European inroads by BRICs' firms:The MA avenue

Milelli, Christian and Le Goff, Joëlle

EconomiX - UMR 7166 CNRS, Université de Paris 10

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Christian Milelli [1]
Joëlle Le Goff [2]

Abstract: The main outcome of the paper is an exploratory and empirical approach to map out the respective entry or expansion of BRICs' companies in Europe during the crisis years through Mergers-and-Acquisitions. It also points out the relative place of Europe as a target zone, and the corresponding sector and geographical distributions for the deals completed before and during the crisis period.

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[1] CNRS *EconomiX – Université de Paris Ouest, Nanterre, France* (milelli@u-paris10.fr)
[2] Ministère de l'Economie, des Finances et de l'Industrie, Paris (joelle.le-goff@finances.gouv.fr)

The aim of the current paper is to get a better understanding of the presence of companies from large emerging economies – i.e. Brazil, Russia, India and China, also called BRICs – in Europe either in absolute or in relative terms. Are these continental countries a complementary or an alternative source of corporate investment for badly affected European economies? Indeed, Europe was (and still is) experiencing two consecutive crisis: first, the *subprimes-mortgage* crisis which blows up in 2008 in the United States and spreads beyond and, second, the European sovereign-debt and the Euro crisis that burst in 2011.

Our purpose is to compare companies from these countries when they take the key strategic decision to set up or expand in Europe in a particular context of financial and economic crisis, austerity programmes, low growth and job losses, not to mention social and political aspects.

Let's remind that companies from emerging economies when they target developed countries to gain a foothold are driven by two main motives: first, the access to new markets and the support of exports, and second, the availability of strategic assets (technology and know-how, international management capabilities, brand names and marketing skills) needed to catch-up with incumbent multinationals or to sustain expansion at home. If the first motive might play against the arrival of these companies in Europe due to falling demand, the second, on the contrary, could enhance their arrival due to available assets at affordable or even fire-sale prices due particularly to the collapse of stock market valuation. Therefore, mergers-and-acquisitions/ M&As, which refer to the purchase of stock in an already existing company in an amount sufficient to confer control, should be the preferred mode of entry instead of joint ventures or greenfield investment. Besides, it can lessen the time period these firms need to adapt with the institutional environment – the set of norms and rules that constrain human behavior (North 1990) – of the host countries, in order to overcome the 'liability of foreignness' (Zaheer 1995).

Due to this general constraint and the particular environment of Europe, what would be the behavior of BRICs' companies? Would it be a similar conduct – namely, Europe being upgraded as a more attractive destination for M&As when compared to other destinations (1), or the reverse (2)? Are differences coming up according to country origin (3)?
The underlying hypothesis for (1) is : first, the relative abundance of strategic assets of various nature and, second, a bumpy road to get similar assets in comparable places – i.e. in the United States of America for political and strategic restraint, and Japan for cultural and economic reservations. Moreover, geographic proximity could matter for Russia.

For (2), the access to stagnant or declining markets, or other factors such as a higher economic or social risk could be advanced.
Last, for (3), external factors, such as history, national institutions or proximity (be geographic or cultural), in respective home countries, would impact the behavior of firms from emerging economies more than from developed economies and could explain discrepancies among them. Besides, internal factors, such as the capabilities to absorb fresh knowledge, routines and values, or the availability (or not) of management capabilities to run overseas subsidiaries effectively, would increase disparity.

We selected M&A operations as the mode of entry in Europe for companies from BRICs' origin. Besides the main reason put forward previously – i.e. to tap strategic assets – M&As are taking a growing part of foreign investments made by these companies in developed countries in relation with a globalized economy with time being anymore a critical factor (Bonaglia *et alii*, 2006). Further, these companies have large financial resources and for several ones, Chinese State-Owned Enterprises (SOEs) in particular, are directly backed by their state.

The paper uses extensively data coming from the Thomson Reuters database on M&As (Thomson One). The time period selected expands from 2000 to 2011 included, and it covers the two crisis that Europe endured. Unfortunately, as financial commitment was not systematic available, we were not able to provide any descriptive statistics on this critical and complementary aspect.

The main outcome of the paper is an exploratory and empirical approach to map out the respective entry or expansion of BRICs' companies in Europe during the crisis years through M&A deals, the relative place of Europe as a target zone, and the corresponding sector and geographical distributions.

1. Europe: a growing destination for BRICs' firms through M&As?

We start with the general framework, i.e. the global M&As industry, which is basically characterized by cyclical trends with volatility (ups and downs) and a sheep-like behavior. Actually, this last feature is not specific to this type of operations but rather a centerpiece of financial markets (Minsky 1964; Orléan 1999).

The year 2007, at the eve of the outburst of the *subprimes-mortgage* crisis, was a turning point for M&As activity either at the world stage or at the European one even if there are some differences between both trends. If M&A activity measured at the world level from 2000 to 2007 increased by 19.5 per cent, on the contrary, M&A activity in Europe[3] for the same period decreased by 3 per cent. Afterwards, from 2007 to 2011, both trends had similar downward orientation but with a sharper decreased for Europe (-19.5%) than at the world level (-11%). As a result, the place of Europe worldwide regularly receded from more than 40 per cent in 2000, to 33.5 per cent in 2007, to reach 30 per cent in 2011. Further, domestic deals plus intra-European ones took the lion's share all along the period with 88 per cent. By difference, M&As initiated by firms from non-European countries took a meager 12 percentage.

Let's have a focus on this last category of countries before and during the two consecutive crisis, i.e. the *subprimes-mortgage* crisis and the European sovereign-debt crisis, in order to better identify the importance and characteristics of M&As set off in Europe by BRICs' firms.

North America is, by far, the largest region of origin with on average quite 70 per cent of all deals completed in Europe by firms from non-European countries for 2000-2011: however, its share faded all over the period from a high 80 per cent in 2000 to 63 per cent in 2011 (figure 1a). Interestingly, figure 1b shows an irregular trend with two downturns corresponding to the burst of the *dot-com bubble* in 2001 and the onset of the *subprimes-mortgage* crisis in 2008. However, the following years were characterized by an upsurge of deals initiated by US firms in Europe.

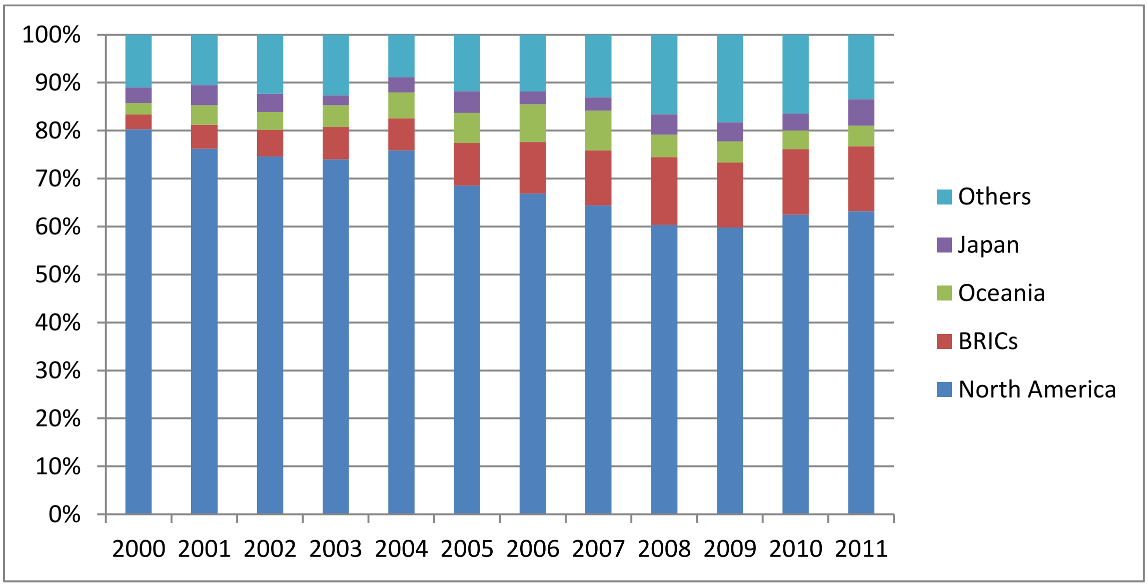
Firms from BRICs took the second place with 10 per cent of all deals completed in Europe by firms from non-European countries for the same period. These companies experienced an

[3] Europe includes domestic deals, plus intra-European ones (for example, between France and Germany) and cross-borders M&As with non European countries (USA or BRICs, for example).

impressive increase along the period but from a very low level: indeed, they represented a meager 3 per cent in 2000 of all European cross-borders carried by non European companies to reach 13.5 per cent in 2011 (figures 1a et 1b).

