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## Topic

Motivating factors behind Mergers and Acquisitions in Emerging Markets: Analysis of activities in Brazil, South Africa and Russia

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## **Abstract**

**My research looks into Mergers and Acquisitions (M&A) and examines cross-border mergers and acquisitions (CBMAs) as an important channel for investments in the emerging markets via Foreign Direct Investments (FDIs) over the last two decades. Compared to previous M&A transactions, mostly from developed countries, multinational companies from emerging markets have played an increasingly important role in concluding these multi-million dollar deals. Previously small and domestic companies were developed into multinational enterprises (MNEs) in order to access international markets and to enable them to compete globally. This research looks into those valuable characteristics of CBMAs and tries to establish whether they create market value for the acquiring companies originating from the emerging markets. Statistical and financial data has been gathered about a number of CBMAs concluded by MNEs, especially from the emerging markets. This data covers period the 1990 to the beginning of 2013.**

**Despite the impact of the on-going slowdowns in the world markets resulting from the 2007/8 financial meltdowns, M&A activities in the emerging markets have showed resilience. Globally, mergers and acquisitions have slowed down as the investors were looking for cheaper deals and places to secure their financials and to earn better returns. This report concentrates on M&A in Brazil, South Africa and Russia. It then gives some financial details of the M&A and the reasons for their success and failures. But despite that some of these deals fail dramatically, management as decision-makers still continues to look for M&A opportunities.**

**Although the research results show some resistance by the emerging markets during the financial crises, there have been some mixed results of M&A transactions among the BRICS countries. Outward mergers and acquisitions from MNEs in some of the BRICS countries have seen a dramatic increase in the**

**last few years. This trend has been favorably countered by reasonable increase in inward CBMA by the companies from developed countries who seek less risky assets to secure their capital investments.**

**And on almost the same scale, the results show that outward M&A from the emerging markets did not deteriorate as the advent of the internet and globalization has helped management from MNE companies to advance their strategic, financial and managerial motives. This report seeks to understand the motivating factors behind the continuing drive by many boards of directors, especially from the emerging markets to pursue this type of business transaction, and looks into best practices that can be shared by the BRICS countries.**

## Definitions and Acronyms

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ANC – African National Congress

BITs – Bilateral Investment Trades

BRICS - Brazil, Russia, India, China and South Africa

CBMAs – Cross Border Mergers and Acquisitions

EBRD - The European Bank for Reconstruction and Development

EMMs – Emerging Markets Multinationals

GEAR – Growth, Employment and Redistribution

GDP – Gross Domestic Product

IFDI – Inward Foreign Direct Investment

M&As – Mergers and Acquisitions

MNC - Multi-National Companies

MNEs – Multi-National Enterprises

RUB - Russian Ruble

SWF – Sovereign Wealth Fund

TNC – Trans-National Companies

US\$ - United States Dollars

WEF – World Economic Forum

ZAR – South African Rand

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# 1. Chapter I - Introduction

## 1.1 Research background

This research study provides an overview of the pattern of mergers and acquisitions (M&A) by the multinationals companies (MNCs) from the emerging markets between the period 1990 and 2013. There have been a numbers of studies whose data form bases on which M&A deals have help develop MNEs in developing countries. Since the beginning of the 1990s, M&A activities can be summarized into series of waves divided into three periods. According to Boston Consulting Group (2007), Bruner (2004) and Weston and Weaver (2001), each period is characterized by different means as follows: from the 1991 to 1997, this period was known as the period of Leveraged Finance; from 1997 to 2006, this was the period that the world experienced the Internet Bubble and lastly from 2006 to present, the period is known as the Industry Consolidation period. All these have affected the M&A activities in quite unique ways.

