Part Two

Mergers, Acquisitions and Cooperative Ventures

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Regional integration in Europe, where it has developed more fully than elsewhere, and in North America and East Asia, is one of the forces (another being more rapid technological change) that is persuading more and more firms of the potential merit of collaboration through, for example, a joint venture and, frequently, full merger and acquisition (M & A). The choice of cross-border market entry between various modes of operation has been extensively researched within the transaction cost and internalisation literatures and many now agree, as Burton and Noble (Chapter 6) point out, that cooperative ventures are not necessarily second-best choices.

The boom in M&As and the increasing number of cooperative ventures between European firms are not merely reactive but also reinforce the process of European integration, and can thus be considered to be bridging or reducing the 'vision-reality' gap *vis-à-vis* the emergence of a single market, at least on the supply side. Intra-EU M&As and cooperative ventures facilitate a greater degree of cross-penetration of markets across Europe, and boost the ability of EU firms to compete against US and Japanese rivals by developing pan-European strategies. At the same time, firms outside the EU, anxious to create 'beach-heads', as Hamill and Castledine (Chapter 5) put it, into the European market use European acquisitions or alliances, in part, to achieve this.

The three chapters in Part two provide an examination of a number of issues relating to M&As and cooperative ventures. In Chapter 5, Hamill and Castledine, dealing with the impact of foreign acquisitions, both EU and non-EU, on the UK economy, address a relatively neglected issue. In Chapter 6, Burton and Noble focus on UK and Spanish cooperative ventures and examine their motives, their role in the strategies of their parents and how these strategies affect the longevity of the ventures. In Chapter 7, Schoenberg deals with the impact of differing management 'styles' on post-acquisition performance. Taken together, these chapters highlight two problem areas that suggest the 'vision–reality' gap will persist. First, there is the issue of the 'unlevel playing field' and the consequent heavy and disproportionate UK involvement in cross-border mergers and cooperative ventures in the

EU. Second, there are questions relating to performance. The overall success of cross-European mergers is not impressive, largely due to the persistence of management style differences between UK and continental firms which reflect deeper structural and cultural differences. As the discussion in Burton and Noble's Chapter 6 shows, the effective operation of a cooperative venture is also largely dependent on the management of style (and other differences) between the parent firms.

For a number of fairly familiar reasons the UK provides a fertile ground for mergers and acquisitions. For example, the relative weight of listed companies, which are both easier to acquire and may have a higher propensity to grow by mergers compared with family owned companies, is far greater in the UK than other EU countries. According to one estimate, the relative weight of listed companies in the UK is nearly three times greater than the average for all EU countries and over 40 per cent of listed companies in the EU are UK companies (CEC, 1989). Other factors helping to produce a more favourable M&A environment in the UK include the greater sophistication of financial markets and a more supportive regulatory structure. As a result, the UK is the leading target country for cross-border acquisition within Europe and has also attracted the largest number of acquisitions by non-EU companies.

The uneven incidence of acquisitions in Europe forms the background to Hamill and Castledine's concern. In a relatively short time-span, 1985–92, there were nearly 1300 EU and non-EU acquisitions in the UK, with a total value exceeding £59 bn. Hamill and Castledine assess the UK impact of acquisitions along a number of dimensions including 'resource', 'trade balance', 'employment' and 'sovereignty' effects. One observation relates to the differential impact of EU and non-EU acquisitions on the UK economy. Non-EU acquisitions appear to have a more beneficial (or less negative) impact on the UK economy, judged by the above dimensions, compared to EU acquisitions. This is not surprising, as one would expect intra-EU acquisitions to be motivated by a desire to rationalise operations on a Europe-wide scale, the short-term consequence being the closure or 'down-sizing' of operations in the UK. Thus, while intra-EU acquisitions may be helping to promote pan-European integration, it may be that the costs of this process fall unevenly on member countries. In this context, Burton and Noble's finding that locally successful ventures may nevertheless be abandoned as part of a broader, market-integrating, strategy is highly pertinent. Of course, many cross-border acquisitions may have less ambitious motives and be focused on 'traditional' issues such as market entry. Nevertheless, a subset of acquisitions is clearly driven by market-integrating and 'regionalising' considerations, possibly as a stepping-stone to globalising. Burton and Noble's observation regarding different motives for cooperative ventures is probably equally applicable to mergers and acquisitions.

Setting aside the impact on individual countries, an important question is whether intra-EU acquisitions add to the population of firms with pan-European capabilities, since the same structural differences that create an uneven incidence of merger pressures across countries can also impede effective post-acquisition integration. For example, while the vast majority of the UK acquirers in Schoenberg's study were publicly quoted companies, the majority of their European target companies had controlling family owners. Differences in ownership structure imply differences in management 'styles' which are reflected, *inter alia,* in risk-taking propensities, decision-making approaches and preferred control and communication patterns.

Schoenberg's finding that differences in national management styles have a clear-cut effect on post-merger performance is particularly relevant so far as market-integrating acquisitions are concerned. In such cases post-merger arrangements are likely to involve a high degree of strategic and hence organisational interdependence, effective management of which can be impeded by differences in management styles unless managers implement specific corrective measures. By contrast, market entry acquisitions may be tolerant of post-merger autonomy and require a lesser degree of integration.

'Style' differences are clearly also relevant when considering the effective operation and longevity of cooperative ventures, and style compatibilities are critical for their 'success'. Parkhe (1991) has pointed out the importance of the notion of 'diversity' for cooperative ventures. Some diversity, in technological competence for example, is actually a necessary condition for meaningful cooperation. However, other types of diversity, of which management style is but one, can undermine the effectiveness of potentially fruitful ventures. Other examples of diversity are differences in societal culture, stages of economic development and political economy characteristics. All three chapters, in different ways, illustrate the prevalence of national and cultural and style diversities within the EU. The management of M&As and cooperative ventures needs to take cognisance of such diversities and implement corrective measures if these strategies are to be effective in contributing to European integration.

References

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