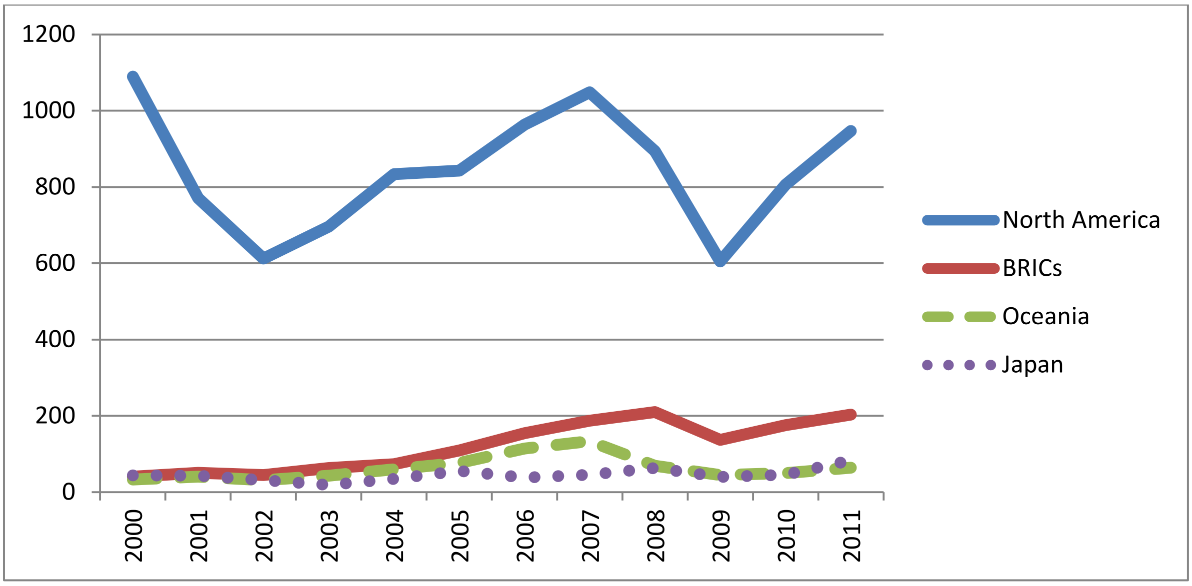
The following countries of origin were Australia + New Zealand (5%) and Japan (3.5%). Amid *Others*, emerged tax havens (2.5%), notably Caribbean ones, and Persian Gulf nations (2%).

Figure 1a. Share of non-European countries of origin for European M&As, 2000-2011 (in %)



Source: *Thomson One*, 2012

Figure 1b. Trends of main non-European countries of origin for European M&As, 2000-2011 (in numbers)



Source: *Thomson One*, 2012

We will look more in-depth BRIC member individually by putting a cut off on Thomson One data at 10 per cent for financial participation to equal M&As scope with FDI one to be in line with international standard. Note that operations registered include first-time deals or repetitive operations aiming to get a better control of the acquired companies.

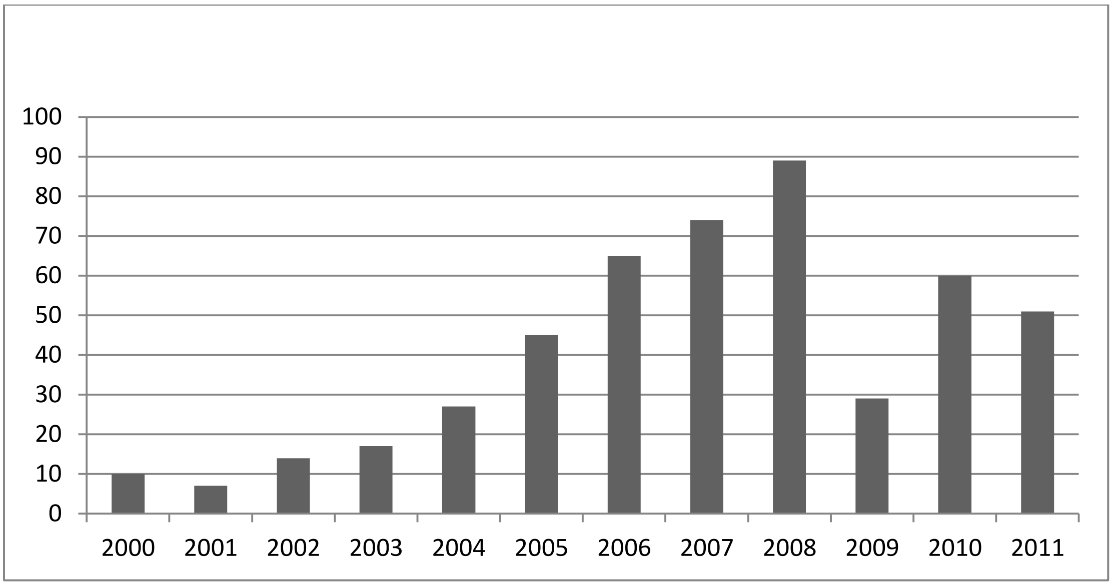
If companies from India were the first from BRICs to acquire European countries during the 2000-2011 period in terms of number of deals completed (488 operations), with Russian companies just behind (476 operations), companies from Chinese origin with 367 operations have experienced the most significant growth along the period, particularly firms from Mainland China. As a result, in 2011, Chinese companies have outpaced Indian companies to take the first rank in number of deals completed.

Last, companies from Brazil with 73 deals are not active in Europe as far as M&As are concerned.

2. European M&As by Indian firms

Indian firms took the first rank in Europe among BRICs for the 2000-2011 period but the figure 6 shows that the upward trend from 2003 to 2008 was affected by the crisis, particularly in 2009 when compared to the previous year with a shrinking of more than 65 per cent of the numbers of deals completed.

Figure 6. Number of European M&As by Indian companies, 2000-2011

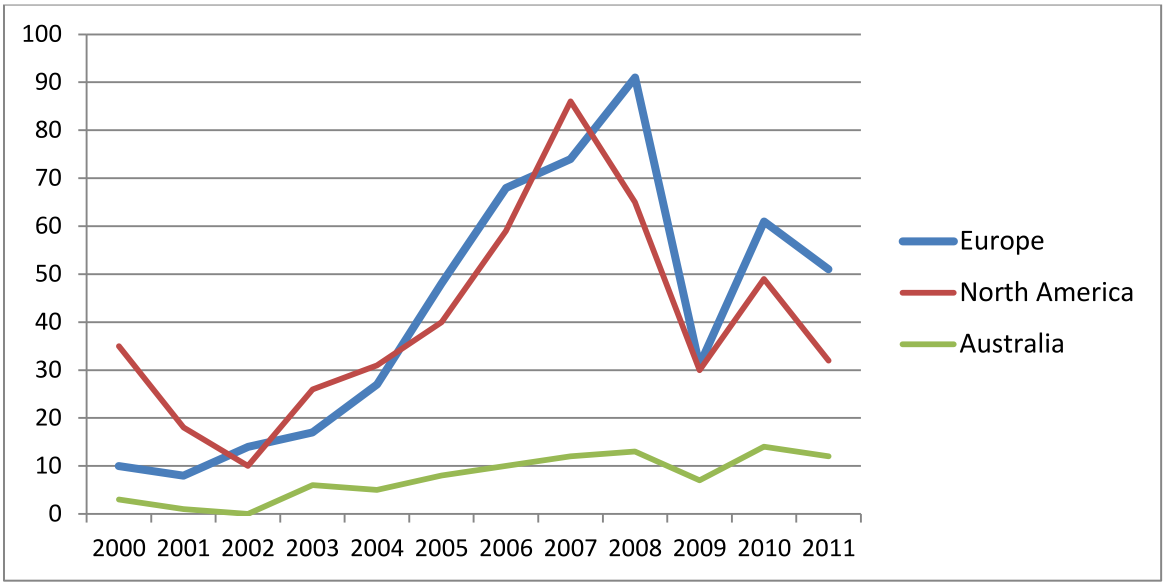


Source: from *Thomson One*, 2012

- *Geographical distribution*

Europe and North America are, by far, the most prominent target zones for cross-borders M&As initiated by Indian companies, and they are quite similar in amount and trends. However, during the crisis period Europe passes beyond North America (figure 7).