Research studies show that the motives for these deals are familiar and these include: to achieve lower manufacturing costs, to gain a strong foothold in growing customer markets, and to tap new workforce pools. The emergence of Brazil, Russia, India and China (BRIC) and in the recent years, South Africa as the centers of industrial production and rising consumer spending has fuelled this business phenomenon. According to Mercer Resource Consulting Limited,(2006) report, it states that even though a growth-oriented company might accomplish the same goals through direct market entry, M&A transactions involving local partners are generally regarded as a faster and less risky route. Emerging markets present dealmakers with the usual set of key challenges as follows: the financials must make sense, cultural differences must be dealt with, and the right degree of integration must be implemented at the right pace and many more (The Economics Times, 2006).

Following the 2007/8 global economic slowdown that led to worldwide recession, it is estimated that developed markets face, at best, low growth over the next few years as they attempt to reorganize their economic development. Companies from these economies are increasingly looking to the emerging markets for new business opportunities. These markets have captured a rising proportion of global M&A transactions in recent years. From the emerging economies, the question that should be asked is “which countries are ripe for investment and where should dealmakers be looking next?”

My motivation for initiating this research work has been based on what was seen to be an success story of cross border mergers and acquisitions (CBMAs) in the BRICS countries, especially the emerging markets like Brazil, South Africa and Russia. There is a lot of complexity involved in carrying out these M&A transactions, including inter alia complex financial deals, setting strategy and ensuring proper management and organizational capabilities for success. Even though there has been less research work done on M&A transactions in emerging markets previously, recent scholars and research institutes are paying increased attention to this topic. While most of the CBMAs are in the so called first world markets, an increasing amount of activity has been occurring in emerging markets (e.g. Sonenshine and Reynolds, 2012).

A lot has been written about the welfare effects of CBMAs in the developed countries like USA and Europe, yet few papers have empirically explored the expected synergies of CBM&A, with emphasis placed on differences between mergers among firms in developing versus developed countries.

The internationalization of companies originating from the emerging economies has already received attention from scholars around the world (Aybar & Ficici, 2009). International experience has been found to be important in multinational firms' market entry (Delios & Henisz 2000, Johanson & Vahlne 1977), market exit (Li 1995, Mitchell/Shaver & Yeung 1994, Shaver & Mitchell & Yeung 1997), global posture (Carpenter & Fredrickson 2001, Hitt & Hoskisson & Kim 1997), and foreign subsidiary performance (Miller & Eden, 2006).

Increasingly outward-oriented postures by emerging-market companies parallel their home countries' integration into the world economy. This paper also takes an interest in studying the internationalization patterns which seemed to be encouraged by the development of Multi-National Companies (MNC) in the emerging markets for the last two decades. My research question looks into the valuable characteristics of CBMAs; the response of stock markets once these multimillion deals are announced as well as the nature of spillover effects in M&A flowing from advanced markets to emerging market economies.

MNEs from the emerging markets have gained ground when it comes to CBMA activities, overtaking their counterparts in the developed markets. Data from Thompson Reuters show that CBMA activity was valued at US\$908.4 billion during full year 2011, accounting for 35.5% of total volume, approximately same level as 2010 and the emerging markets comprised 25% of announced deals worldwide, for a total of US\$667.4billion, which represented a drop of 13.6% from 2010 (Pasquali, 2013). Although M&A are motivated by

different reasons, the end result is believed to be to increase in capacity and future prospect of the purchasing company.

## **1.2 Research problem statement**

Studies show that in the 1980s and 1990s, globalization was largely driven by economies of the developed countries. During that period, it was primarily companies from USA, Europe and Japan that explored opportunities worldwide to entrench their businesses. But more recently, large multinational companies headquartered in emerging markets like Brazil, China, India and Russia have started to influence and redefine the dynamics of trade relation and globalization.

This trend is becoming more pronounced especially after the global economic decline in 2007/2008 which impacted many developed economies. The sudden increase in M&A transactions between developed and developing countries and among themselves has been based on different objectives varying from enterprise to enterprise. While synergies is often mentioned as one of the main arguments for combining two entities, research body work have found much more. Some of the research papers have tried to differentiate their findings on M&A's transactions between upstream and downstream seeking capabilities. Furthermore, the activity, value, and size of M&A transactions are increasing and a common perception is that M&A not automatically creates value.

