

CROSS BORDER MERGERS AND ACQUISITIONS – AN OVERVIEW OF THEIR EVOLUTION AND TRENDS

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Abstract

The paper aims to explore the world of cross-border mergers and acquisitions (M&As), in order to capture the dynamic image of a global picture encapsulating a quarter of century (1990-2014) of evolution – mostly by analyzing the UNCTAD's data on the subject. The research goals are to identify the main evolutions and trends of the cross-border M&As, on one hand, and to set the backgrounds for future research on the field, on the other hand – considering that the participants to this process, their motivators, specific choices and strategies, as well as their main challenges and expected outcomes are continuously changing, asking for more and more refined and sophisticated approaches.

Key words: *cross-border merges and acquisitions (M&As); complexity; strategy*

JEL classification: F01, G43, C46

1. Introduction

Basically, from the strategic management perspective, “a merger describes the joining of two independent companies to form a combined entity. (...) An acquisition describes the purchase or takeover of one company by another. (...) The main reasons (behind the M&As are:) to gain access to new markets and distribution channels; to gain access to a new capability or competency; to preempt rivals” (Rothaermel, 2015). According to Mergermarket (2016), the value of global M&A has reached \$4.28 trillion in

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2015, registering a 30.4% growth rate comparing to 2014. More than that, “global mergers and acquisitions were at an all-time high in 2015 (...), 16.6 percent more than the previous peak in 2007” (Goenka, 2016).

Given their expansion into an increasingly complex and globalized economic world, a growing body of literature on M&As has emerged, while a variety of approaches has revealed the multiple valences that characterize M&As. Thus, Cartwright and Schoenberg (2006) are examining “thirty years of mergers and acquisitions research (in order to reveal) recent advances and future opportunities”; Rossi and Volpin (2004) “study the determinants of mergers and acquisitions around the world by focusing on differences in laws and regulation across countries”; Auerbach, (2008) is concerned about “what causes mergers and acquisitions, and how do they affect the economy”; by embracing “an integrated and international perspective”, Sudarsanam (2003) analyses the challenges of “creating value from mergers and acquisitions”; Datta, Pinches and Narayanan (1992) are searching for “factors influencing wealth creation from mergers and acquisitions (through) a meta-analysis.

On the other hand, due to the global vocation of the phenomenon, the literature on cross-border M&As is focused on: emphasizing the role of M&As in industrial globalisation (Kang and Johansson, 2000); emphasizing the “global and regional perspectives” of cross-border M&As (Hopkins, 2002); revealing the “theoretical foundations of cross-border mergers and acquisitions: a review of current research and recommendations for the future” (Shimizu et al., 2004); identifying the “determinants of cross-border mergers and acquisitions” (Erel, Liao and Weisbach, 2012); emphasizing the “determinants of European cross-border mergers and acquisitions” (Manchin, 2004); analysing “the role of human resource management in cross-border mergers and acquisitions” (Aguilera and Dencker, 2004); evaluating the “implications of cross-border mergers and acquisitions by TNCs in developing countries” (Lall, 2002); examining “the cultural integration in the process of cross-border mergers and acquisitions” (Zhu and Huang, 2007).

Although extremely complex, the theoretical aspects concerning cross-border M&As (specific approaches and concepts, main actors and their roles, determinants and consequences of different strategic choices, and so on) will be put on hold for now (for future research); in order to reach its goals, the paper will only refer further on to the UNCTAD’s (2015) definitions, methodology and data: “*Cross-border M&A sales* are calculated on a net basis

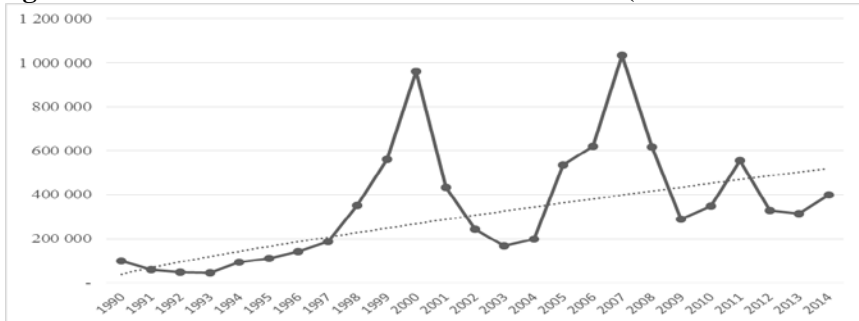
as follows: Sales of companies in the host economy to foreign TNCs (-) Sales of foreign affiliates in the host economy. The data cover only those deals that involved an acquisition of an equity stake of more than 10%. Data refer to the net sales by the region/economy of the immediate acquired company”. “*Cross-border M&A purchases* are calculated on a net basis as follows: Purchases of companies abroad by home-based TNCs (-) Sales of foreign affiliates of home-based TNCs. The data cover only those deals that involved an acquisition of an equity stake of more than 10%. Data refer to the net purchases by the region/economy of the ultimate acquiring company” (UNCTAD, 2015).

