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Reseasrch article

Internationalization of Asian firms: New economic geography

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Research Question/Issue: The paper aims to evidence how Asian firms are becoming global leaders.

Research Findings/Insights: Case studies are used to evidence the relevance of Chinese cross-border M&A in Europ.

Theoretical/Academic Implications: The article evidences how crisis is changing global scenario.

Practitioner/Policy Implications: The article provides a new perspective in cross-border M&A.

Abstract

The paper aims to evidence how Chinese firms are becoming global leaders. Case studies are used to evidence the relevance of Chinese cross-border M&A in Europ. The article evidences how crisis is changing global scenario. The article provides a new perspective in cross-border M&A.

Key words: Cross-border M&A, merger waves.

Introduction

Financial crisis has not exerted a visible effect on cross-border M&As volume but on the way in which they are realized affecting the geography of global business. Many companies of developed economies have faced some problems leading firms from emerging economies to acquire them. This suggests that new drivers are leading cross-border acquisitions.

Cross-border mergers and acquisitions, that have long been a strategy for international expansion of developed countries' firms, are, thus, becoming an important alternative to respond quickly to challenges of global economic environment. At the aim to evidence the new role of Asian firms in the global scenario, the article discusses a China-Europe cross-border M&A.

Theoretical background

The number and value of mergers and acquisitions (M&As) of the last decades allows you to identify the fluctuations that have characterized the phenomenon at national and international level. Longitudinal researches on the cyclical nature of M&As have led to the concept of merger waves driven by changes in technology, economic and institutional structures and markets (Gaughan, 2002).

Six separate merger waves have changed the geography of global business since 1900. The first wave (1897-1904), defined merger for monopoly, was characterized by the consolidation of North American firms operating in manufacturing with the formation of industrial giants like DuPont, General Electric, Eastman Kodak (Nelson, 1953).

The second wave (1916-1929), defined merger for oligopoly, was characterized by operations aimed to reinforce oligopolies and by development of vertical integrations through which companies assumed the structure of holding (General Motors and IBM) (Stigler, 1950).

The economic boom of the '60s lead to the third wave (1960-1970) characterized by mergers of conglomerates as a response to the antitrust restrictions against vertical and horizontal M&A. The implementation of strategies for diversification was the main driver of M&A in the '70s (Scherer, 1986; Rumelt et al., 1994; Weston and Weaver, 2001). However, the negative performance of previous operations have begun to hostile takeovers of '80s (Fray et al., 1985). The fourth wave was characterised by hostile takeovers, large size of the target companies, major fole of banks, more sophisticated strategies and cross-border transactions (Smith, 1991).

The processes of deregulation, technological innovation and integration of markets have led to the fifth wave in (1992-2000) characterized by both domestic and cross-border M&A. The total value of the deals realized between 1998 and 2000 was about 4 trillion dollars, higher than the total value of deals in the previous 30 years. About 40% of the total value of M&A had cross-border nature as a result of the impetus coming from globalization of markets (Hitt et al., 1998a; Hitt et al., 2000; Hitt et al., 2001 a, b).

After a negative period (2001-2003), the value of mergers and acquisitions has begun to grow up again from 2004, reaching its peak in 2007 and decreasing again from the global crisis of 2009. Financial crisis has not exerted a visible effect on cross-border M&As volume but on the way in which they are realized affecting the geography of global business (Caiazza, 2013; Caiazza and Ferrara, 2013; Caiazza, 2012). Many companies of developed economies have faced some problems leading firms from emerging economies to acquire them. This suggests that new drivers are leading cross-border acquisitions from emerging economies to developed economies. Cross-border mergers and acquisitions, that have long been a strategy for international expansion of developed countries' firms, are, thus, becoming an important alternative for emerging countries' firms to respond quickly to challenges of global economic environment. At the aim to evidence the new role of Asian firms in the global scenario, the article discusses a case of a Chinese firm in Europe.

China's role in the global scenario

China became the world's largest trading nation in 2013, overtaking the US in what Beijing described as a landmark milestone for the country. The shift in the trading pecking order reflected China's rising global dominance. The country continues to lead the BRICS economies by a wide margin. Its firms are giants that are starting to use their resources abroad. The crisis has opened up a window of opportunity for chineses' firms leading them to chose ctross-border M&As as way to compete globally (Carbonara and Caiazza 2008b, 2009a, 2009c; Carbonara and Caiazza, 2010).

