference in the answers provided by professionals from the same country, there was no need to reject or exclude any of the answers from the sample used in the empirical analysis.

Our analysis was carried out with the help of a questionnaire consisting of 21 questions in the fields of effects of inward C-B M&As, government reactions and the media relation to these processes in European countries. The sample included experts from 104 business schools from the following 36 countries (the number of respondents is in parentheses): Austria (4), Belarus (2), Belgium (2), Bosnia and Herzegovina (2), Bulgaria (2), Croatia (4), Cyprus (2), Czech Republic (4), Denmark (2), Estonia (2), Finland (2), France (2), Germany (3), Georgia (2), Greece (2), Hungary (4), Ireland (2), Italy (3), Island (2), Latvia (3), Lithuania (6), Netherlands (2), Norway (2), Poland (4), Portugal (2), Romania (4), Russia (4), Slovakia (3), Slovenia (4), Spain (5), Serbia and Montenegro (2), Sweden (2), Switzerland (2), Turkey (4), UK (3) and Ukraine (4). In most parts of the research, we divided these countries into two groups: 19 developed countries and 17 transition countries. The criteria used for this separation were the nature of their systems and national policies before 1989.

For statistical analysis the program SPSS-X for Windows and Microsoft Excel were used. This chapter uses frequency distribution to present the obtained answers on the effects of C-B M&As and the reactions of governments to these processes. In individual questions, we used an independent sample t-test for analysing the existence of statistically significant differences between the answers provided by the respondents from developed and transition countries.

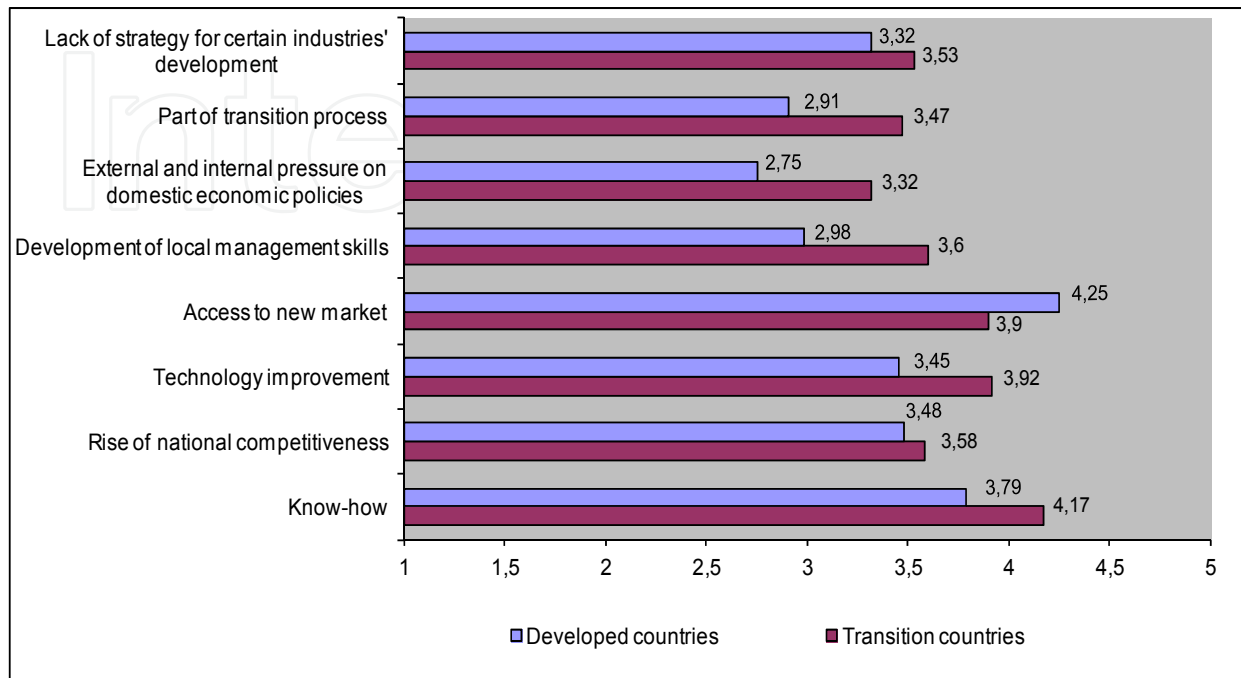
### **3.2. Analysis of effects of C-B M&As**

Within the framework of effects of C-B M&As, we initially verified the positive expectations of the respondents for the upcoming C-B M&As in their country. The results are shown in Figure 3.

The results show that the respondents from developed countries expect C-B M&As to bring access to new markets, while the respondents from transition countries mostly stressed know-how transfer as expected benefits of C-B M&As. Globally speaking, almost all answers received higher scores from respondents from transition countries, who gave the average score of under 3.5 only to external and internal pressures of foreign investors on domestic economic policies in order to be able to act more efficiently and transparently in the field of investments. The only benefit that the respondents from developed countries evaluated higher than the respondents from transition countries was access to new markets. The respondents from developed countries graded the majority of other benefits under 3.5, which shows that in European developed countries positive evaluations of C-B M&As predominantly relate to factors of market expansion.

