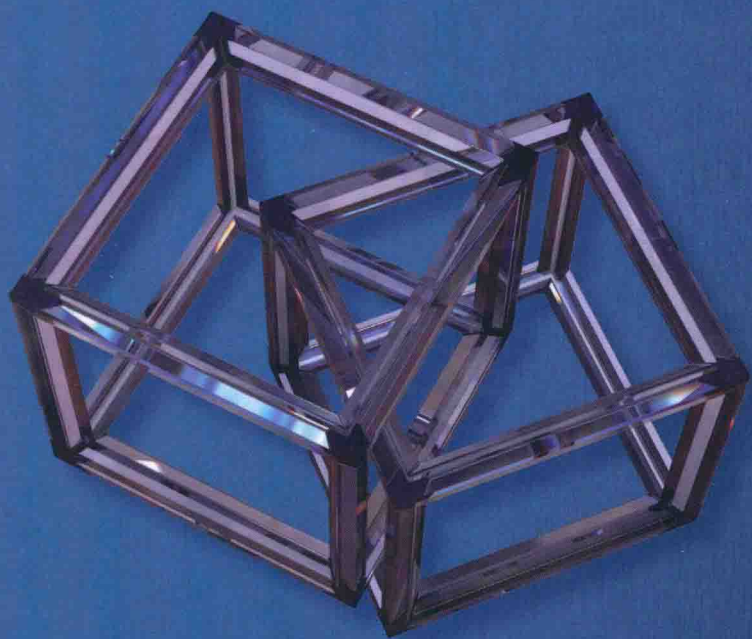
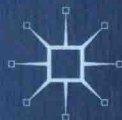


# MERGERS AND ACQUISITIONS AS THE PILLAR OF FOREIGN DIRECT INVESTMENT

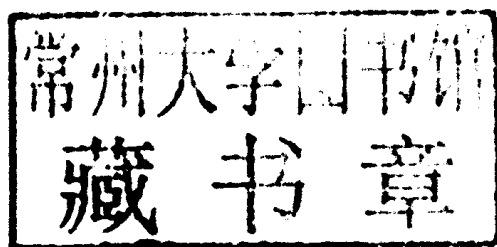


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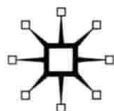


# Mergers and Acquisitions as the Pillar of Foreign Direct Investment

*Aristidis Bitzenis, Vasileios A. Vlachos, and  
Pyrros Papadimitriou, editors*



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## Foreword

Over the past decades there has been a staggering growth and specialization of research and knowledge in various academic disciplines. Above all, the appearance and development of the study of foreign direct investment (FDI) and of mergers and acquisitions (M&A), as well as their subfields, have been of foremost importance, because of the worldwide importance of these phenomena. They have had a great role in helping to understand economic events and trends in many countries, and as a high level of both FDI and M&A activity might persist in the future, this new book edited by Aristidis Bitzenis, Vasileios Vlachos, and Pyrros Papadimitriou is very welcome.

Since the second half of the 1990s—excluding the recent predicament when we were in the midst of a financial crisis that has made international investors cautious and keen to postpone investment decisions—we have witnessed an increase in FDI, M&A, and labor flows at the regional level and across the globe. International trade has been expanding faster than world output in terms of GDP, and the increase in FDI has exceeded the growth of world output as well as exceeding trade. FDI simply may have become the actual engine of world growth, replacing the role of trade. As for M&A, while these led to some disappointing results in the form of decreased shareholder value in the past, today's deals are enjoying greater success at increasing shareholder value. As a result, the advancement of the analysis of FDI, M&A, and their particularly challenging aspects, which are critical to both economists and to business persons, are celebrated throughout this well-thought out book.

The book is built around 14 chapters that deal with the main important subjects of FDI and cross-border M&A activity. The book's distinguished editors and contributors go through globalization issues, FDI determinants, and the impact of FDI on economic growth and M&A at the regional level, with special reference to east-central Europe, the Balkans, and Turkey. The book's focus is significant, because the countries of reference have been

undergoing a fundamental change in their economic and production patterns, following profound political and economic reforms in the 1990s, which in turn have led to a path of extraordinary economic growth.