Studies in the asset-seeking stream had focused on upstream capabilities like research and development activities. Less attention is given to the role of downstream capabilities. Others suggest distribution systems and advertising as pernicious entry barriers (Bain, 1956; Porter, 1980). Firms from emerging markets often pursue aggressive strategies aimed at transforming them in global players at the technology frontier (Luo & Tung, 2007; Mathews, 2006; Ramamurti, 2009a; Sauviant, 2008).

With the objective of the realization synergies in mind, this leads to the main problem: do these M&A add value and, are they sustainable?

Additionally, this paper asks:

- What is the empiric evidence of the general value creation in mergers and acquisitions?
- Theoretically, how are synergies realized, and in what phase(s) of the mergers and acquisition process are synergies realized?

- Looks into reasons as to why companies decide to merge and what sort of result they aiming to achieve by taking such route?

To comprehensively understand the above problems, it is important to understand the conceptual framework and developments of M&A, value creation, and synergies.

To answer the above stated research questions, this research paper provides some evidence of the trends by domestic and foreign investing companies inside and outside of the emerging country financial sectors through M&A during the period 1990 to 2013.

### **1.3 Mergers and Acquisition: Definition and types of M&A**

Mergers and acquisition can be lumped together as a mode through which previously independent firms are set to combine their resources to become a single entity or enterprise. This entity might be the result of friendly or hostile takeover. Firstly, it is imperative to define M&A as this concept will be used throughout this paper. Academically, the term merger or acquisition is known as a combination of two companies where one enterprise is completely absorbed by another enterprise. In a merger, two companies join forces to become a new business and in an acquisition one business buys a second and generally smaller company which may be absorbed into the parent company. Mergers can be distinguished from acquisitions in that they are assumed to involve two firms with more or less the same size or equivalent resources. Numerous reasons for such merger transactions may include among other things: operating economies like purchasing, standardization of products, consolidation of research and development program etc.; acquiring competent managerial skills; company looking to access excess cash reserves; diversification of the company competencies; access to new technologies and many more.

According to the research report by Lee & Pennings (1996), there are three organizational performance categories that have received a great deal of attention from M&A studies. One of them is the financial performance such as abnormal return in share price around announcement of the M&A (Lubatkin, 2006). A second one considers the longevity of expansion following M&A (Pennings et al., 1994). A third class consists of primary data such as interviews and field studies regarding M&A performance, job satisfaction, and employee turnover rate (Greenwood et al., 1994), (Lee, k & Pennings, J, 1996, pg5).

From the perspective of value chain, mergers can be classified as horizontal, vertical and conglomerate (Gaughan, 2002 Chunlai, Chen and Findlay, 2003). Horizontal mergers are defined as business consolidation occurring between entities that operate in the same industry, often as competitors who offer the same the goods and services. This form is a combination of acquiring and the target companies who are competing firms in the same industry.

Vertical mergers involve businesses operating in different industries. Such mergers usually happen when two merging entities each operating at different stages in the production of the same good or service, come together and combine their activities The firms involved seek to reduce uncertainty and transaction costs by upstream and downstream linkages in the value chain and to benefit from economies of scope (Chunlai,Chen and Findlay, 2003). An example of a vertical merger was when America Online combined with Time Warner. This was a vertical merger because they distributed the same content through their own medium.