Relative to the expectations from developed countries, the anticipated positive effects of C-B M&As in transition countries are mostly the support to the transition process, external and

internal pressure of foreign investors on domestic economic policies, the development of management skills and technology improvement. These expectations mirror the most important transition objectives, which allows us to conclude that the professional public in the countries from our sample sees C-B M&As as an important instrument of transition.



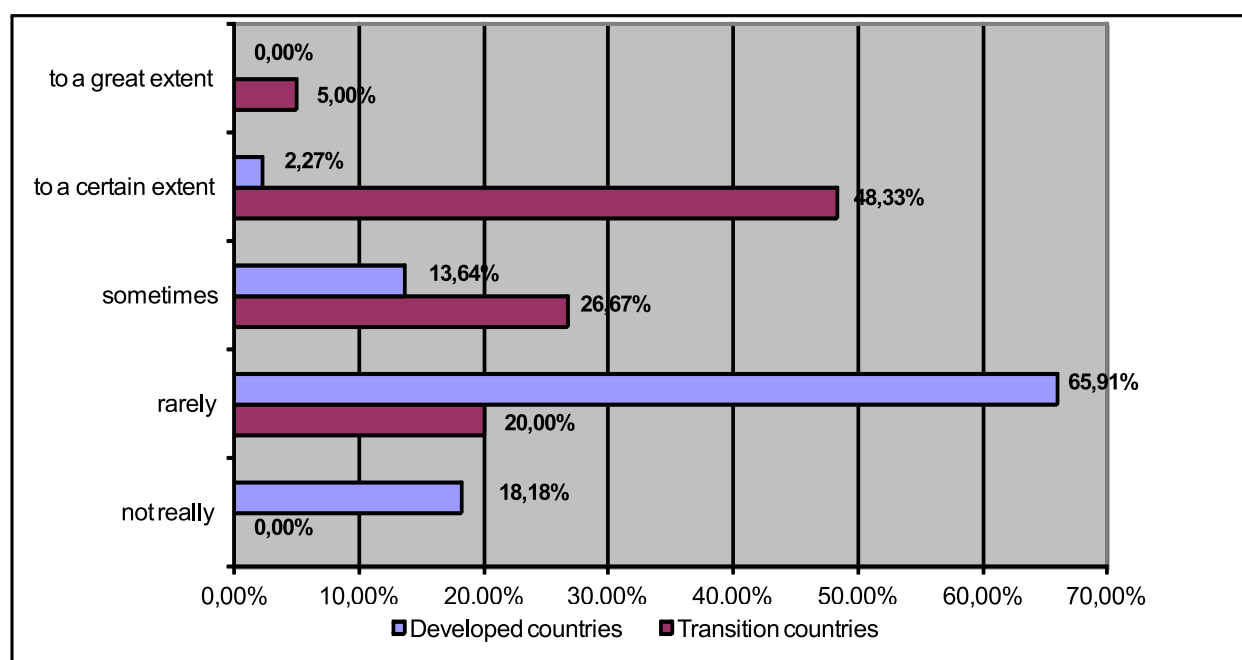
**Figure 3.** Positive expectations for the upcoming C-B M&As

Technology improvements in the form of anticipated benefits of C-B M&As are emphasised more in transition countries, which corresponds to Lall's (2002) findings, who stressed that technology improvement as a result of C-B M&As was especially evident in countries, where technology levels were low prior to the foreign investment. The difference in the role of technology improvement in transition countries compared to developed European countries also needs to be stressed. In the first, the function of closing the gap to the developed countries is stressed, while in the latter it mainly contributes to consolidating strategic industries<sup>3</sup>. Second to technology improvement, the respondents see the development of managerial skills, support for strategy of individual industries and rise of national competitiveness as benefits of C-B M&As. There are no significant differences in the answers on these benefits between the two groups of countries; however the respondents in transition countries do evaluate them slightly higher. Both groups of countries expect C-B M&As to bring benefits in the form of support to the transition process, which can be attributed to the fact that with dynamic growth, as a characteristic of transition, C-B M&As appear both in developed and transition countries. As the least important anticipated benefits of C-B M&As, the respondents state benefits in the form of external and internal pressures on domestic economic policies, which are more expected in transition than in developed countries due to the transition process. The results of questions on the

<sup>3</sup> A typical example is the consolidation of military vehicles industry in Europe (see Baumann, 2003).

anticipated benefits of C-B M&As in the future correspond to the results of numerous studies where authors proved benefits of C-B M&As. According to Davis et al. (1993), the reason for C-B M&As lies in market entry, while Bertrand & Zitouna (2006), Bertrand & Zuniga (2006) see the main contribution of C-B M&As to be in know-how transfer, increased productivity and development of R&D facilities. According to Finkelstein (1999), the positive effect of C-B M&As is noted especially in technology development to which Neto et al. (2008) added know-how transfer and Gallagher & Zarsky (2006) the development of managerial skills. A comparison of results provided by our empirical analysis with other often quoted studies thus shows realistic expectations of the professional public concerning the benefits that C-B M&As are supposed to bring.