2. Cross-border M&As – a snapshot for a quarter of century of history

2.1. Value of cross-border M&As 1990-2014

According to UNCTAD’s cross-border M&A database (2015), the *value of cross-border M&As* has increased more than four times (4.068 times, to be specific) between 1990 and 2014 – from \$98,050 million to \$398,899 million, registering an average value of \$348,844 million per year. But this dynamic is far from being steady (see Figure 1): excepting the two peaks (around \$1 billion), which were registered in 2000 (\$959,681 million) and 2007 (\$1,032,689 million) respectively, the value of cross-border M&As has surpassed \$600 million only in 2006 (\$619,809 million) and 2008 (\$1,032,689 million).

Figure 1: Value of cross-border M&As 1990-2014 (Millions of dollars)



Source: (UNCTAD, 2015)

Figure 2: Value of cross-border M&As by region/economy of seller, 1990-2014



Source: (UNCTAD, 2015)

Figure 3: Value of cross-border M&As by region/economy of purchaser, 1990-2014



Source: (UNCTAD, 2015)

If taking a closer look at these transactions, one can find the inner dynamics that characterize not only the general framework, but also its structural changes – in terms of contributions to the cross-border M&As – by both region/economy – developed economies, developing economies, transition economies and unspecified (see Figure 2 and Figure 3) and sector/industry – primary, manufacturing and services (see Figure 4 and Figure 5).

Although the relative dominance of the developed economies is indubitable during the entire time period – both as sellers and purchasers, the exponential growth of the value, as well as the increasing contribution of the developing economies to the value of cross-border M&As transactions are

also absolute facts – which not only confirm, but also accentuate the growing complexity of the global economy.

Figure 4: Value of cross-border M&A sales, by sector/industry, 1990-2014



Source: (UNCTAD, 2015)

Figure 5: Value of cross-border M&A purchases, by sector/industry, 1990-2014



Source: (UNCTAD, 2015)

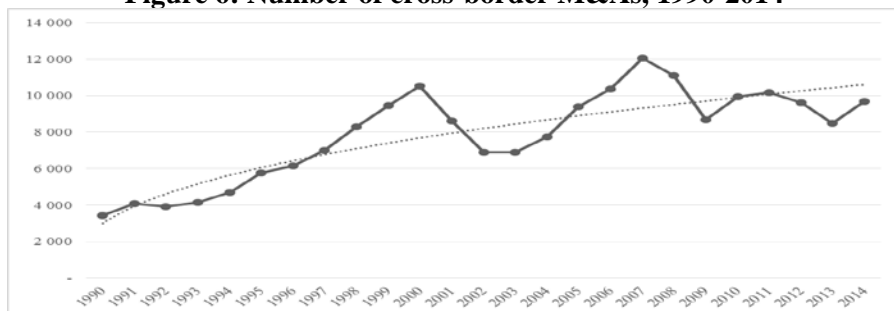
As regards the value of cross-border M&As transactions by sector/industry, the dynamics are quite impressive and volatiles; although, a comparison based on annual average values (even if is not the most conclusive one) reveals that to the annual average of \$348,844 million it corresponds: (a). in terms of value of cross-border M&A sales, by sector/industry, annual averages of: \$33,649 million for primary; \$110,477 million for manufacturing; and \$204,718 million for services; (b). in terms of value of cross-border M&A

purchases, by sector/industry, annual averages of: \$27,520 million for primary; \$97,812 million for manufacturing; and \$223,512 million for services.

