

The Evolution of Transnational Mergers and Acquisitions

Voiculeț Alina

"Constantin Brâncoveanu" University of Pitești

alinav06@yahoo.com

Abstract

The transnational corporation tends to continuously spread its sphere of domination, both inside and outside the country of origin, in markets located in other countries. .

Globalization and, especially, the integration of capital markets have accelerated since the 1990s, the expansion of transnational corporations abroad. According to UNCTAD there have been two phases of this expansion: between 1993 and 1997 and between 2003 and 2010. These expansions of transnational corporations activities have been interrupted by periods of economic crisis.

Although these two expansion phases were characterized by a large number of mergers and acquisitions, the reasoning behind the internationalization of transnational corporations has changed: from searching for resources and efficiency, to strategic investments towards emerging markets.

Key words: transnational corporation, acquisition, merger, globalization

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1. Introduction

The transnational corporation represents the extension of large companies beyond their own countries' borders, forming a vast ensemble on a mondoeconomic scale, made up of a main company with a number of subsidiaries that are located in different countries (Dumitrescu, Bal, 1999). This entity is a key component in the global economy, having an extremely important and complex role in economic growth, in amplifying international trade, accelerating technical progress, the globalization of markets, production and technology (Voiculeț, 2015).

In the last decades, there has been a series of evolutionary transformations that left a scar on transnational corporations as a result of permanent adaptation to the business environment in which they operate. Permanently looking to increase their economic efficiency, to gain new outlets, develop new production capacities, etc., companies have searched for new business opportunities. Thus, their economic activity has undergone an extensive process of globalization.

2. Theoretical background. Types of acquisitions and mergers

Acquisitions and mergers can be classified in two categories (Voinea, 2001):

- ✓ acquisitions and mergers between companies in the same country;
- ✓ acquisitions and mergers between companies from different countries.

In the analysis I am making, I will stop on the second category, because I am interested in the ways of cross-border expansion of the transnational companies.

The explosion of the external acquisition and merger process represents an important element of the transnational corporations' strategies for expanding the international production and is a major factor towards the growth of flow from direct foreign investments.

Acquisitions and mergers between transnationals that are located in different countries involve transferring the ownership of some assets from the host country to the acquiree in the acquiring company country (mother country). In the case of mergers, the nationality of the new company can

be doubled (such is Royal-Dutch-Shell: dutch and english nationality) or it may take over one of the nationalities of the two companies (english nationality in the case of BP-Amoco).

Dominating on the global transaction market are the acquisitions, mergers having less than 3% of the total number of merger – acquisition transactions. Even when mergers seem to be made between two relatively equal companies, most of them are acquisitions, because the company dictates the union. The number of "real" mergers is so small that the "mergers and acquisitions" are in fact only "acquisitions" (UNCTAD, 2000).

The acquisition consists in a company taking over another company with the purpose of expanding the patrimony of this economic entity.

International acquisitions may take several forms (UNCTAD, 2000):

- ✓ *minority acquisitions*, when the control from a foreign company varies between 10% and 49%;
- ✓ *majority acquisitions*, when the control from a foreign company varies between 50% and 99%;
- ✓ *complete acquisitions*, when the control from a foreign company is 100%.

Acquisitions that involve less than 10% of company assets are portfolio investments.

Merger represents the combination of two or more companies with the purpose of creating a new economic entity by unifying assets.

Merging has two forms: *unification or fusion and absorption*. In case of fusion, the two firms fusion into a new company, the original firms ceasing their legal existence. *Absorption* "is a buying technique by which a firm entirely buys another firm. The absorbed firm loses its status as an independent firm" (Dumitrescu, Bal, 1999).

According to UNCTAD there are more types of acquisitions and mergers, classified as follows:

- ✓ **Horizontal acquisitions and mergers**, when companies from the same field of activity are combined. The industries that are targeted by this type of acquisition are: pharmaceutical industry, machine building industry, oil processing and recently, industrial services. In this case, the growth of the corporation does not mean leaving the core branch;
- ✓ **Vertical acquisitions and mergers** take place when companies situated downstream or upstream are taken over or merged together. This type of acquisitions and mergers are specific, especially to societies that operate in the field of primary products. One of the features of the market in which these products are found is the continuous price oscillation, a phenomenon that can affect the good business. This is why these companies are interested in grabbing raw material sources;
- ✓ **Conglomerate acquisitions and mergers**, these are carried out between companies with different activity and structure. Their main purpose is to diversify international risk and increase the benefits from "goal savings". Acquisitions are determined by purely financial motives. The upsurge that international acquisitions and mergers had over the last decades might be seen as a strategic and economic response of transnational companies at an international business environment that is ever-changing.