The next segment shows answers to the question to what extent have C-B M&As influenced privatisation income in the host country. The results are shown in Figure 4.



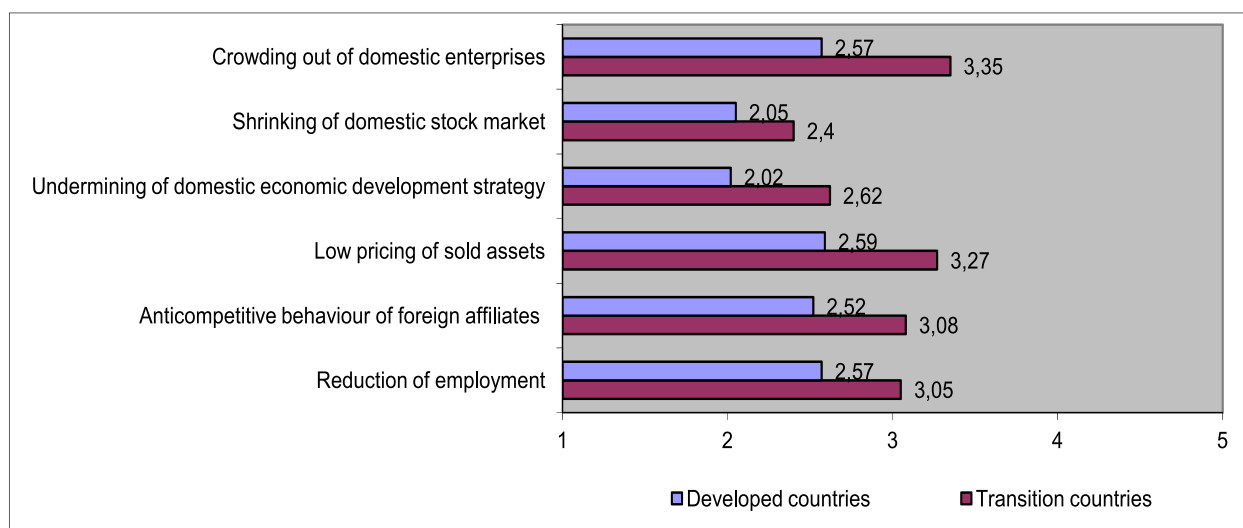
**Figure 4.** Contribution of C-B M&As to privatisation income

The Figure 4 shows that privatisation income increased more in transition countries. The distribution of answers in the two groups of countries shows some differences in answers. While approximately 84% of the respondents from developed countries believed that these processes did not contribute to the increase of privatisation income, only 2% believed that the contribution was substantial. On the other hand, the distribution of answers in transition countries shows a relation of approximately 20% to 53%. The result of testing the statistically significant difference in answers obtained from both groups of countries shows a statistically significant difference at the 0.000 significance level ( $t$  value = -9.328, 102 degrees of freedom).

We believe that the higher increase of privatisation income due to C-B M&As in transition countries is present, as these are countries with a prevailing privatisation model, where a substantial share of state property has been allocated to residents and mutual funds that did

not produce any privatisation property. In this sense, the increase of privatisation income with limited domestic sales in these countries was understandably larger. The actual volume of the increase of income was also affected by the actual volume of C-B M&As in an individual country. The respondents in transition countries with a lower share of inward C-B M&As thus noted that the increase of privatisation income due to C-B M&As was small. The results of our empirical analysis are comparable to the study by Calderon et al. (2004) that empirically proved the increased volume of C-B M&As particularly in countries undertaking privatisation of public enterprises.

As mentioned in the previous chapter, C-B M&As can also bring threats or risks to the host country. Studies show (Hitt et al., 1991; Benacek 2000; Blonigen & Taylor, 2000; Tandon, 2000; Haller, 2005; Johnson, 2005; Tsang & Hauck, 2007; UNCTAD, 2007; Kamaraj, 2008) that typical risks of C-B M&As comprise anti-competitive behaviour of foreign affiliates, diminished R&D intensity, the closing of companies, diminished competition on the domestic market, reduction of employment, too low prices paid for domestic companies with regard to the market price, the shrinking of the national stock market because shares are being transferred to a foreign stock market and endangering economic objectives of an individual country. The threats that can most often be noted in literature were verified in our empirical analysis. The results are shown in Figure 5.



**Figure 5.** Realised threats of C-B M&As

With regard to the total average score, the greatest threat of C-B M&As represent the crowding out of domestic enterprises and too low prices paid for domestic companies. In these terms, the lowest threat is the shrinking of domestic stock market and undermining of the domestic economic development strategy.