There is a third type of merger which called the Conglomerate merger .This kind of merger involves two different types of entities involved in different business. Benefits from this type of deal include sharing of assets and reducing business risk. Conglomerate merger is made up of three categories of mergers, namely Product extension, Geographic market extension and other conglomerate mergers. An example of conglomerate M&A is Phillip Morris, a tobacco company which acquired General Foods in 1985 for US\$5.6 billion (Gaughan, 2002)

Academically, acquisition is the process also known as the take-over bid. During the process, assets of the target firm are either purchased fully or partially to make way for the take-over entity to take control of the acquired entity resources to fulfill its strategic objective. Some of the acquiring entities use the acquisition process as an important growth strategy. They do so believing that the benefits of a successful acquisition will ultimately expand their product offerings, increase their market share, provide market share and innovative technologies, and add new markets and powerful distribution channels which will contribute to more sales and revenues (Forbes, 2013).

Certainly, provided M&A deals are conducted with goodwill and with the best interest at heart to ensure their success without political interference, there are bound to be positive spin offs or gains resulting from these huge financial deals. Many research works that were carried out looked into the depth of these transactions to try and extract synergies that can be benefitted by engaging in these deals. Some authors have come with the conclusions that

phrased synergy as the magic force that allows for enhanced cost efficiencies of the new business.

Synergies benefits can either take form of profit advancement or minimization of production costs. The entity that engages in the mergers and acquisitions transactions does so in the hope benefiting. Below are some of the benefits expected:

- Staff reductions – This action need to be carried out in strategic and dignified way. Employer may need to solicit suggestions from staff about how to cut costs and improve production. Rather than to cut jobs, the best way maybe to freeze additional hiring cut bonuses and reduce travel and other discretionary expenses.
- Economies of scale - Mergers could assist companies achieve economies of scale through specialization – where a company have a complex production process, would split up the process and have workers specialize in certain part. Though buying in bulk and get a lower average costs etc.
- Acquiring new technology - Pioneers are generally the first to acquire new technology. Technology has become an important tool for development and growth. It allows big companies to develop competitive edge by embracing all forms of knowledge and capabilities through new management systems and as new way of thinking being introduced by technology.
- Improve market reach and industry visibility - This kind of benefit allows acquiring companies to reach new market and industry visibility, also improvements in profits and earnings. Sales opportunities are improved as both the acquiring and acquired companies are able to expand their marketing and distribution strategies.

Basically, the primary objective for any merger or takeover would be to create value for shareholders that will exceed the cost of the acquisition and such synergies are essentially the only tangible justification for M&A or takeovers. And once the merger process has happened, achieving synergies is not easier to be realized as the two companies ultimately operate as unity to realize such synergies. There ought to be economies of scale as the entities' resources are consolidated to function as a unity. More than often this is not justified. For example, when a buyer comes along and after negotiations and due diligence he decides on certain price, after the deal is finalized, the shareholders of the buyer business need to be convinced that the price was worth paying.

Cost savings synergies from mergers and acquisitions are different from the revenue enhancement synergies. Cost synergies refer to the ability of the formed merger or combined company ability to cut costs due to the consolidation of their operations. The following are some of the examples achieved through this processes: ability to reduce redundancies or headcounts, increase purchasing power or have a greater bargaining power with suppliers, ability to reduce overheads through smart and efficient technologies etc.

All in all benefits gained from revenue synergy are referred to as ability of the Merger Company to sell more products or services or profitably to raise the market price of goods and services due to the M&A deal. Examples of the potential revenue synergies include, among other things, ability to market and sell complementary products, sharing distribution channels, accessing new markets and as well as selling into a new customer base.

## 1.4 Acquisitions: Definitions and types

There are number of disadvantages of carrying on M&As. First of all, the biggest challenge of buying a business outright is assumed to be the initial purchasing cost. These include business transfer costs such lawyers, accountants, valuation specialists etc. As the existing business has customers base, existing brand and business concept, financial costs of acquiring an existing business is usually higher than starting an enterprise from scratch.

Other possible disadvantages include inter alia, time and travel required to research opportunities available and hidden problems associated with such a business. These also include the accounts receivables that are valued at the time of transaction, but later turn out to be non-collectable.