2.2. Number of cross-border M&As 1990-2014

During the same quarter of century (1990-2014), the *number of cross-border M&As* has almost tripled (it has increased by 2.816 times), from 3,442 transactions in 1990 to 9,696 transactions in 2014, following a quite similar pattern of evolution in waves as the value of cross-border M&As has experienced (see Figure 6).

Figure 6: Number of cross-border M&As, 1990-2014



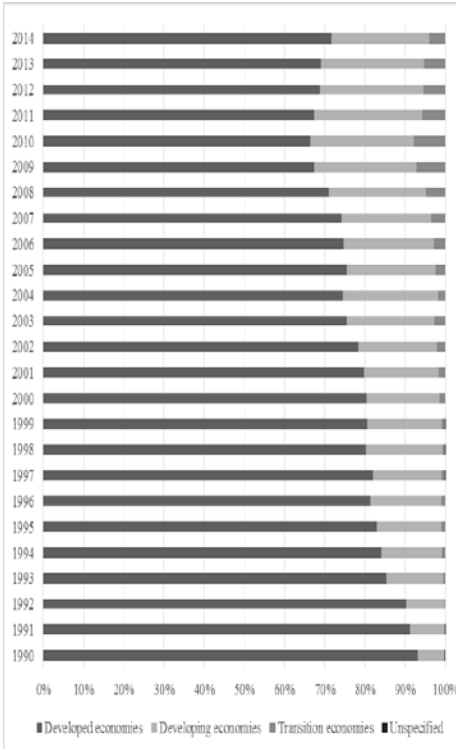
Source: (UNCTAD, 2015)

If considering the structure of these M&As – by region/economy of seller and purchaser (see Figure 7 and Figure 8), as well as by sector/industry (see Figure 9 and Figure 10), the contributions are consistent with those abovementioned when analyzing the value of cross-border M&As.

During the analyzed period of time, the dynamics registered by the number of cross-border M&As by region/economy of seller is strongly dominated by the contribution of the developed economies – there are only five years when their contribution is under 70%; the situation is even more categorical if looking at the number of cross-border M&As by region/economy of purchaser – there is no year with an under 70% contribution of the developed economies. Although, the developing economies have experienced a significant growing tendency as regard both the number of cross-border M&As by region/economy of seller and the number of cross-

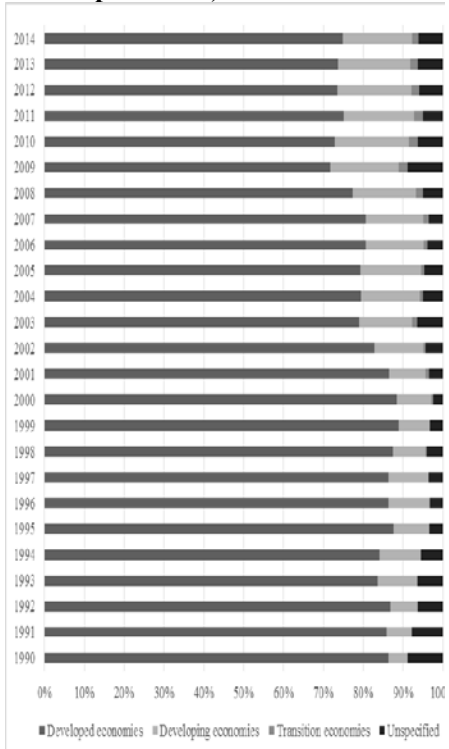
border M&As by region/economy of purchaser. The contribution of the transition economies is quite modest in both cases.

Figure 7: Number of cross-border M&As by region/economy of seller, 1990-2014



Source: (UNCTAD, 2015)

Figure 8: Number of cross-border M&As by region/economy of purchaser, 1990-2014

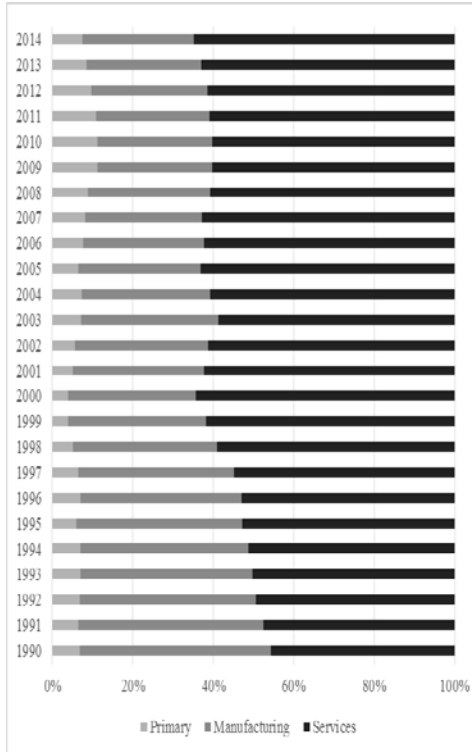


Source: (UNCTAD, 2015)