Figure 7. Place of Europe *versus* North America or Australia for Indian acquisitions, 2000-2011



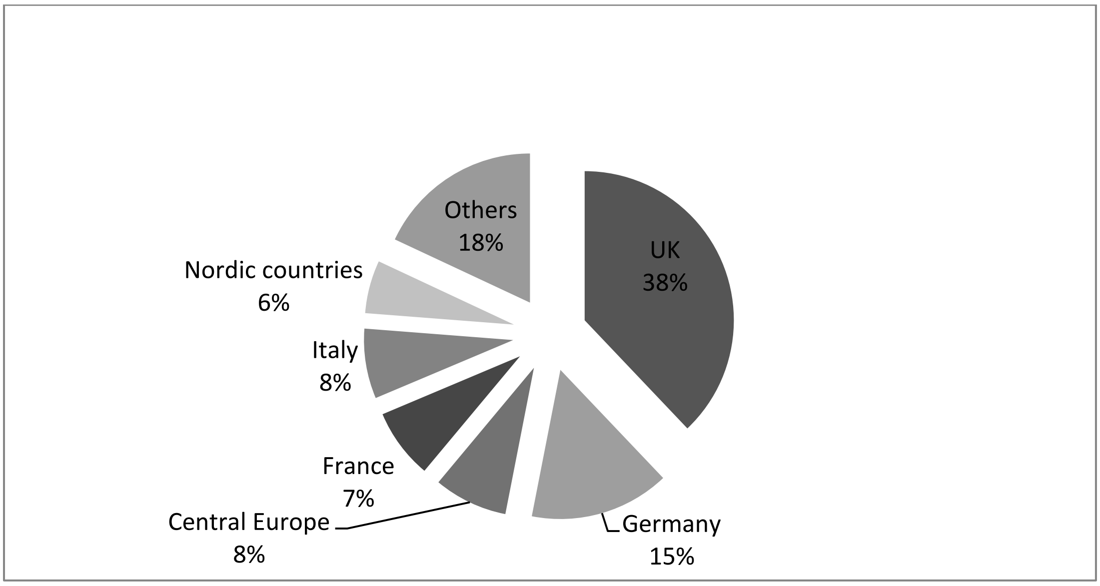
Source: *Thomson One*, 2012

Figure 8 which specifies Europe stresses a mix of cultural proximity – with quite 40% of all M&As realized by Indian firms across Europe targeting British companies – and economic factors such as market size. Further, firms from Central Europe, particularly from the Czech Republic and Hungary, were also targeted.

What about the crisis period?

The Italian firms were much targeted between the crisis period than before (64% of all Italian M&As by Indian firms correspond to the last four years, 2008-2011); French firms were also more targeted followed by British and German firms. Indian companies seem willing to acquire companies form the largest European economies in order to reinforce their presence.

Figure 8. Main European target countries for Indian acquisitions, 2000-2011 (numbers)



Source: from *Thomson One*, 2012

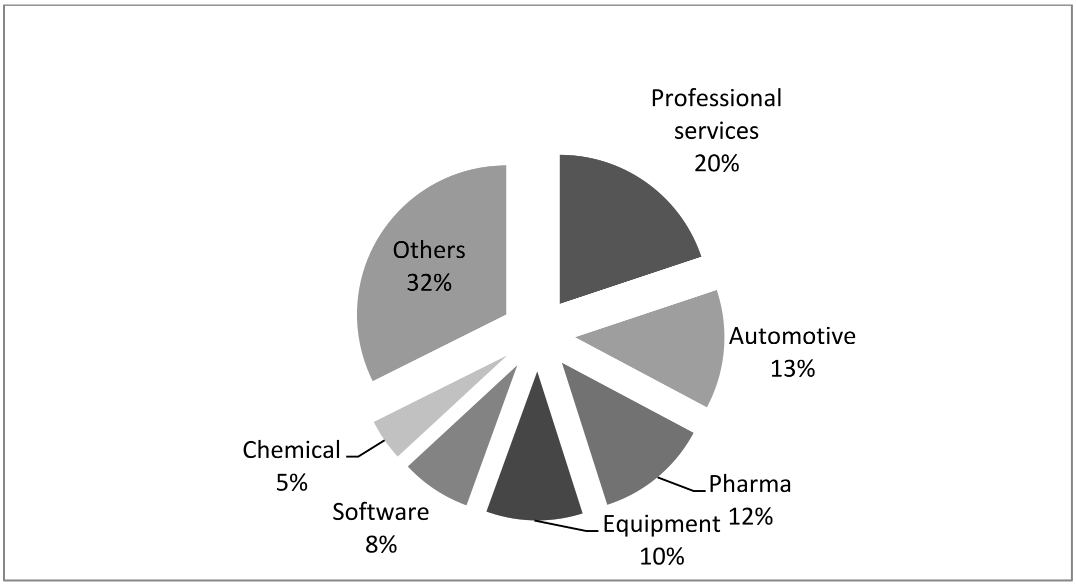
- *Sector breakdown*

Figure 9 underlines three major sectors: first, Professional services (mainly IT driven) and Software development; second, Pharmacy & Chemicals; and third, Automotive. The two first ones mirror the comparative advantage of India in data processing and consulting which are backed by a huge pool of well-educated, English-speaking and low-priced employees, on one side, and very innovative and talented local entrepreneurs, on the other. The same is true for pharmacy, particularly for generic drugs – i.e. copies of off-patent brand name drugs –, or bulk drugs – e.g. antibiotics, vitamins, or growingly R&D outsourcing.

What about the period crisis?

From 2008 to 2011 European firms from the equipment sector were more targeted both in absolute and relative terms – more than 50 per cent of the deals in this sector by Indian firms occurred in the last four years. Even with a minor amount of deals European firms from materials experienced the highest ratio: more than 65 per cent of the deals in this sector by Indian firms occurred between 2008 and 2011.

Figure 9. Main sectors of European M&As by Indian companies, 2000-2011 (numbers)



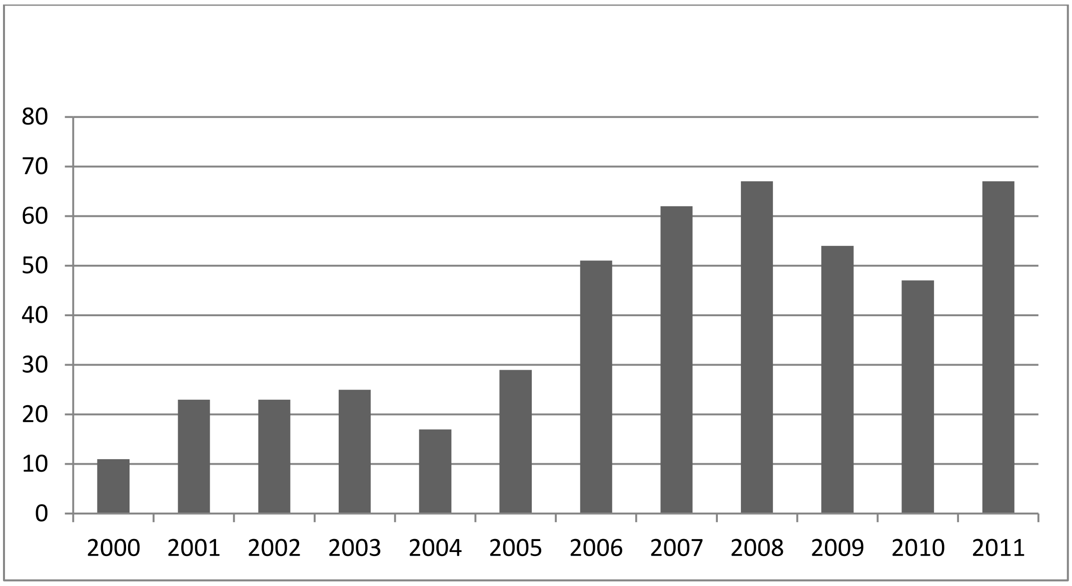
Source: from *Thomson One*, 2012

3. European M&As by Russian firms

With 476 M&As realized by Russian firms in Europe for the 2000-2011 Russia is also a prominent country amid BRICs and Developing economies.