There are individual differences in the classification of threats between developed and transition countries. The main difference is that in answers provided by respondents from developed countries all realised threats have been evaluated under the mean value (i.e. 3), which means that they were rarely present. In transition countries, only two out of six

threats were below mean value. The respondents from transition countries gave an above the mean value to threats of the crowding out of domestic enterprises, too low prices, anti-competitive behaviour of foreign affiliates and reduction of employment. Even though the values did not substantially exceed mean values, they still indicate that the mentioned threats are more often realised in transition than in developed countries. On the other hand, the results shown in transition countries indicate the effect of globalisation and increased volume of C-B M&As on the professional public, which has started to accept these processes as a tool of privatisation and economic restructuring that as such have to happen.

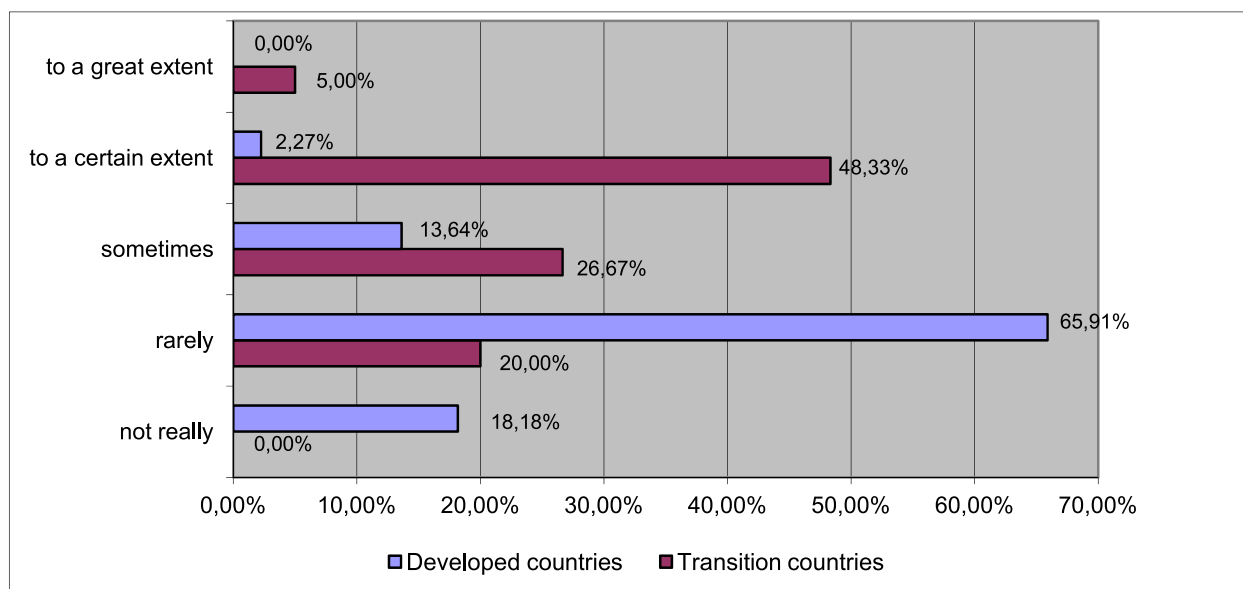
The less exposed threats of C-B M&As in developed countries indicate that better developed financial markets and a favourable entrepreneurial environment in these countries enable a reduction of negative consequences of C-B M&As, however such deliberations of professionals on the other hand do not confirm the beliefs of governmental representatives which we can witness in real policies of preventing takeover bids, especially in developed European countries (see Subchapter 2.3).

Comparing the obtained results with the results of Available from studies, we can notice a larger perception of threats in terms of C-B M&As in transition countries, even in the study by Gallagher & Zarsky (2006). They proved that negative impacts of these processes are usually present in poorer and less developed countries. The results of the empirical analysis are also similar to the results of Lall's study (2002) that has proven that the threat of crowding out of domestic firms because of C-B M&As, which the respondents in our empirical analysis mostly ranked the highest, can happen in all countries regardless of the development level if the foreign firm has privileged access to local factors (capital and skills) relative to local competitors.

The respondents in our study did not especially stress the threat of reduction of employment because of C-B M&As, which is often the subject of discussion in literature (UNCTAD 2007). This allows us to conclude that the professional public is aware that the threat of reduction of employment can occur at the time of entering a foreign market, especially as C-B M&As do not open new production capacities. In the long run, once an acquired company strengthens its market position, C-B M&As can contribute to increased employment in the host country.

Within the framework of effects of C-B M&As, we also checked the frequency of the threat of asset stripping and closing of companies due to C-B M&As, which was especially stressed by Lall (2002, 7) as a consequence of these processes. The results are shown in Figures 6 and 7.

As seen in Figure 6, the threat of asset stripping and closing of firms due to C-B M&As was realised only in individual cases, which is also indicated by the total mean value that is close to the mean value standing at 3.12. The table shows that the answers substantially differ in both groups of countries. On the one hand, about 7% of the respondents from developed countries believe that this did not happen and approximately 32% believe that it happened often or even very often. Among the transition countries, the first result stands at approximately 3% and the second at 43%. The difference in the answers between both groups of countries is not statistically significant.