The comparison based on annual average number of cross-border M&As reveals that, to the annual average of 7,887 transactions it corresponds: (a). in terms of number of cross-border M&A sales, by sector/industry, annual averages of: 584 transaction for primary; 2,595 transaction for manufacturing; and 4,708 transaction for services; (b). in terms of number of cross-border M&A purchases, by sector/industry, annual averages of: 439 transaction for

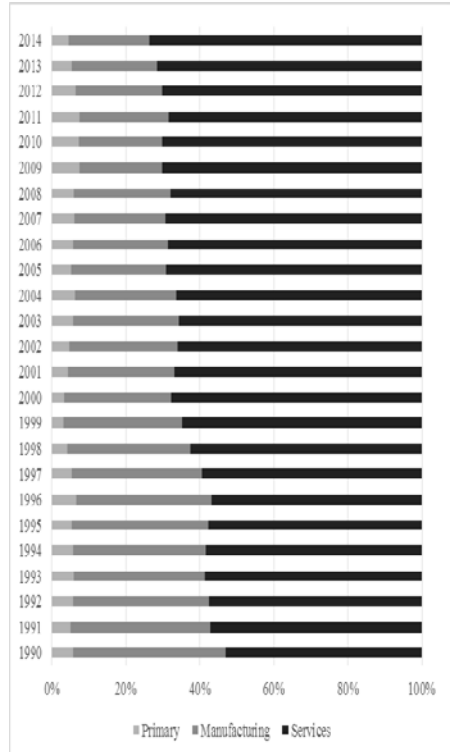
primary; 2,229 transaction for manufacturing; and 5,219 transaction for services.

Figure 9: Number of cross-border M&A sales, by sector/industry, 1990-2014



Source: (UNCTAD, 2015)

Figure 10: Number of cross-border M&A purchases, by sector/industry, 1990-2014



Source: (UNCTAD, 2015)

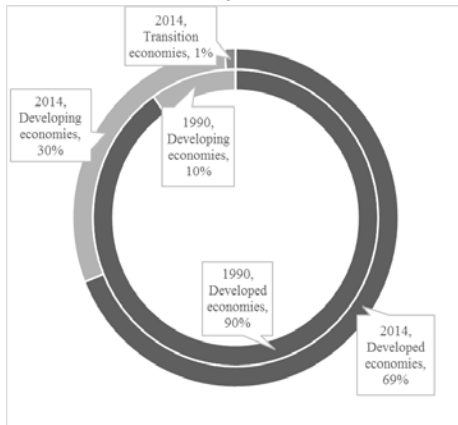
3. Cross-border M&As – comparative analysis 1990 versus 2014

The comparative analysis between the two ends of the temporal spectrum taken into account (1990 and 2014 respectively) reveals some significant changes, which follow the transformations of the global business arena, while shaping them, in the same time – into a complex relationship of co-determination.

3.1. By region / economy

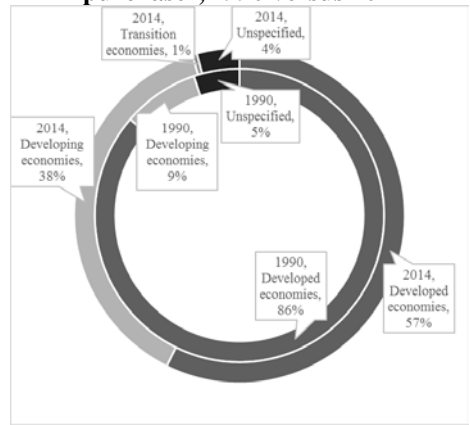
Thus, in terms of *value of cross-border M&As by region/economy of seller* (see Figure 11), the contribution of the developing economies has risen from 10% to 30% between 1990 and 2014 – reflecting their increasing appeal. On the other hand, in terms of *value of cross-border M&As by region/economy of purchaser* (see Figure 12), the contribution of the developing economies has risen from 9% to 38% in the same period – reflecting their increasing power. Although the developed economies remain the main source for the cross-border M&As (counting for 69% of their value in 2014), the situation is much more balanced in terms of recipients – where the contribution of the developed economies only represents 57% of the value of cross-border M&As in 2014. As concern the transition economies, their contribution to the value of cross-border M&As represents 1% in 2014 – considered by both economy of seller and purchaser. The “missing” parts – 5% in 1990 and 4% in 2014 – in terms of value of cross-border M&As by region/economy of purchaser are represented in UNCTAD statistics by the “unspecified” category.