Mergers may require adjustment period to combine their operations. During that adjustment period, production may be disrupted as newly formed entity tries to adjust to new processes which may result in customers not receiving orders on time or having access to dependable customer service. These deals may also lead to some sort of red tape which ultimately leads to some bottlenecks. Decisions that used to be made quickly may now have to pass through several layers of management which ultimately results to lost opportunities in the market place.

Moreover, the diseconomies of scale if such an entity becomes too large may lead to higher unit costs. Sometimes, especially during the CBMA, two entities may have different cultures. Such clash of cultures may result in reducing the effectiveness of the integration. If it is not handled with fragility, it may result in dissatisfaction among current staff members as positions become very limited and the management has to decide which staff members hold positions after the transaction has taken place.

There are a number of possible motivations that may result in acquisition, and one of the most cited reasons is to achieve economies of scale. Wal-Mart is one of the major examples of the economies of scale, because of its significant size; it can often decrease its expenses by buying in bulk and producing large quantities of goods in each production cycle and other aspects of the business. Theoretically, acquisition is known as the purchase of one business entity by another. The acquisition process is generally regarded as a case of dominance of acquiring company over the acquired. The acquiring company takes over shares and assets of the acquired company and operates it under its name. Same as the mergers, acquisition has three forms acquisitions process. They are Horizontal integration, Vertical integration and

Conglomerate or Integration diversification. Acquisitions are either private or public. Private acquisition happens when a company (whether it's private or public) buys up stock of a private company. The deal in this transaction is negotiated with directly with the shareholders of the target company. Public acquisition refers to a process where the transaction documents are drafted between an acquiring management team and an acquired company team for subsequent approval by the target shareholders. In this process there is significant amount of information regarding the target company that is in the public domain, available for scrutiny and analysis.

Vertical integration involves acquiring firms through which the acquiring company currently conducts normal business operations, such as suppliers and distributors. As the parent company combines different elements involved in the production and delivery of the product to the market, it gains control over the raw material and distribution outlets resulting in centralized decision and better communication and coordination among various business units.

According to the research studies, it is indicated that there are no additional gains experienced from such activities (K, Fowler & D, Schmidt, 1989). Lubatkin (1983) has indicated three reasons for such inabilities to assess the gains. These include administrative problems, methodological and measurement problems. And some of the studies state that there are synergies gained due to numerous factors resulting from acquisitions. Some of the major synergies are economies of scale, economies of scope, accounting effects and management effect (Davies and Lam, 2001). Some of the benefits gained include value gained from undervalued share. Other benefits arise as the result of diversification to reduce company specific risk as it is diversified away, this leading to creation of operating or financial synergy.

In the last two decades there have been some major M&A across sectors like Oil and Gas, Automotive and Financial services. Some of the more prominent examples include the following: the Indian conglomerate Tata Sons' acquisition of United Kingdom based Corus Steel and Jaguar Land Rover; China -based Geely Automotive's takeover of Swedish auto giant Volvo; the Mexican cement manufacturer CEMEX's acquisition of Australian cement company Rinker Group, (Synovate Business Consulting, 2011). All these business ventures were engineered by enterprises from emerging economies in order to achieve their growth targets through a transactional route.

M&A could also be classified as either "friendly or hostile" (Chunlai, Chen and Findlay, 2003). When merger and acquisition is conducted in a friendly manner, the board of the target

company agrees to the transaction, and on contrary a hostile deal is one that pits the offer against the wishes of the target firm since the board of the target refuses the offer. And lastly, these transactions can either be domestic or cross-border with regards to where the companies involved base or operate. And CBMA involves two companies located in different countries. In domestic M&A transactions, the firms involved originate from one country and operate in that same country or economy.