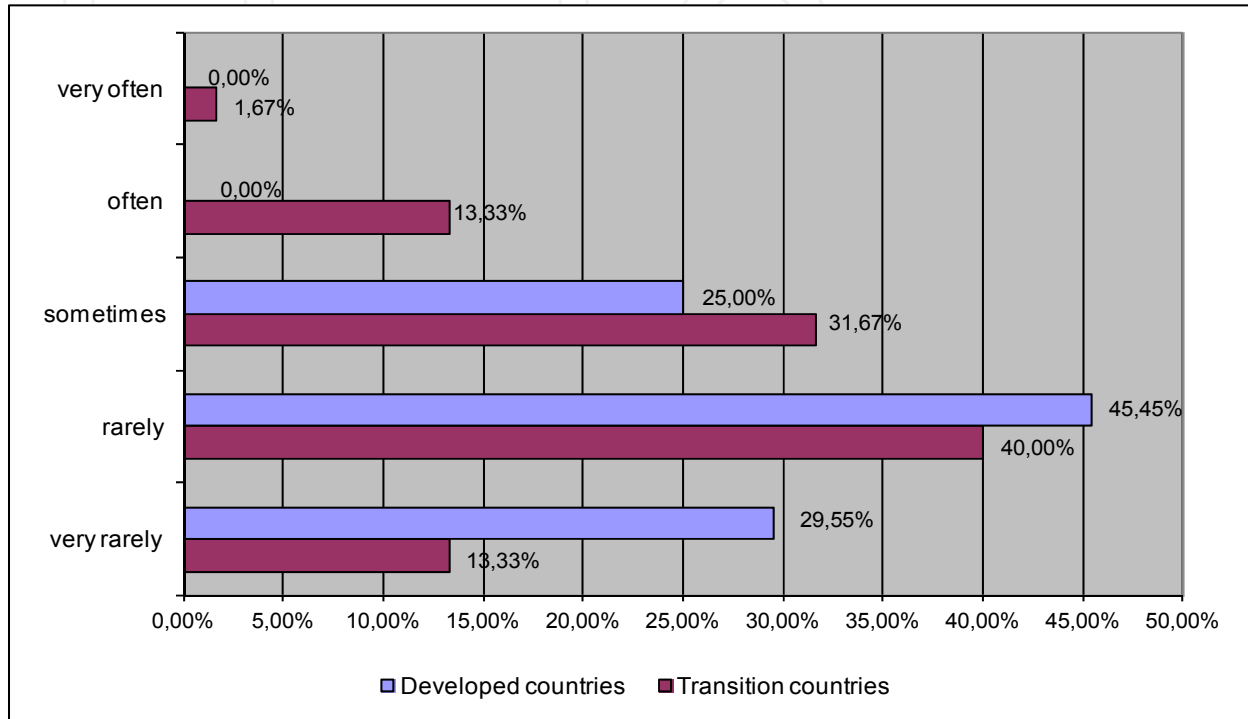
**Figure 6.** Have C-B M&As caused asset stripping and closing of firms?

The threat of closing R&D facilities because of C-B M&As was realised to an even smaller extent than the previous threat. Different authors have proven the effect of C-B M&As on R&D facilities in different ways. While Hitt et al. (1991) stressed the reduced volume or closing of R&D facilities as a highly likely consequence in the event of C-B M&As, Bae & Seungwook (2001), Cassiman et al. (2005) Bertrand & Zuniga (2006) have shown that the effect of C-B M&As on the R&D department is positive and a consequence of continual investments of foreign investors in these departments. The authors believe that in evaluating this effect, we need to consider that the foreign acquisition of a company changes the R&D department's function in such a company. It often happens that prior to the foreign acquisition the domestic company used the R&D department predominantly to support local products or to adapt its products to the market, while once a foreign owner enters, the R&D department is specialised to become a department for shaping knowledge and ideas. The extent to which C-B M&As have caused the closing or reduction of R&D facilities is shown in the figure below.

The figure shows that the mentioned threat was not a very often one in our sample of countries and it appeared more often in transition countries. In developed countries, 75% of the respondents said it happened rarely or very rarely, while respondents from transition countries gave different answers. 15% of the respondents believed that it happened often or very often and 40% believed that it rarely happened. The difference in the answers provided by the respondents from developed and from transition countries is statistically significant ( $t = -3.165$ , 102 degrees of freedom).

The presented results show that the professionals comprising our study sample predominantly hold a positive view of C-B M&As and also see these processes as a component part of opening and growth of host countries. On the other hand and as mentioned before, the reactions of the real economic policy on C-B M&As (some examples are presented in

Subchapter 3.2) show the anxiety of individual countries that as a consequence of successful acquisitions their influence in individual activities and the economy in general could diminish. Even though we can speak of a dominance of supply side economics in 2008, it is also clear that each opening results in a reduced influence of national politics. This also results in reduced control of politics over the realisation of economic objectives that the national politics are interested in, as their political term depends on their realisations.