Figure 11: Value of cross-border M&As by region/economy of seller, 1990 versus 2014



Source: (UNCTAD, 2015)

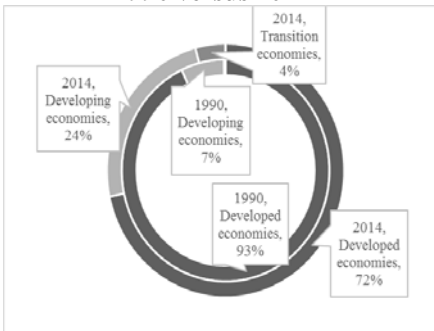
Figure 12: Value of cross-border M&As by region/economy of purchaser, 1990 versus 2014



(Source: UNCTAD, 2015)

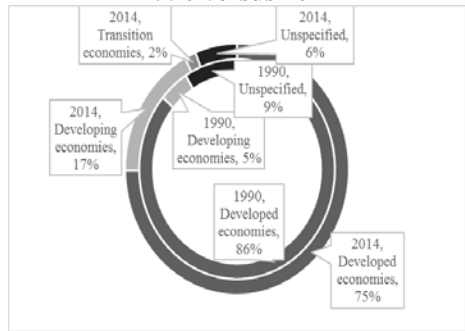
When looking at the *number of cross-border M&As by region/economy of seller* (see Figure 13) in comparison with the *number of cross-border M&As by region/economy of purchaser* (see Figure 14) – while keeping the same opposable 1990 versus 2014 view – it is interesting to notice that the developed economies count for almost the same as sellers (72%) and as purchasers (75%) in 2014, while in 1990 they counted for 93% as sellers and 86% as purchasers. As regards the developing economies, their share into the number of cross-border M&As by region/economy of seller has increased from 7% in 1990 to 24% in 2014, while their share into the number of cross-border M&As by region/economy of purchaser has increased from 5% to 17%. The contribution of the transition economies, on the other hand, represents 4% of the number of cross-border M&As by region/economy of seller and 2% of the number of cross-border M&As by region/economy of purchaser in 2014. The “unspecified” category – whose contribution has fallen from 9% in 1990 to 6% in 2014 in terms of number of cross-border M&As by region/economy of purchaser – completes the picture.

Figure 13: Number of cross-border M&As by region/economy of seller, 1990 versus 2014



Source: (UNCTAD, 2015)

Figure 14: Number of cross-border M&As by region/economy of purchaser, 1990 versus 2014



Source: (UNCTAD, 2015)

When comparing the value of cross-border M&As with their number by region/economy of seller: (a). as regard the developed economies – the 93% contribution in terms of number in 1990 is corresponding to a 90% contribution in terms of value, while the 72% contribution in terms of number

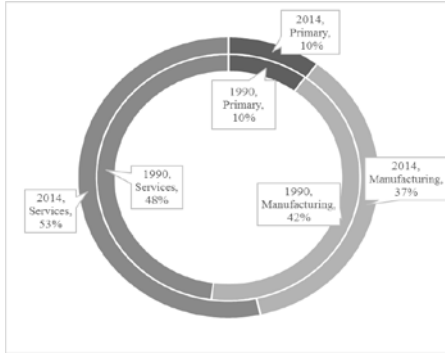
in 2014 is corresponding to a 69% contribution in terms of value; (b). as regard the developing economies – the 7% contribution in terms of number in 1990 is corresponding to a 10% contribution in terms of value, while the 24% contribution in terms of number in 2014 is corresponding to a 30% contribution in terms of value; (c). as regard the transition economies – the 4% contribution in terms of number in 2014 is corresponding to a 1% contribution in terms of value.