3. The evolution of acquisitions and mergers over the last years

After the expansion of acquisitions and mergers in 2000, which led to the emergence of giant corporations, global flows had a powerful decline in the coming years, however, their number drastically increased in 2007. In 2009, because of the economic and financial crisis, a dramatic decline was registered, event which repeats itself again in 2013 marked as the lowest level in recent years.

Total sales of cross-border mergers and acquisitions increased by 18% in 2016 to \$869 billion, the highest level since the outbreak of the global financial crisis. International mergers and acquisitions have increased, especially in major industries such as the electronics, food and beverage, the oil and gas industry, as well as in the commercial and utilities field.

In 2016, total value of cross-border mergers and acquisitions from the extractive industry increased due to the Royal Dutch Shell PLC (The Netherlands) acquisition of the BG Group PLC (UK) – the second biggest cross-border transaction of the year.

An analysis by region tells us that in 2016 there has been registered an increase in acquisition and merger value compared to 2015, with North America detached from the rest of the areas, even to its main competitor, the European Union.

In the United States, these were situated at \$360 billion, with nearly 16% up on the previous year. In Asia, the total diminished by 17% to almost \$41.8 billion. In Europe, announced mergers and acquisitions have risen by more than \$70 billion (\$301 billion in 2015), to \$376 billion.

Table no. 1 Net value of mergers and acquisitions in 2015-2016 (billion dollars) – by region

Region	2015	2016
WORLD TOTAL	735	868
European Union	265	362
North America	318	372
Latin America and the Caribbean	10	17
East Asia	32	20
South Asia	1	8
Western Asia	5	5
CIS	9	4
Africa	21	9
South – East Europe	45	196

Source: Based on the United Nations data – UNCTAD –

http://unctad.org/Sections/dite_dir/docs/WIR2017/WIR17_tab10.xlsx [Accessed on 5 May 2018]

Table 10. Value of cross-border M&As, by region/economy of seller/purchaser, 2010–2016

However, from a numerical point of view, Europe clearly stands out from the rest of the regions with a total of 4418 cross-border acquisitions and mergers out of the world total of 10725.

According to UNCTAD, the areas in which there were registered the highest number of acquisitions and mergers, in 2016, were in the services sector, with acquisitions in the financial field, followed by the secondary sector, especially electrical and electronic equipment, the food and beverage industry, as well as chemicals.

Mergers and acquisitions activity has registered mixed results across the BRICS countries. Although the group represents 22% of global GDP, it has received only 11% of foreign direct investments in 2016. However, FDI flows towards the five BRICS countries rose by 7% to \$277 billion in 2016. The increase in flows towards the Russian Federation, India and the Republic of South Africa has compensated the decline in foreign direct investments from Brazil and China. More and more transnational corporations rely on cross-border mergers and acquisitions to penetrate the continuously growing Indian market. The value of acquisitions and mergers in the BRICS has decreased from \$44 billion in 2015 to \$37 billion in 2016 (in China their value has fallen from \$12 billion in 2015 to \$5 billion in 2016). Instead, the value of acquisitions and mergers intra-BRICS increased from \$3 billion in 2015 to \$22 billion in 2016.

In regards to the analysis of the value of cross-border acquisitions and mergers at state level there is a very clear difference between developed and developing economies. As the value of international acquisitions and mergers in the developed countries has decreased by 18%, developing countries enjoyed a spectacular increase (24%), mainly determined by the boom in the food, beverages and tobacco industries, which rose from \$26 billion in 2015 to almost \$137 billion in 2016.