The year 2005 is a critical year for Russian companies with much more deals for the following period than previously; further, the European sovereign-debt crisis has no visible effect on the behavior of Russian companies, but quite the contrary.

Figure 2. Number of European M&As by Russian companies, 2000-2011

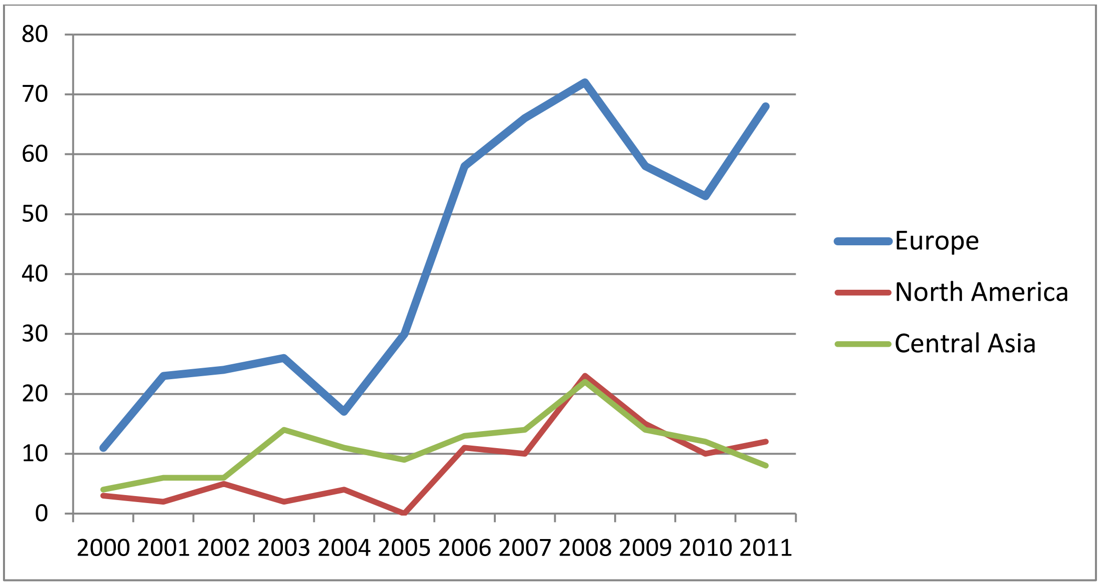


Source: from *Thomson One*, 2012

- *Geographical distribution*

Europe is, by far, the main target zone for overseas M&As launched by Russian companies, and the gap is even growing with other zones during the last period (figure 3).

Figure 3. Place of Europe *versus* North America or Central Asia for Russian acquisitions, 2000-2011 (numbers)



Source: *Thomson One*, 2012

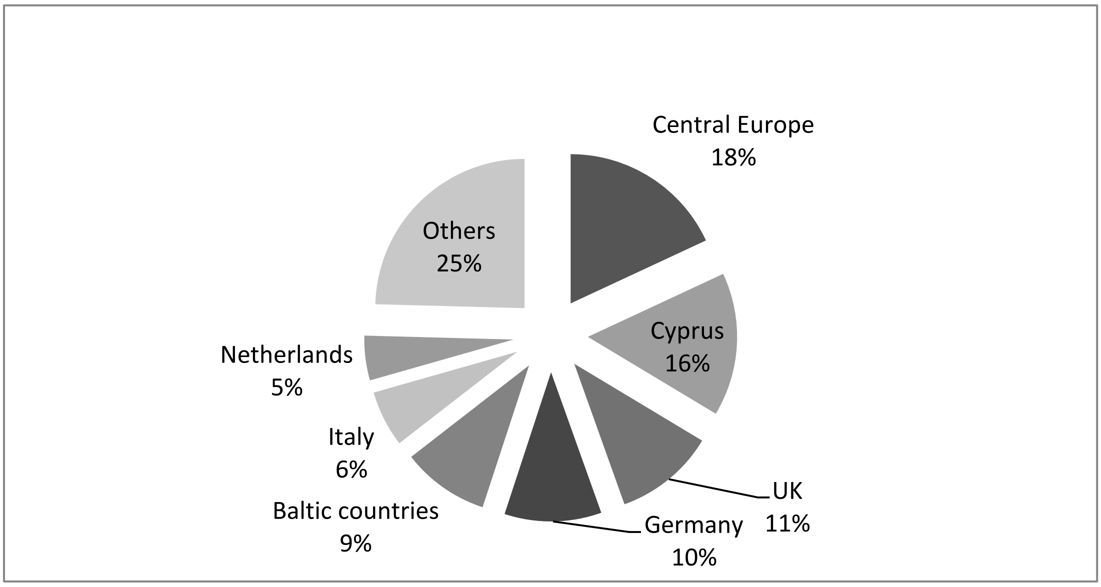
Figure 4 fleshes out the previous feature: geographic and historic proximity matters for Russian companies with Central Europe, Baltic countries along with Finland being the main targets not to mention Eastern Europe. Czech Republic and, to a lesser extent, Bulgaria are the main countries among Central Europe. Another important feature is the role played by Cyprus.

Russian companies are also active in closed countries in Eastern Europe as Ukraine (first destination), Belarus, Moldova, or its periphery (Turkey). During the last years, M&As initiated by Russian companies have increased substantially in Ukraine and, to a lesser extent, in Belarus.

What about the crisis period in relation with the European host countries?

Actually, Cyprus is the most positively affected country during the crisis in absolute and relative terms: from 2008 to 2011, 64 deals were localized in Cyprus, i.e. more than 85 per cent of the total of deals localized in the country island for the reference period. Besides, Central Europe was the most positively zone affected during the crisis, with Czech Republic being at the top level. Last, German, British and Italian companies, with more 60 per cent of the total, have been more targeted during the last period.

Figure 4. Main European target countries for Russian acquisitions, 2000-2011 (numbers)



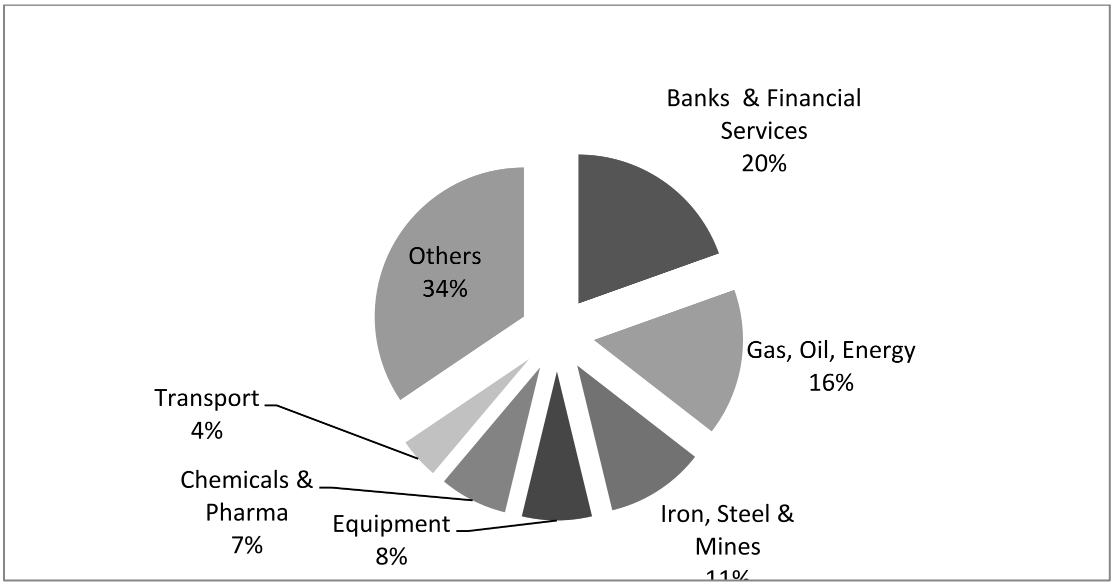
Source: from *Thomson One*, 2012

- *Sector breakdown*

The sectoral scope of Russian deals that occurred in Europe from 2000 to 2011 is broad. The financial industry takes the first rank which underlines the importance of this kind of activities for Russian companies as a whole abroad. But, if we take a broader view, natural resources – Gas, Oil and Energy on one side, and Iron, Steel and Mines, on the other –, are at the top level. This outcome mirrors the comparative advantage of Russia and the competitive advantage of its 'national champions', particularly large State-Owned Enterprises (Gazprom, Lukoil or Rosneft).