The situation is quite different when comparing the value of cross-border M&As with their number by region/economy of purchaser: a). as regard the developed economies – the 86% contribution in terms of number in 1990 is corresponding to a 86% contribution in terms of value, while the 75% contribution in terms of number in 2014 is corresponding to just a 57% contribution in terms of value; (b). as regard the developing economies – the 5% contribution in terms of number in 1990 is corresponding to a 9% contribution in terms of value, while the 17% contribution in terms of number in 2014 is corresponding to a 38% contribution in terms of value; (c). as regard the transition economies – the 2% contribution in terms of number in 2014 is corresponding to a 1% contribution in terms of value; (d). the “unspecified” category is responsible for 9% in terms of number and 5% in terms of value in 1990 and 6% in terms of number and 4% in terms of value in 2014 respectively.

3.2. By sector / industry

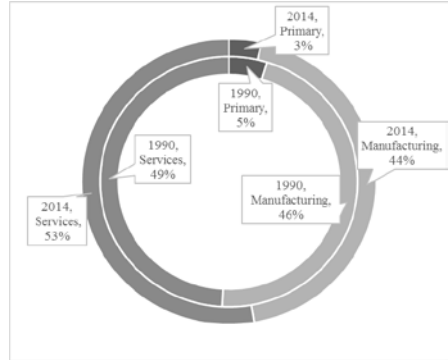
In terms of *value of cross-border M&As sales* (see Figure 15), the contribution of services has risen from 48% in 1990 to 53% in 2014, on the expense of manufacturing – whose contribution has fallen from 42% in 1990 to 37% in 2014, while the contribution of primary has remained constant (10% contribution). On the other hand, in terms of *value of cross-border M&As purchases* (see Figure 16), the contribution of services has risen from 49% in 1990 to 53% in 2014, on the expense of both manufacturing – whose contribution has fallen from 46% in 1990 to 44% in 2014 and primary – whose contribution has fallen from 5% in 1990 to 3% in 2014. Also, it is interesting to notice that the contribution of services in 2014 is the same for M&As sales and purchases, while in the case of primary and manufacturing the differences are quite significant.

Figure 15: Value of cross-border M&A sales, by sector/industry, 1990 versus 2014



Source: (UNCTAD, 2015)

Figure 16: Value of cross-border M&A purchases, by sector/industry, 1990 versus 2014



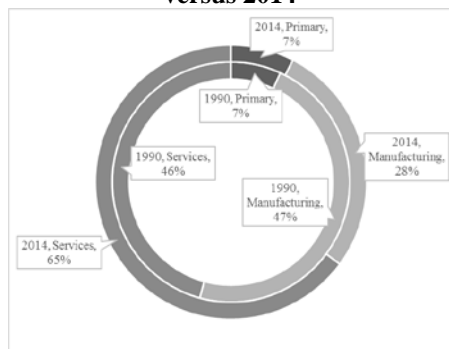
Source: (UNCTAD, 2015)

When looking at the *number of cross-border M&As sales* (see Figure 15), the contribution of services registers quite a leap – from 46% in 1990 to 65% in 2014 – on the expense of manufacturing – whose contribution has dramatically fallen from 47% in 1990 to 28% in 2014, while the contribution of primary has remained constant (7%). On the other hand, as regards the *number of cross-border purchases* (see Figure 16), the contribution of services has also significantly increased – from 53% in 1990 to 73% in 2014, on the expense of manufacturing – whose contribution has dramatically fallen from 41% in 1990 to 22% in 2014, while the contribution of primary has fallen a bit – from 6% in 1990 to 5% in 2014.