**Figure 7.** Have C-B M&As caused ceasing of R&D facilities?

Greater emphasis on economic effects and their consequences for the growth of the national economy that was placed by the professional public comprising our study sample shows that economic objectives – even those that are related to social balance (a high employment rate, dynamic growth of the number and size of national companies) – are not a priority of experts. This allows us to explain their more open attitude towards C-B M&As. However, we also need to consider the asymmetry of information Available from to professionals and to the politicians. While the industry is included in individual C-B M&As projects, especially in the role of advisors, members of supervisory boards or researchers that evaluate these processes on the basis of statistical data or as evaluators of practices that they learn about from the media, the politics on the other hand has access to inside information about the majority of C-B M&As but usually also possesses partially lacking knowledge about C-B M&As and their short-term and long-term effects.

### 3.3. Analysis of governmental attitudes towards C-B M&As

As noted previously, despite the increased trend of liberalisation of ICF, there have been numerous governmental interventions in recent years when dealing with C-B M&As.



Politicians usually justify these interventions with the argument that they are protecting a “national champion” (Kekic, 2006, 6) that a foreign company should not acquire because of strategic interests of the host country. However, we are dealing with the fear that a completely open market would result in loss of control over the country’s strategic industries (Lin, 2008). Governmental interventions in ICF processes can take different forms. On the one hand, there are extreme interventions with governments publishing a list of sectors that are closed to foreigner investors, as was seen in France and Germany (Yased 2007). On the other hand, there are also mild interventions where governments are being included in C-B M&As with the aim of increasing the positive effects of these processes and a complete liberalisation of these processes, which means that they are left to the laws of the market.

In light of the notable role that the EU has already realised in the liberalisation of C-B M&As, we were in our study interested in the respondents’ opinion on the role that the EU and the state should play in further liberalisation of these processes. The total mean score (3.65) shows a slightly more prominent role of the EU in further liberalisation of such process but the opinions of experts are split. Individual respondents from transition countries believe that this field should be fully regulated by the state (3.3%) or that the state needs to regulate individual cases of these processes (8.3%), while we cannot find advocates of a consistent state control over these processes in developed countries. 13.6% of the respondents from developed countries believed that the state should have a visible role. Literature and the media (Dixon, 2004; Gordon, 2006; Dempsey, 2006; Ahearn, 2006; Capron & Guillen, 2006; EUROMOVE, 2006) show that countries defend their “national interests”, so we assume that in this case the respondents probably referred to the inclusion of an individual country in the field of protecting the country’s firms from strategic industries. This is also shown by studies published by Wruuck (2006), OECD (2007) and Lin (2008), which stress fear of losing control over strategic industries due to C-B M&As.

It is interesting that the respondents in our empirical analysis expect a greater role to be played by the EU in overcoming obstacles of C-B M&As (the mean value of answers given by respondents from transition countries stands at 3.47 and of those from developed countries at 3.91). This shows the difference between the viewpoints held by the professional public on the one hand and the real governmental policy on the other. In order to corroborate this claim, we specifically analysed the difference between the viewpoints expressed by the professionals in our empirical analysis and the real policy of European governments in developed countries. The real policy of developed countries towards these processes was shown in Subchapter 3.2. We here considered not only the CMS (2008) study and the report by Marchick & Slaughter (2008) but also the Directive on Takeover Bids. The Directive on Takeover Bids was adopted only in 2004 following indecisive support of the member states and after more than 17 years of coordination and negotiations (Wymeersch, 2008). For it to be adopted, it was important to allow the member states that upon transferring this legislation into their national legal system, they are allowed to keep antitakeover defence mechanisms. The CMS (2008) study and the report by Marchick &

Slaughter (2008) relate to concrete cases on interventionism of individual countries and clearly show the defence policy of developed host countries when dealing with C-B M&As in strategic industries. From the viewpoint of the professional public, as our study has shown, we have their viewpoints on the role of the EU in overcoming obstacles to C-B M&As. The mean value of the importance of the EU in overcoming obstacles to ICF obtained from respondents from European developed countries was rather high (3.9), so we believe that this result clearly shows the difference between the viewpoints of the professional public on the one hand and the real economic policy of the same countries on the other. In transition countries however, there are not so many relevant cases of governmental interventions in these processes in terms of real policy. Comparing both groups of countries, the cases presented under 3.2 show a major difference between real economic policy towards these processes. On the other hand however, even though the difference in the answers provided by the professional public from transition countries is statistically significant ( $t = 2.291$ , 102 degrees of freedom), the previously stated allows us to claim that the difference is smaller on the level of the professional public than on the level of the real economic policy.