Again, what can be said about the crisis period?
As a matter of fact, Russian financial institutions appear to be less risk-adverse agents than their European counterparts particularly during the financial crisis period with 53 deals completed, i.e. 84 per cent of the total during all the period.

Figure 5. Main sectors of European M&As by Russian companies, 2000-2011 (numbers)



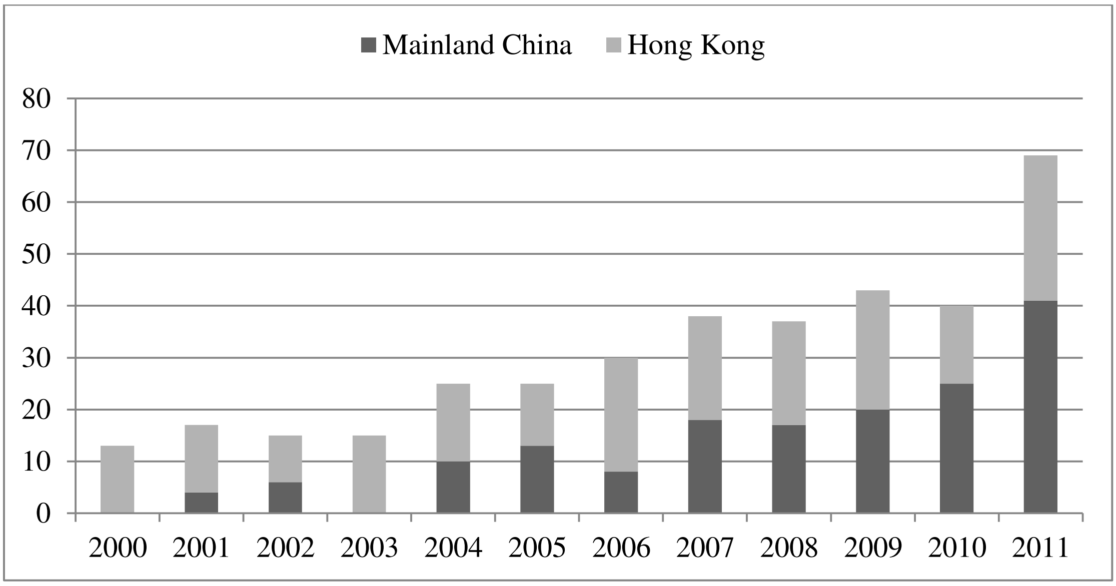
Source: from *Thomson One*, 2012

4. European M&As by Chinese firms

With 367 M&As realized in Europe for the years 2000-2011, Chinese firms – mainland China registered 162 and Hong Kong SAR 205 – took the third place among BRICs in total number. Before 2000, European M&As by Chinese companies were prominently conducted by companies from Hong Kong SAR in more than 80 per cent cases. The tipping point occurred only recently, in 2010, with firms from mainland China outpacing firms from Hong Kong SAR. Note that several mainland Chinese companies use Hong Kong SAR as a springboard for venturing abroad.

The European-debt crisis has no tangible effects and quite the contrary with an accelerating trend for 2010 and 2011. Interestingly, firms from mainland China still privilege *greenfield* mode of entry in Europe (at least in number of deals), even in 2011.

Figure 8. Number of European M&As by Chinese companies, 2000-2011

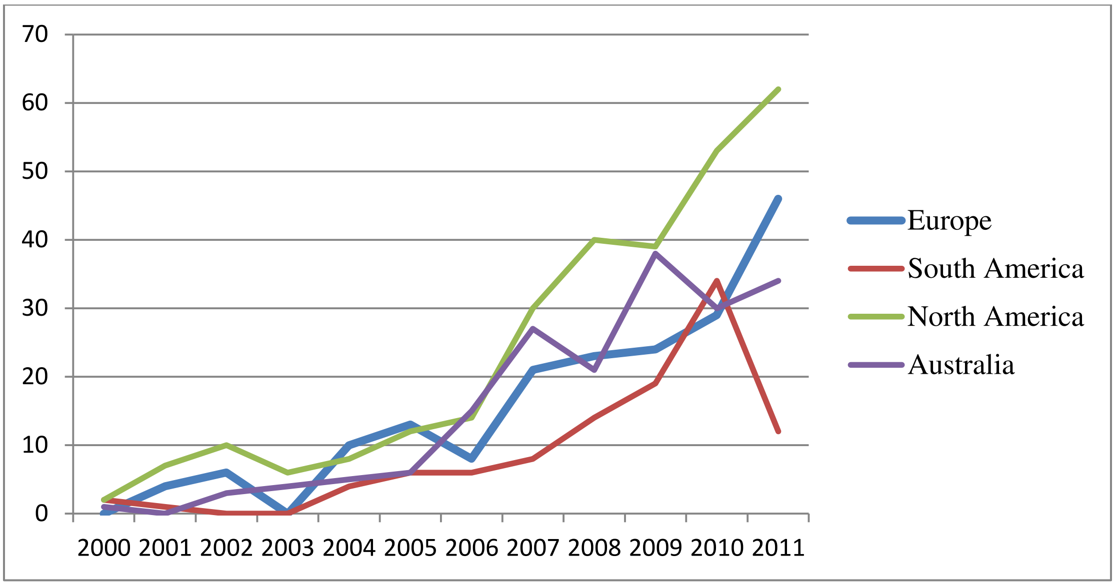


Source: from *Thomson One*, 2012

- *Geographical distribution*

North America, Europe and Australia are the main target zones and countries for M&As conducted abroad by mainland Chinese companies. The last two crisis which have severely affected the United States and the European Union had no visible impact on the behavior of Chinese companies; on the contrary the number of deals have soared (figure 9).

Figure 9. Place of Europe *versus* North America, South America or Australia for mainland China acquisitions, 2000-2011 (numbers)



Source: *Thomson One*, 2012

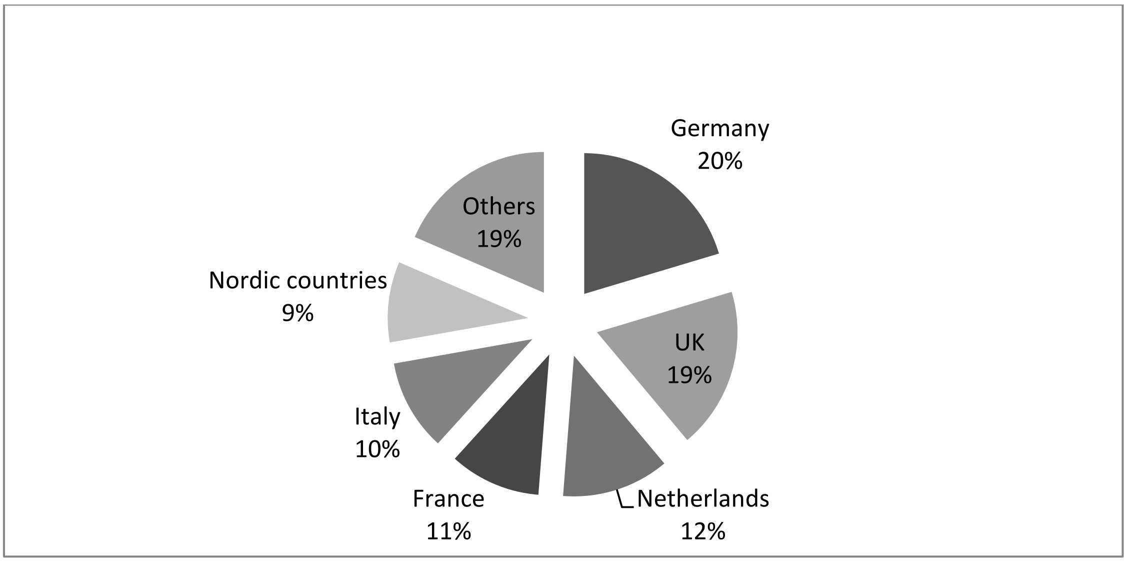
When pinpointing Europe, figure 10 shows clearly, for mainland Chinese M&As, a strong preference for the largest European countries, with Germany taking the first rank, to the exception of Netherlands or Nordic countries,. The attractiveness of the Netherlands is due to its perfect location in continental Europe, efficient transport facilities and logistics along with a low level of corporate taxes. The place of Nordic countries, particularly Norway, is due to the presence of oil, gas and related activities.