Table no. 2 Mergers and acquisitions of over \$1 billion (2016)

Rank	Value (billion dollars)	Mergers and acquisitions
1	101,4	Anheuser-Busch Inbev SA/NV (Belgium)- SABMiller PLC (United Kingdom)
2	69,4	Royal Dutch Shell PLC (Netherlands) - BG Group PLC (United Kingdom)
3	38,8	Teva Pharmaceutical Industries Ltd (Israel) - Allergan PLC-Generic Drug Business (United States)
4	31.9	SoftBank Group Corp (Japan) - ARM Holdings PLC (United Kingdom)
5	31.0	Shire PLC (Ireland) - Baxalta Inc(United States)
6	28.5	ACE Ltd (Switzerland) - Chubb Corp (United States)
7	22.7	Tyco International PLC (Ireland) - Johnson Controls Inc (United States)
8	21.4	Visa Inc (United States) - Visa Europe Ltd (United Kingdom)
9	18.8	BT Group PLC (United Kingdom) - EE Ltd (United Kingdom)
10	17.9	Kansai Airports (France) - New Kansai International Airport Co Ltd (Japan)

Sursa: Based on the United Nations data – UNCTAD –

<http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx> [Accessed on 5 May 2018]

Table 17. Cross-border M&A deals worth over \$1 billion completed in 2016

In the manufacturing industry, the evolution of cross-border acquisitions and mergers has known a drastic change over the last years. The field of electronic equipment as well as oil and gas rose significantly, the same thing that happened in the food, beverage and tobacco industries, mainly due to the purchase of SABMiller by PLC Anheuser-Busch Inbev SA/NV. Anheuser-Busch Group InBev NV is the world's largest beer producer. According to the Financial Times, of the three largest competitors that are AB InBev-SABMiller, Heineken and Carlsberg – only SABMiller (the second player on this market) was on sale.

Table no. 3 Largest purchases and mergers around the world

Rank	Date Announced	Acquiror Name	Target Name	Value of Transaction (\$mil)
1	11/14/1999	Vodafone AirTouch PLC	Mannesmann AG	202,785.13
2	01/10/2000	America Online Inc	Time Warner	164,746.86
3	06/26/2015	Altice Sa	Altice Sa	145,709.25
4	09/02/2013	Verizon Communications Inc	Verizon Wireless Inc	130,298.32
5	08/29/2007	Shareholders	Philip Morris Intl Inc	107,649.95
6	09/16/2015	Anheuser-Busch Inbev SA/NV	SABMiller PLC	101,475.79
7	04/25/2007	RFS Holdings BV	ABN-AMRO Holding NV	98,189.19
8	11/04/1999	Pfizer Inc	Warner-Lambert Co	89,167.72
9	12/01/1998	Exxon Corp	Mobil Corp	78,945.79
10	01/17/2000	Glaxo Wellcome PLC	SmithKline Beecham PLC	75,960.85

Source: The International Mergers & Acquisitions Expert, <https://imaa-institute.org/mergers-and-acquisitions-statistics/> [Accessed on 6 May 2018]

An increase in the number of cross-border mega transactions (with transaction values over \$1 billion) has contributed to an increase in value of these transactions abroad. The largest transaction of all time remains the Vodafone-Mannesmann. The acquisition of SABMiller by PLC Anheuser-Busch Inbev SA/NV is one of the largest in the history of such transactions, being ranked sixth globally. In 2016, the impact of two mega-mergers (Royal Dutch Shell – BG Group and Anheuser-Busch InBev NV-SABMiller) has compensated the financial difficulties of European energy producers that who withdrew a part of their foreign operations. As in 2016, in 2017 the international acquisitions and mergers have strongly influenced FDI flows towards the developed countries.

Both the number and value of cross-border acquisitions in developed countries declined significantly in the first quarter of 2017. Although the overall economic perspectives are positive because of the economic growth in the majority of developed economies it is expected to accelerate gradually in the 2017-2018 period, growth in interest rates, political uncertainty and barriers in the EU could lower the value of mergers and acquisitions in 2017. However, it looks like in 2017, at a global level, the value of mergers and acquisitions has been rising.

In 2017, technology, healthcare and transport are just a few of the industries that have stimulated the volume of mergers and acquisitions.

4. Conclusions

The spectacular increase in the number of mergers and acquisitions in the last few years has been the effect of the globalization and regionalization tendencies. According to UNCTAD, the international activity of transnational corporations has continued to expand.

A difficulty that appears to be related with international acquisitions and mergers is the exact estimation of their volume value, since their delimitation from the direct foreign investments is almost impossible because of the lack of statistical data and the recording of investments in a country's balance of payments does not capture the value of acquisitions and mergers.

The major return of trust in the global economy among large companies will be displayed in the favorable evolution of mergers and acquisitions.

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