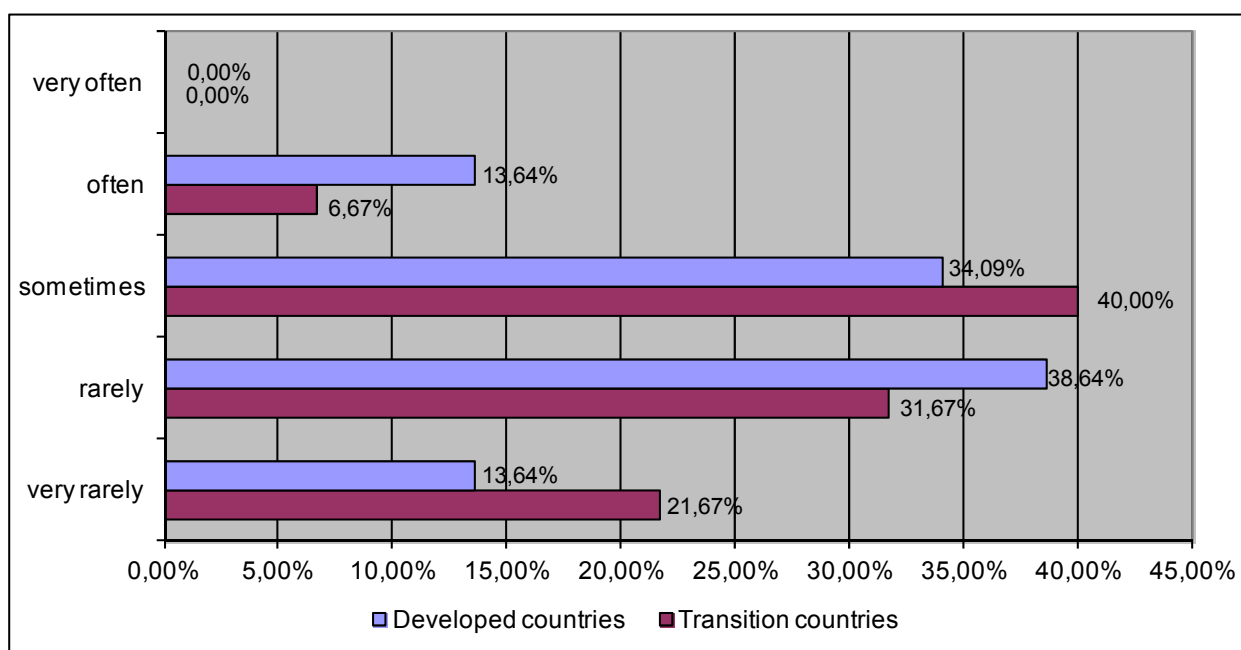
Our study verified the attitude of the government towards C-B M&As with three questions. We were interested in the frequency of governmental actions in order to increase positive effects of C-B M&As, the frequency of governmental interventions in C-B M&As in order to protect the national economy and shareholders and the opinion of the professionals on the need for governmental interventions in order to protect strategically important sectors.

Governmental activity in order to increase positive effects of C-B M&As turned out to be very rare according to our respondents. More detailed results are evident from the figure below.

As evident from Figure 8, average answers prevail together with answers depicting governments as being inactive. Comparing answers from both groups of countries, we can note that it was the governments of developed countries that more often intervened in C-B M&As in order to increase positive effects. In a sense, this is probably due to the dimension of effects of C-B M&As on the economic structure of developed countries, but 13% is still not a sufficient share with regard to all the respondents in order to be able to claim such a fact. The independent sample t-test did not show a statistically significant difference in the answers from both groups of countries.

Politicians justify numerous governmental interventions with protecting shareholders and domestic companies. FDI can positively affect shareholders when the acquired company and the acquiring company record large profits. Results of different studies (Hughes 1993; Alberts & Varaiya, 1989) however indicate that this rarely happens. A negative effect of C-B M&As on shareholders might be due to the fact that the management of the acquiring company pays a premium for protecting the acquisition, while in cases of dispersed ownership with numerous stockholders, control over the work of management is not possible. For these reasons, in his study published already in 1989, Caves proposed

governmental interventions to protect shareholders in the event of C-B M&As (Caves, 1989). In our study, the provided answers on the frequency of governmental interventions in order to protect the national economy and shareholders have shown very different reactions of governments in this field. Limit values have a very similar distribution, which is especially evident in transition countries where approximately 18% of the respondents did not remember any such interventions, 22% remembered very few and 33% remembered many or a lot. The respondents from developed countries answered mainly in the direction of the government's inactivity in this field, but the shares of answers are again unevenly distributed along the Likert scale. 43% of the respondents stresses that there were no interventions or that they were very rare and 32% remembered such interventions. The independent sample t-test did not show a statistically significant difference in the answers from both groups of countries.