As expected, the United Kingdom is the prominent target country for firms from Hong Kong SAR.

What about the period crisis?

No discernible effects are visible for both Chinese sub-groups of companies.

Figure 10. Main European target countries for mainland Chinese M&As, 2000-2011 (numbers)



Source: from *Thomson One*, 2012

- *Sector breakdown*

Figures 11a et 11b underlines a different sectoral profile for both Chinese firms.

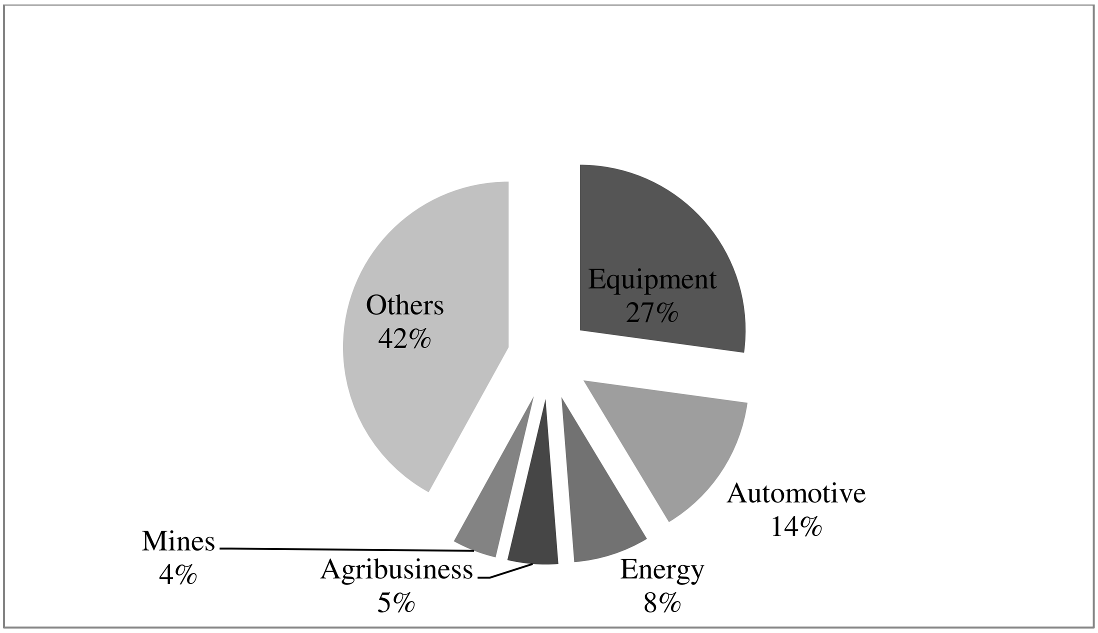
Companies from mainland China are focused basically on industrial sectors – such as Equipment or Automotive or, in some cases, they are related to both sectors (auto parts makers). The quest for natural resources overseas is reflected in the importance of the energy and mine sectors. Actually, several mining companies (e.g. gold, uranium) have their headquarters located in Europe, mainly in the United Kingdom.

Hong Kong SAR's firms on their own, are targeting both industrial sectors and services, such as maritime transport and related facilities, finance or leisure. It mirrors different and somehow complementary comparative advantages.

What about the period crisis?

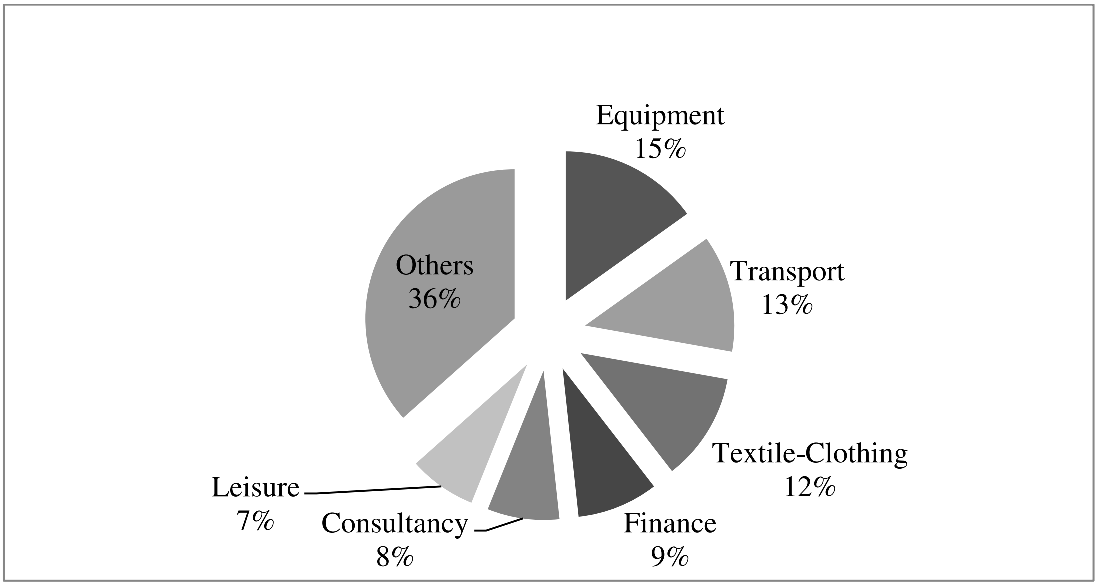
If the share of the equipment or automotive sectors is the same during the crisis period when compared to the previous one for M&As launched by mainland Chinese, on the contrary, the share of equipment increased, i.e. to reach 23 per cent, for 2010 and 2011 for M&As launched by firms from Hong Kong SAR.

Figure 11a. Main sectors of European M&As by mainland China's companies, 2000-2011 (numbers)



Source: from *Thomson One*, 2012

Figure 11b. Main sectors of European M&As by Hong Kong SAR's companies, 2000-2011 (numbers)

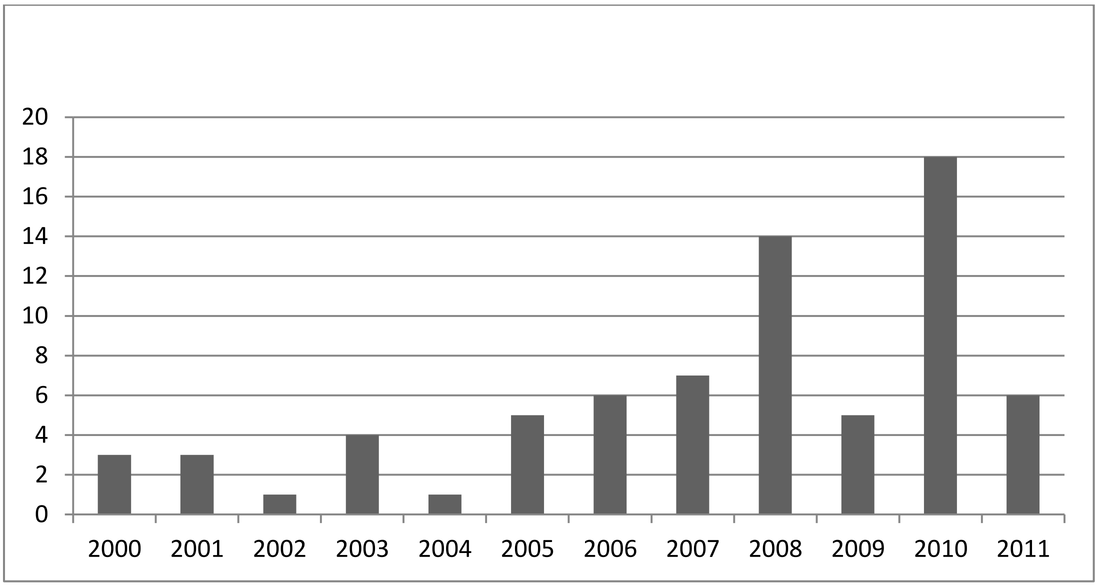


Source: from *Thomson One*, 2012

5. European M&As by Brazilian firms

With 73 M&A operations realized by Brazilian firms in Europe for the 2000-2011 period Brazil is a modest player not only in absolute terms but also in relative ones when compared to other BRICs (figure 12).