Despite of economic crisis, China evidences some strengthnesses: national champions abound of cash and capital, banks have not been affected by crisis, multinationals have fully benefited from the growth of recent years and foreign exchange reserves provide an excellent source of financing for a variety of operations (Selznick, 1957; Sinha and Cusumano, 1991; Williamson, 1975, 1985, 1991).

Chinese companies prefer to acquire firms operating in manufacturing and commodities industries such as technology, high-tech equipment, aeronautics, electronics or the environment (Mitchell and Singh, 1996; Pfeffer and Salancik, 1978; Prahalad and Hamel, 1990).

Chinese firms are going global to acquire raw materials, get technical know-how and gain access to foreign markets (Carbonara and Caiazza 2009b, 2009d). Some firms operate under the guidance of the state other are largely independent and mainly interested in profits. With all the experiences and lessons learned from firms operating on their own country, China's firms are becoming stronger and stronger abroad (Caiazza et al., 2013). Moreover, most of them assume local managers for adapting themselves to local rules of hosting countries (Carbonara and Caiazza 2008a, 2008c).

Their choice of countries in which to operate is always driven by the need to acquire strategic assets, gain access to new markets, bypass any protectionist measures and consolidate China's energy supplies (Das and Teng, 1998; Das, Sen, Sengupta, 1998; Deeds and Hill, 1996). Europe is becoming a natural destination for Chinese firms' direct investment, given its huge market leading-edge technologies, and easy access to the world financial market (Barney, 1991; Bartholomew, 1997). Typically, these investments are fragmented deals by individual companies, some state-controlled and some privately owned (Andrews, 1971).

Nonetheless, Chinese government is interested in acquiring some champions of European Union. At the aim to evidence how Chinese firms are becoming global palyers acquiring national champions of main European states, the article discusses some acquisition of Chinese firms in Europe.

Case study

In 2012 a manufacturer firm (GLM) based in China realized the acquisition of a Polish manufacturer operating in the arm industry (HSW) by the Polish Government. The deal represented the China's largest M&A investment in Poland. The deal was closed in January as culmination of one year of intense negotiations started with the memorandum of cooperation. Negotiations began after the announcement of GLM intent to acquire HSW in March and continued throughout the summer and autumn. The deal was held up by the protracted nature of negotiations regarding wages and job security between HSW and the Polish Workers Union following the initiation of the deal. The workers' union had initially demanded a 5% pay rise and a 5-year employment guarantee versus a significant advance on the 3% rise and 3-year employment guarantee first offered by the Chinese investor. Finally an agreement was reached of a 3% pay rise but with a 54 month employment guarantee. The acquisition lead GLM to obtain core technologies for advancing its product designs and supplement its already-large and diverse product range. The deal also enabled the Chinese company to establish a manufacturing and logistical base in Europe. GLM also planned to built an European development and distribution center in Stalowa Wola. HSW has long been the center of the Podkarpackie Voivodeship district of Poland employing around 2,000 workers and is currently the largest manufacturer of military vehicles for the Polish army.

In 2012 another Chinese giant operating in electric power transmission and distribution (SG) acquired 25% of a Portugal's national power and gas grid operator (REN) for US$508m. The deal come as result of a plan for reaorganizing public finances imposed by European Union (EU) and the International Monetary Fund (IMF) to Portugal. Under the conditions of the plan imposed to face pressure of financial crisis, the government reduced its budget deficit by 3.2% of GDP selying REN, EDP Energia and state-owned airline TAP Air Portugal.

In September 2011, the Portuguese government authorized the sale of a 51% stake in REN. Some manifestation of interest come from China, Oman, Spanin, Canada and UK. Then the Portuguese government announced that only 40% of the planned 51% divestiture toke place in the first round of privatization. The Chinese bidder offered a 53.3% deal premium to the target's share price one day prior to the announcement, as well as an attractive financing package amounting to total of €4bn. In the end, REN's existing shareholders approved of the 25% stake sale to China's SG. SG's acquisition was just the first part of a privatization plan that was completed by the acquisition of 15% by Oman for approximately US$270m.

Conclusions and discussion

Asian companies have been prolific in venturing outside their domestic markets, demonstrating that they are well-managed, efficient and globally competitive and able to challenge some assumptions, concepts, and findings commonly accepted. In this article, we reviewed extant literature on Chinese cross-border M&A and then explored how current crisis is changing global scenario. Perhaps contemporary developments may lead future studies to revisit the existing theory surrounding cross-border M&A.

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