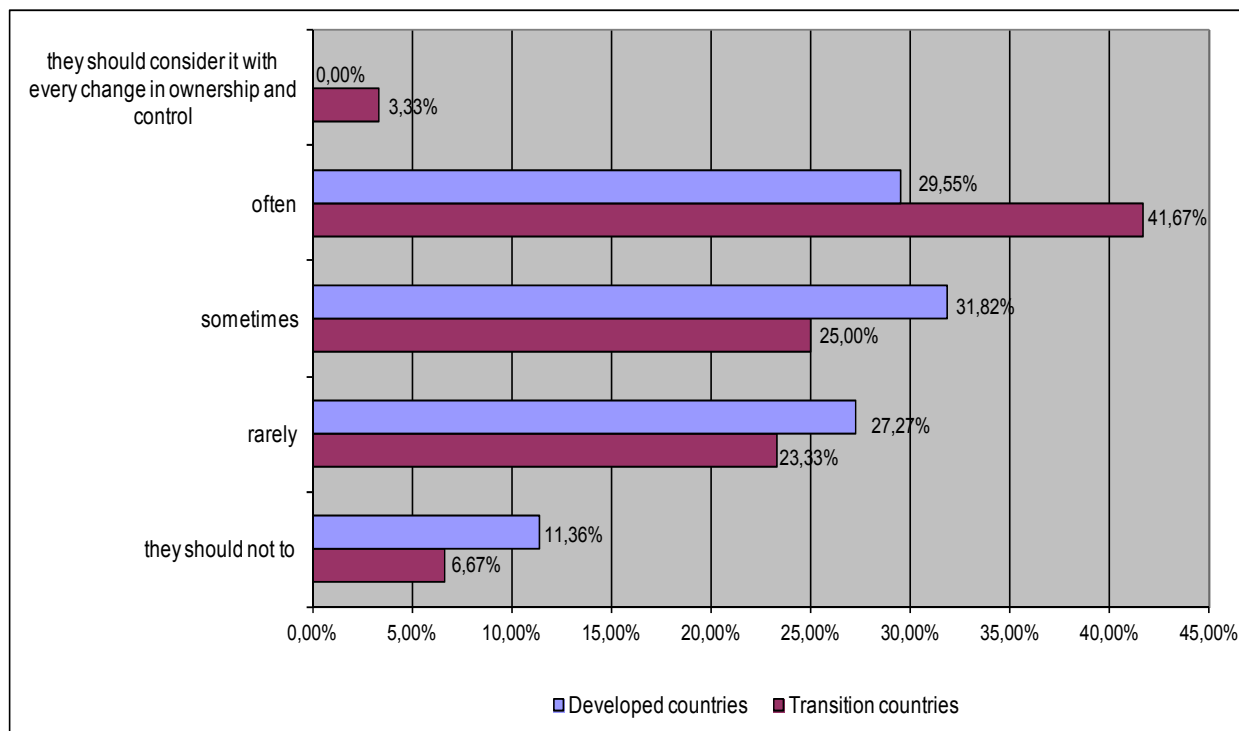


**Figure 8.** Specific policy measures

The last question in the set aiming to define governmental attitudes towards these processes looked into the opinion of the professional public about the needs for governmental interventions in host countries when C-B M&As occur in industries that are of great importance to the country.

As seen in Figure 9, the opinions of the professional public differ, however the prevailing consensus is that only chosen sectors have to be protected. 11% of the respondents from developed countries believe that the government should not control even the most important sectors. 29% believes that the government can exercise control in the majority of cases. In transition countries, more precaution was shown and governmental interventions in C-B M&As were more stressed in cases where protection of important strategic sectors is concerned. The difference in the answers between both groups of countries is not statistically significant.

The absence of statistically significant differences in the answers between both groups of countries in verifying governmental reactions to C-B M&As again shows that the difference in how these processes are evaluated in the two groups of countries is smaller on the level of the professional public than on policy level.



**Figure 9.** Should countries try to exercise policy measures so as to hinder changes in ownership and control in the most important sectors and companies?

#### 4. Conclusion

The results of the empirical analysis stress the emphasis of positive effects of cross-border mergers and acquisition in European developed and transition countries. The professional public believes them to occur mostly in the form of access to new markets, technology improvements and know-how transfer. On the other hand, the professional public also points to certain threats of such processes, especially in the form of crowding out domestic firms, low pricing of sold assets and anti-competitive behaviour of foreign affiliates.

As the benefits have nevertheless been stressed more than threats, we can claim that the cases noted in real economic policy towards these processes show that there is a difference between the viewpoints of professionals and the measures of real economic policy. The viewpoints expressed by professionals do not show nearly as much guard as the reactions of the real economic policy when foreign bidders enter domestic industries and companies of strategic importance.

This difference between the professional public and politics is especially evident in European developed countries. They also stressed positive effects of C-B M&As over the

negative ones. Such a result was however anticipated, as in the case of developed countries we are dealing with an economic environment and an infrastructure that is able to utilise more spillover effects with such investments. But when discussing the effects of international capital flows on national economic objectives, we can on the other hand see that the primary interest of the governments lies in protecting objectives such as full employment and maintaining the domestic economic competition. This is why developed countries are usually less inclined to foreign investments if they deal with increased foreign control in sectors that are important for the most important economic objectives. Actual examples of interventions in C-B M&As in the past allow us to conclude that the real economic policy is in contradiction with the rational evaluation of the effects of C-B M&As as seen in the professional public in our empirical analysis.

## Author details

Anita Maček

*DOBA Faculty of Applied Business and Social Studies Maribor, Slovenia*

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