Figure 12. Number of European M&As by Brazilian companies, 2000-2011



Source: from *Thomson One*, 2012

Figure 12 shows a surge in 2005-2006 but afterwards one can identifies two downturns (2009 and 2011) corresponding to the burst of the two consecutive crisis. Interestingly, there are some deals conducted by foreign affiliates registered in Brazil, such as IBM Brazil and Whirlpool, with the latter acquiring a department of a Brazilian affiliate in Italy.

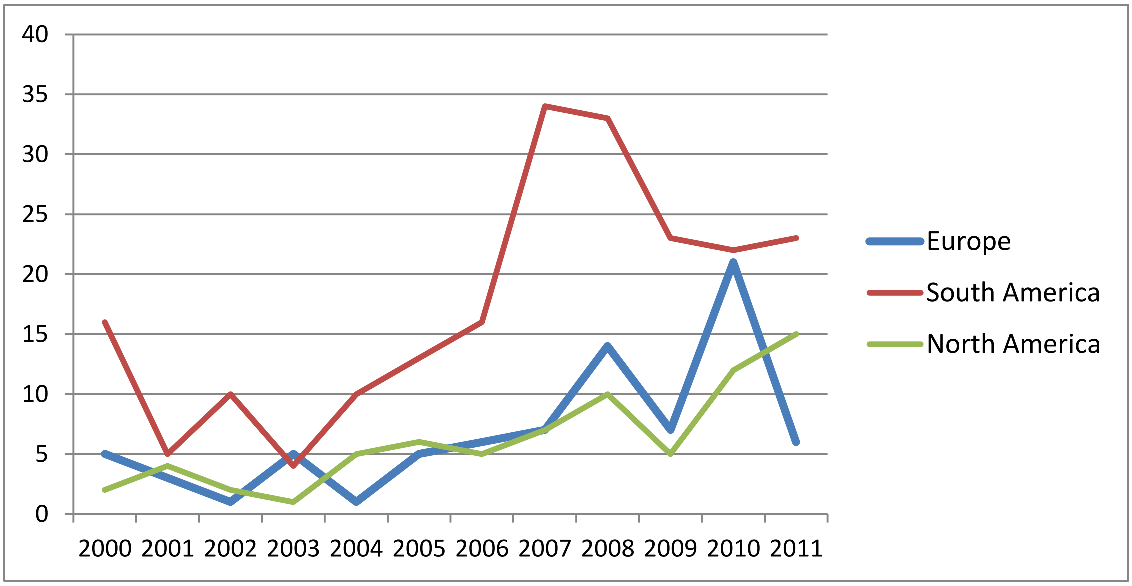
What can be said about the period crisis?

The impact seems rather dubious with no clear trend for the coming years.

- *Geographical distribution*

South America is the main target zone. Part of explanation lies into the Mercosur, a full customs union since 1994 between Argentina, Brazil, Paraguay and Uruguay.
Besides, the place of Europe is collapsing in 2011 in the wake of the European sovereign-debt crisis to take the third rank.

Figure 13. Place of Europe *versus* South America and North America, 2000-2011 (numbers)

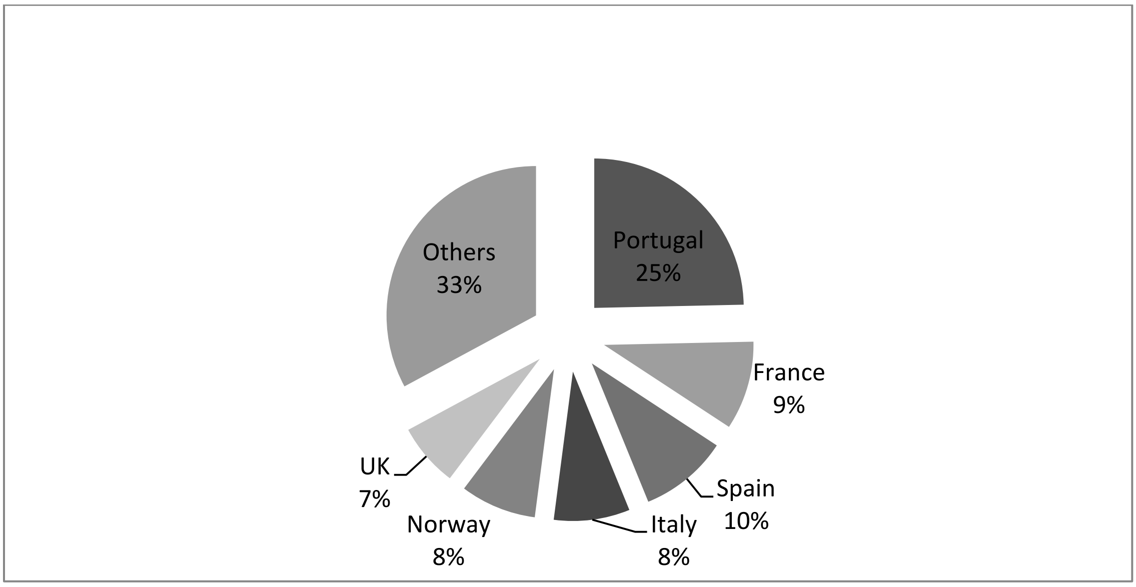


Source: *Thomson One*, 2012

Portugal attracted 25 per cent of the total European M&As made by Brazilian companies: obviously, linguistic and cultural proximities matter more than economic rationale. Besides, the four Latin European countries, i.e. Portugal, France, Italy and Spain attracted more than 50 per cent of the total. This tilting is only affected by the second place taken by the United Kingdom.
On the opposite, Germany and Central Europe are not a priority for this type of operation, whereas Turkey (4 deals) is an alternative destination at the periphery of Europe.

So, what can be said about the period crisis?
Portugal and Spain arise as the main target during the crisis period (2008-2011): with 50 per cent at least of the total of deals between Spanish or Portuguese firms and their Brazilian counterparts.

Figure 14. Main European target countries for Brazilian M&As, 2000-2011 (numbers)



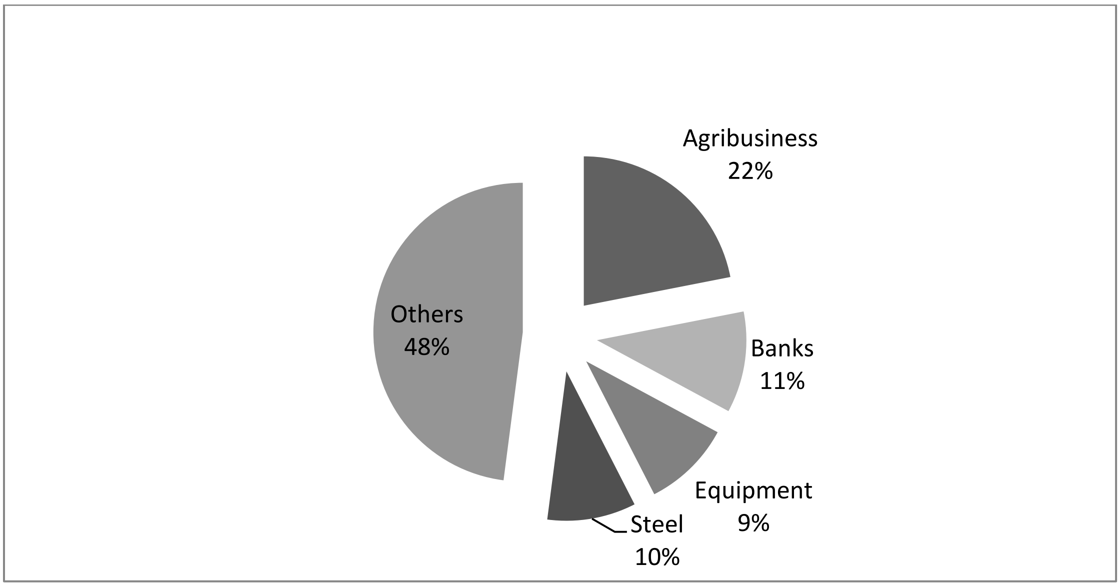
Source: from *Thomson One*, 2012

- *Sector breakdown*

Figure 15 somehow reveals the comparative advantages of Brazil and its companies in the agro-industrial sector: indeed, more than 90 per cent of Brazil's trade surplus is due to agribusiness exports. Further, the relative importance of banking, particularly state-owned ones, shows either the capability of Brazilian banks to venture abroad to expand internationally, to support their customers, Brazilian multinationals, or to search for peculiar know-how and niche markets.