As cross-border M&A—the favorite FDI type—are being sought by a growing number of multinationals aiming at a dynamic international corporate development, this book's chapters endeavor to analyze the complexities associated with international deals, and they assist the reader to grasp the core themes (legal framework, determinants, effects). The book aims to assist business leaders in finding their correct roles, and it ensures a fit between leadership and the desired organizational culture and business strategy at the international level. Furthermore, given that a country's government policies and expenditure decisions and international economic interdependences affect domestic economic progress and competitiveness, the authors make an effort to expand interest in the policy and applications of these economic strategies, as well as to give us better insights about the ongoing course of national economies in response to the dynamics of globalism.

The consequences of this theme of the cross-border M&A and the growing internationalization of production include many commitments to free trade, to reducing tariffs, and to eliminating subsidies to local industries in order to concentrate on product development, diversification strategies, and investments in R&D. With these extra measures, including the use of technology, many people believe that business strategies could be successful locally and globally. The continuous growth of FDI stock on a worldwide level, as well as at the regional level means that the internationalization of business activities has become a necessity for survival as firms become multinational enterprises, which deepen and widen their cross-border value chains and generate competitive advantages over firms that do not engage in international business. It follows that M&A might prevail over greenfield investments as the dominant approach of FDI in order to face the new economic conditions and changes in the strategies of their competitors, taking into account the role of effective leadership and successful alignment between old and new organizational cultures.

Taken as a whole, this new volume is nothing less than a state-of-the-art coverage of the knowledge developed to date, including the dynamics and policy complications of modern economics and business relationships. In addition, the authors provide a great deal of useful information; readers will find much information about the roles of FDI and M&A. To have a better understanding of the current trends in the world economy, the book's contributors place the evidence in historical and theoretical context at the regional level, knowledge they combine with theory and practice in a masterful way. The immediacy of much of the recent troubles in the international context poses difficult challenges for business people and experts. For an international management career, the global economy means that

a manager will have to deal with working teams whose nationalities and cultures are diverse; will have to understand foreign competitors; and will spend more time studying the culture, politics, and operating style of the global economy. The big issue for multinationals today is how to tailor the global marketing concept to fit each business. Companies have to consider their objectives through all phases of their business. When determining whether to standardize a product or keep it similar to the domestic version, several conditions must be taken into account. It is possible that the product is beneficial to the host country customers just as it is in the home country. International business would be a lot easier if everyone were alike. However, as we know, not everyone is the same. Different cultures believe and act differently. Different regions and big economic markets maintain their own ways of working, speed, time, and place. Now imagine seven different continents with billions of different people on them. Corporate mergers that cross regional boundaries ought to avoid clashes of cultures. Top executives learn about other cultures and have to decide who will be in charge of their firms in other parts of the world. Ultimately, debates intensify over international business and firms' overall business strategies, which have suffered from economic obstacles, the recent economic crisis, and other forms of financial instability. Having healthy financial systems can lessen the negative impact of instability that is observable in many places, particularly in major economic centers and in countries where people have been hurt by the economic slowdown.

I believe the authors have produced the book in such a way that it will be of value to all interested professionals, scholars, and students. Although the language and approach must be on the specialist level, new developments in these fields of research require a special effort by scientists to make sure that best knowledge and practice are available to all, which is reflected in this book. In fact, the authors have worked with three aims: to include up-to-date knowledge about the disciplines of FDI and M&A, to make this knowledge conveniently accessible, and to provide many excellent ideas throughout this book. Taken as a whole, this ambitious work will be able to convey to those concerned with policy and applications a set of tools for practical analysis and an account of how business decisions are being carried out, using a broad and historical knowledge base as well as extensive interpretations. That in itself could be the compelling reason for readers to be especially grateful for the authors' skills, knowledge, and functional vision in offering all of us this significant book.