The classification of M&A is summarized in the table below:

Table 1: Classification of Mergers and Acquisitions transactions

Mergers and Acquisition classification in terms of		
Value chain	Relationship	Economic area
<ul style="list-style-type: none"> <li>• Horizontal M&amp;A</li> <li>• Vertical M&amp;A</li> <li>• Conglomerate M&amp;A</li> </ul>	<ul style="list-style-type: none"> <li>• Friendly M&amp;A</li> <li>• Hostile M&amp;A</li> </ul>	<ul style="list-style-type: none"> <li>• Domestic M&amp;A</li> <li>• Cross-border M&amp;A</li> </ul>

## 2. Chapter II - Literature Review

Since the end of the Cold War, Russia's market like that of USA reforms saw it moving closer to the market economy (Peter Rutland and Gregory Dubinsky, 2013). The world economy has been reformed to global market, where multinational companies can freely move their capital in search of better invest returns. Through cross-border mergers and acquisitions, such deals have made it possible for these MNCs to seek competitive advantages across their borders, globally. The globalization and the development of communication technologies like internet seem to have played a significant role in helping establishing these mega M&A deals and transactions.

In his thesis paper called "Does M&A Pay? A survey of evidence for the decision-maker" written by Prof. R, Bruner, 2001, he uses an investors required returns as a benchmark against three possible outcomes such as:

- **Value conserved** – assumes that investors get just what they required and should be satisfied with that outcome.
- **Value created** - according to M, Porter value is created when a business is able to change inputs into business outputs in such a way that they have a greater value than

the original cost of creating those outputs. This leads to higher returns on investments exceeding the required returns.

- **Value destroyed** – companies destroyed their value when the required returns on direct investment remains beneath the target range.

Bruner's findings show that the use of such benchmarking is debatable because; management may use M&A as the response to forces of turbulence in their operating environment. They can make them work if they spend greater care and vigor in developing M&A deals. The second reason is that the deal-specific definitions of success limit generalizing from the research findings. If the principal and agent theory is put in test, then the problems between principals (shareholders) and agents (company executives) will always exist. Therefore if enhancing the value created for shareholders is paramount, and is a common objective of all companies, benchmarking against value creation would not permit generalizations to be drawn.

Mergers and Acquisitions transactions have two primary parties, for example the acquiring company and the acquired company. Beside these parties in the deal, there are other ancillary parties who have economic interest in the transaction. These include the employees of the company, those who owe money to company, government, trading suppliers and valued customers. Assessments of strategic and organizational fit, resource dependencies, human capital demands and access to new technologies and markets, are generic drivers for M&A as a strategic step, but they do little to inform target selection. At the discrete decision stage, however, when a particular target is being selected and evaluated in order to offer a price, the decision-maker faces the highly specific questions of who to buy and how much to pay, in many cases setting the path for the largest single business decision in a chief executive's career. The M&A literature is largely silent on the selection issue.

Multinationals who use M&A to achieve their strategic drives or fit might be taking risk in engaging in mergers or investing in takeovers or acquisitions. Complexity increases when the target company is a cross-border multinational. The Board and Senior Management need to be aware of various factors they are faced with once that bold move has been made.

The approach taken by Johnson et al (2011) divides the motives for mergers and acquisitions into three main groups. These motives are broken down to strategic motive, financial motives and managerial motives as summarized in table 2 below.

Table: 2 Motives for Mergers and Acquisitions

Strategic motives	Financial motives	Managerial motives
. Focused on improving & developing the business	. Focused on making best use of financial resources for shareholders	. Focused on the self-interest of managers.
. Closely linked to competitive advantage	. Concerned with improved financial performance	. Not necessarily in the best interest of shareholders

Source: Johnson et al. 2011

***a) Strategic motives***

This related to acquisition that has a sensible strategic fit i.e. it makes sense in that it supports the achievement of corporate objectives. They are categorized as follow as:

- Focusing on extending the company presence across borders, by producing new items and gaining excess to new business environments.
- Gaining competitive advantage as the new entity expands into different markets where the acquiring companies already operates rather than starts from afresh.
- Increased Capabilities are realized when the newly formed entity is engaged in expanded research and development opportunities

***b) Financial motives***

- In most of times, these transactions have financial motives. In all transactions, the ultimate price is to gain better profits. There are three main financial motives: Financial efficiency – Merger may allow the acquiring company to enjoy a desirable portfolio by effect by achieving reduction while maintaining company’s required return.
- Tax efficiency – reducing the combined tax burden.
- Asset stripping or unbundling – selling off bits of the acquired company to maximize asset values.