Again, what about the period crisis in relation with the sectoral distribution? One sector, agribusiness with 50 per cent of deals occurring during the crisis years seems the more positively affected.

Figure 15. Main sectors of European M&As by Brazilian companies, 2000-2011 (numbers)



Source: from *Thomson One*, 2012

6. Conclusion

Several broad if somewhat tentative conclusions can been drawn.

6.1 On a general level

The main dynamic of M&As in Europe lies at the national and regional levels (intra Europe): indeed, they represented quite 90 per cent of all deals completed in Europe during the 2000-2011 period. Therefore, only 12 per cent of total European M&As have been initiated by non-European companies. US companies, with on average a 70 percentage took the lion's share whereas the importance of BRICs firms experienced an increase from 3 per cent in 2000 to 13.5 per cent in 2011. This result has to be viewed as a substitute for others countries of origin in terms of takeover activity, including US companies.

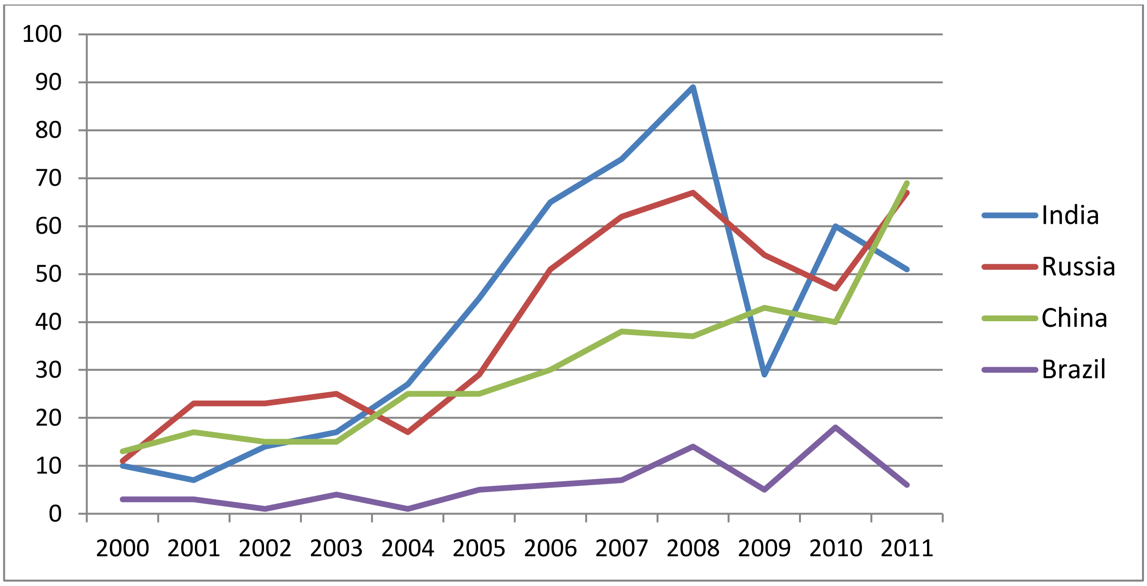
The crisis, particularly the European sovereign-debt crisis, had no impact, at least up to 2011, on the relative importance of European M&As launched by firms from non-European origin.

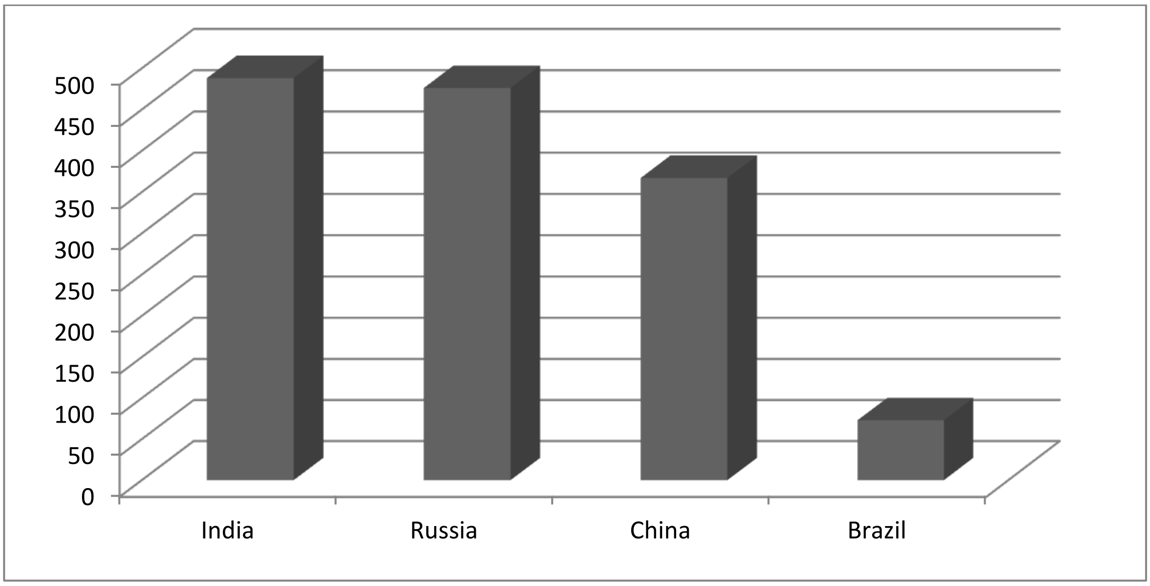
When taking tax havens, particularly from Caribbean, we do not notice any increase and consequently no effect in terms of rising volatility.

6.2 At the BRICs level

At first look one can see a variety of characteristics related to the different country of origin with no convergence at play during the crisis period. Besides, in our case in point – M&As activity in Europe – companies from Brazil were very modest when compared with the three others BRIC members (figure 16).

Figure 16. Numbers of M&As realized by BRICs' firms across Europe, 2000-2011 (annually and total)





Source: *Thomson One*, 2012

Further, one can identify the often discussed unconventional nature of Chinese companies. As a matter of fact, this aspect cannot be explained solely by the presence of SOEs as the lack of international experience and managerial resources along with a higher 'psychic distance' might be a more compelling explanation when considering Europe. Actually, this aspect is multi-faceted with:

- A monotonic rise and a neutrality versus the European crisis, at the exception of Russian companies;

- No geographic or cultural proximity, contrary to other BRICs;

- A sector coverage keeping expanding (horizontal diversification);

- Firms with various types of ownership and size (Large SOEs, hybrid companies, private companies or SMEs);

- Suspected relationships with Chinese commercial and policy banks, on one side, and sovereign wealth funds (CIC and SAFE), on the other. But contrary to Indian investment, particularly in the United Kingdom, or Chinese investment in Africa, there is no evidence of linkages and interrelations with Chinese ethnic communities across Europe, except in some particular cases (the Prato district in Italy being probably the most emblematic).

In conclusion, the paper has several limits that reduce the robustness of the results: first and foremost, the lack of any information related to financial commitment which is a very critical variable *per se*; second, no indication of the origin of financial resources drawn by BRICs' companies in support of their M&A deals; last, no information about the variety of BRICs' firms ownership and size.
Further development should tackle these different flaws.

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