BRUNO S. SERGI  
*University of Messina*  
*Messina, Italy, February 1, 2012*

# Abbreviations

ASEAN	Association of Southeast Asian Nations
BOP	Balance of Payments
CAGR	Compound aggregate growth rate
CEE	Central and Eastern Europe
CEECs	Central and Eastern European Countries
CEO	Chief Executive Officer
CIS	Commonwealth of Independent States
EMU	Economic and Monetary Union
EU	European Union
FDI	Foreign direct investment
FYR Macedonia	Former Yugoslav Republic of Macedonia
FYROM	Former Yugoslav Republic of Montenegro
GDP	Gross Domestic Product
GNP	Gross National Product
H-O theory	Heckscher and Ohlin theory
IMF	International Monetary Fund
IPO(s)	Initial Public Offering(s)
M&A; M&As	Mergers and Acquisitions
MNE	Multinational Enterprise
NAFTA	North American Free Trade Agreement
OECD (OCDE)	Organisation for Economic Co-operation and Development (Organisation de coopération et de développement économiques)
OLI framework	Ownership-location-internalization framework
PPP	Purchasing Power Parity
R&D	Research and development
SMEs	Small and medium-sized enterprises
SOEs	State-owned enterprises

SEE	Southeast Europe
SEECs	Southeast European Countries
UN	United Nations Economic Commission for Europe
UNCTAD	United Nations Conference on Trade and Development
UNECE	United Nations Economic Commission for Europe
UK	United Kingdom
US	United States
WTO	World Trade Organization



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## CHAPTER 1

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# To Merge or to Acquire

*Aristidis Bitzenis and  
Vasileios A. Vlachos*

Driven by cross-border mergers and acquisitions (M&As)<sup>1</sup> and the internationalization of production in a range of industries, foreign direct investment (FDI) has risen significantly since 1980 (see Table 1.1). Among the major players are the European Union (EU) and North America, which represent roughly two-thirds of FDI stock, approximately 60 percent of world's inward FDI stock and 70 percent of the respective outward. Although developed economies both attract and generate the majority of FDI flows, the inward FDI stock of emerging economies has been following an upward trend, at the same time as the outward FDI stock of the G8 members has been declining. The rising number of home countries, along with the mounting volumes of FDI, indicates the importance of FDI in international business.

The continuous growth of FDI stock on a worldwide level signifies that the internationalization of business activities has become a necessity for survival.<sup>2</sup> As firms become multinational entities (MNEs), they deepen and widen their cross-border value chains and generate competitive advantages over firms that do not engage in international business. Furthermore, the importance of FDI is indicated by its relation to economic decline and recovery, as its stabilizing effect may be of great significance during a financial crisis (see Moon, Cheng, Kim, and Kim, 2011).

"A preference for M&As over greenfield investments as the dominant mode of FDI has been observed over the past two decades," UNCTAD noted in

**Table 1.1** Development of FDI stock, 1980–2010

<i>Group of economies/Year</i>	<i>1980</i>	<i>1990</i>	<i>1995</i>	<i>2000</i>	<i>2005</i>	<i>2009</i>	<i>2010</i>
<b>Inward FDI stock</b>							
World <sup>1</sup>	699.0	2,081.3	3,392.8	7,445.6	11,539.5	17,950.5	19,140.6
<i>Developed economies</i>	57.5	75.1	74.7	75.9	74.2	68.3	65.3
Developed economies: America	19.6	31.3	33.3	40.2	27.4	19.8	21.0
Developed economies: Asia	0.9	0.7	1.2	1.0	1.2	1.5	1.5
Developed economies: Europe	33.0	38.8	36.2	32.8	43.1	44.3	39.8
Developed economies: Oceania	3.9	4.2	4.0	1.9	2.5	2.7	3.0
<i>Developing economies</i>	42.5	24.9	25.0	23.3	23.4	28.2	31.1
High-income developing countries	31.0	16.9	14.9	14.3	14.1	16.3	18.1
Middle-income developing countries	8.9	6.1	7.7	7.0	7.2	8.8	9.6
Low-income developing countries	2.6	1.9	2.4	1.9	2.1	3.1	3.4
<i>Emerging economies</i>	6.3	7.2	8.4	8.1	8.7	9.0	10.2
<i>Transition economies</i>	–	0.1	0.3	0.8	2.4	3.5	3.6
Mercado Común Sudamericano	2.9	2.3	2.3	2.6	2.1	2.8	3.0
North American Free Trade Agreement	19.3	32.4	34.5	41.5	29.3	21.3	22.7
Association of South-East Asian Nations	2.6	3.1	4.5	3.6	3.5	4.2	4.9
European Union	32.1	36.5	33.9	31.2	40.9	40.6	36.0
Euro area	22.1	25.6	25.6	21.8	28.8	29.0	24.9
G8	40.2	54.5	52.8	57.8	50.9	41.0	40.5