When comparing the value of cross-border M&A sales, by sector/industry with the number of cross-border M&A sales by sector/industry: (a). as regard services – the 46% contribution in terms of number in 1990 corresponds to a 48% contribution in terms of value, while a 65% contribution in terms of number in 2014 corresponds to a 53% contribution in terms of value; (b). as regard manufacturing – the 47% contribution in terms of number in 1990 corresponds to a 42% contribution in terms of value, while a 28% contribution in terms of number in 2014 corresponds to a 37% contribution in terms of value; (c). as regard primary – the 7% contribution in terms of number in 1990 corresponds to a 10%

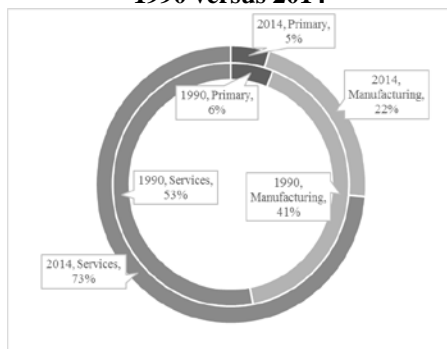
contribution in terms of value, while a 7% contribution in terms of number in 2014 corresponds to a 10% contribution in terms of value.

Figure 15: Number of cross-border M&A sales, by sector/industry, 1990 versus 2014



Source: (UNCTAD, 2015)

Figure 16: Number of cross-border M&A purchases, by sector/industry, 1990 versus 2014



Source: (UNCTAD, 2015)

On the other hand, if cross analyzing the value of cross-border M&As purchases by sector/industry and the number of cross-border M&As purchasers by sector/industry, the situation is as follows: (a). as regard services – the 53% contribution in terms of number in 1990 is corresponding to a 53% contribution in terms of value, while the 73% contribution in terms of number in 2014 is corresponding to only a 49% contribution in terms of value; (b). as regard manufacturing – the 41% contribution in terms of number in 1990 is corresponding to a 46% contribution in terms of value, while the 22% contribution in terms of number in 2014 is corresponding to 44% contribution in terms of value; (c). as regard primary – the 6% contribution in terms of number in 1990 is corresponding to a 5% contribution in terms of value, while the 5% contribution in terms of number in 2014 is corresponding to a 3% contribution in terms of value.

4. Conclusions

There are many reasons to argue that the power of cross-border M&As is far from being completely revealed yet, while its force is far from being dwindled:

(a). a quick overview on the cross-border M&As deals worth over \$1 billion completed in 2014 compared to the cross-border M&As deals worth over \$1 billion completed in 2013 (UNCTAD, 2015) emphasizes a growing global power of the cross-border M&As – if the 2013 statistics reveals a total of 161 transactions, which cumulated worth \$471.9 billion, while displaying an average value of \$2.9 billion per deal and a highest deal valuing \$27 billion, for 2014 the same statistics reveals a total of 219 transactions, which cumulated worth \$756.8 billion, while displaying an average value of \$3.5 billion per deal and a highest deal valuing \$130.3 billion;

(b). an overall rebounding tendency seems to occur in terms of value of cross-border M&As, if taking into account the first released UNCTAD data for 2015 (UNCTAD, 2016): a growth rate of 61.4% (from \$398.9 billion in 2014 to \$643.7 billion in 2015) for the cross-border M&As – based on a 106.4% growth rate as regards the developed economies (from \$274.5 billion in 2014 to \$566.8 billion in 2015, mainly due to an extreme 449% growth rate in North America), and a 120% growth rate as regards the transition economies (from \$4.2 billion in 2014 to \$9.3 billion in 2015); the developing countries represent the weakness of this picture – with a (-43.7)% growth rate (from \$ 120.1 billion in 2014 to just \$67.6 billion in 2015 – although Africa is registering a growth rate of 303.6%, it is pulled back into this statistics by the negative growth rate of Latin America and the Caribbean (-60.2)% and Developing Asia respectively (-60.5)%).

In conclusion, cross-border M&As are a vivid and complex reality of the global business landscape as it is nowadays. The participants to this ongoing and evolving process, their motivators, specific choices and strategies, as well as their main challenges and expected outcomes are continuously changing, asking for more and more refined and sophisticated approaches at firm level. Therefore, this paper is just an opening case, which captures the (dynamic) image of a global picture (no particular country or firm involved – even though all the aggregated data which were analyzed are results of specific strategic decisions).

Future research will focus on: (a). putting “names and faces” on the picture of cross-border M&As – in terms of both companies and transactions, in order to comprehensively “reconstruct the puzzle” by integrating different levels of analysis; (b). identifying the main causes and determinants of the noted developments – in order to explain the past, extract patterns of current evolutions and forecast the future as regards the cross-border M&As; (c).

transposing the research to firm level and deepening it, by formulating hypotheses on the best strategies suited for the cross-border M&As.

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