## Outward FDI stock

World <sup>1</sup>	548.9	2,094.2	3,615.8	7,962.2	12,416.0	19,197.2	20,408.3
<i>Developed economies</i>	86.9	93.0	90.8	89.0	88.5	84.2	82.3
Developed economies: America	43.6	39.0	41.0	36.8	32.4	25.7	26.8
Developed economies: Asia	3.6	9.7	6.7	3.6	3.3	4.2	4.4
Developed economies:							
Europe	38.9	42.4	41.2	47.2	51.0	52.6	49.1
Developed economies: Oceania	0.9	2.0	1.9	1.3	1.8	1.8	2.1
<i>Developing economies</i>	13.1	6.9	9.1	10.8	10.3	14.0	15.3
High-income developing countries	4.6	3.6	6.0	8.8	8.4	10.6	11.5
Middle-income developing countries	8.4	3.2	2.7	1.7	1.8	2.9	3.3
Low-income developing countries	0.1	0.1	0.3	0.2	0.1	0.5	0.6
<i>Emerging economies</i>	11.0	4.4	4.4	3.2	3.6	4.8	5.4
<i>Transition economies</i>	–	–	0.1	0.3	1.2	1.8	2.3
Mercado Común Sudamericano	8.2	2.3	1.5	0.9	0.8	1.0	1.0
North American Free Trade Agreement	43.9	39.1	41.1	36.9	32.7	26.0	27.1
Association of South-East Asian Nations	0.2	0.5	1.4	1.1	1.2	1.7	2.1
European Union	38.8	38.7	36.6	43.9	46.6	47.3	43.8
Euro area	23.1	24.9	25.4	30.1	34.1	35.3	32.5
G8	75.5	75.0	72.1	72.5	66.1	58.4	58.0

Source: UNCTAD (<http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx>)

<sup>1</sup> Values for world's FDI stock are in US\$ billion. Figures of economic groups are expressed as a percentage of world's FDI stock – calculated by the authors.



2010b (p. 9).<sup>3</sup> Firms engage in M&A activities in order to respond to new economic conditions and changes in the strategies of their competitors. The principal motivations for undertaking cross-border M&As—as indicated by studies that differentiate between equity-based entry modes<sup>4</sup>—justify this preference, namely, the speed to market access that M&As deliver and the quest for strategic assets, such as technology, patents, brand names, and access to and/or control of distribution networks. A number of other driving forces, of course, are important, such as efficiency, diversification, market power.<sup>5</sup>

The purpose of the collective volume at hand is to thoroughly discuss the determinants, scope, and effects of FDI, with a special focus on cross-border M&A activity, since it is the dominant mode of foreign entry. The book aims to explore the concept of M&As in a manner that will be useful both to students and academics/practitioners. The subject coverage deals with the core issues of FDI and cross-border M&As; the discussion is not limited to introductory themes, but deals with several issues.

The volume is divided in three parts. The first part consists of chapters 2 through 6, and aims to highlight the importance of FDI as globalization intensifies. It discusses the emergence of globalization, the development of FDI as a concept or theory describing international business, and notes its impact on the stakeholders directly affected. Chapter 2 discusses the phenomenon of globalization, the causes of its pervasiveness, and the role of FDI in this process. As FDI has a key role in improving the capacity of the host country to respond to the opportunities offered by global economic integration, Chapter 3 discusses the determinants and deterrents to FDI and describes the trends and concentration of FDI during the last two decades. Chapter 4 presents the evolution of theories that explain the activity of MNEs and puts forward an all-encompassing universal model of theories for FDI determinants. Chapter 5 discusses the complexity of identifying the impact of FDI on the home country, the host country, and on the MNE, as well as the form of the impact, which depends on the characteristics of the host country from a macro to a micro level, and on the form of foreign entry. Chapter 6, the final chapter of the first part, approaches the political dimension of the activities of MNEs. It discusses how policy networks constitute the institutional framework of interaction between MNEs and state (government) actors in different domains. Since the influence of MNEs on political decision making depends on their insertion into such networks and on the institutional features of the networks, political leverage has an important influence on MNEs' strategies and performance. Different types and degrees of political leverage result in different approaches to the competitive game.