### *c) Management motives*

M&A may serve managerial self-interest for two reasons:

- Management might have personal egos to fulfill. In the process they will be tempted to seek ways to over-value company's share price, else have desire to expand management and other capabilities which are not in the strategic fit of the company .
- There are rational and irrational explanations by management to engage in the deal. It might either be a quest for growth via organic growth option or following the trend from its competitors, they will do so in order to survive..

Some of the examples for motives to engage in mergers and acquisition are discussed in Chapter VII – Appendix under Data tables 2 & 3.

In the developing countries, mergers and acquisitions have played a significant role in developing or building up the multi-national entities (MNEs) as well as enhancing some of the motives mentioned above to achieve their business goals.

In the emerging markets, Foreign Direct Investments (FDI) is a major vehicle for mergers and acquisitions. The statistical data available for FDI can also be of significant assistance in analyzing CBMA transactions.

Although a wide variety of literature covers theories on mergers and acquisitions, the literature which focuses on foreign direct invest as a Greenfield investment usually begins with profit maximization or cost minimization subject to production function constraint (Reed & Babool, 2003).

In the developing economies, before the increase in rate of CBMA, FDI were only carried out for Greenfield investments where new factories were built for the receiving country. These two concepts are known to be quite different academically. As Greenfield investments are associated with creation or addition to existing resources like factories etc. M&A entails foreign purchase of existing resources like shares or company assets etc., which may not necessary increase productivity. However, the recent developments on Foreign Direct Investments in emerging markets and the increasing trend in M&A transactions resulting from foreign investments, has caused scholars and academics to look at whether the motives for M&A was to advance or diminish both the acquirer and the target companies' shareholder value. In the next coming sections, these motives which can benefit the stakeholders' value and as well as the reasons for dramatic increase in M&A and their sustainability in the emerging markets will be investigated.

### **3. Chapter III - Research Methodology**

The data used in this dissertation is derived mainly from financial and statistical data collected from Institute of Mergers, Acquisitions and Alliances (IMAA) databases. The data covers the period 1990 to the beginning of 2013. The data drawn from the sources is basically qualitative data. Even though quantitative data is drawn, it is sparingly used to do comparison among the countries and the multinationals within the countries. The IMAA website provides selected, regularly updated statistics of mergers and acquisitions worldwide. The data of M&A events are drawn from the Mergers and Acquisitions Database in Thomson One Banker. Thomson One Banker provides integrated access, fully or partially, to several financial databases such as SDC Platinum, World Scope, and Data Stream. According to J, Ma; J, Pagan & Y, Chu (2009) “SDC Platinum Mergers and Acquisitions Database cover more transactions than any other source and is the industry standard used by investment banks, law firms, and media outlets around the world” (pg. 6). For each transaction, the SDC database provides information about the date on which the transaction was announced and the date on which the transaction became effective. The database also provides some characteristics of the target and acquiring firms such as name, nation, industry sector etc.

Some of the data is collected from the UNCTAD and OCED databases. Even though the data does not provide conclusive M&A evidence from the emerging markets, this data is used to give some clarity on how direct investments impact respective capital markets of each country and to reach conclusion that these transactions were in fact of merger and acquisition type. Some of the relevant information and statistical data is collected from online publications. Financial journals and research papers were used to source some of the data. In some cases, where specific company is mentioned in M&A transition or deal, website information is used to source data about company’s annual financial statements information. In the limitations section, it is mentioned that the data from the UNCTAD and OCED may contain some shortcomings due to availability, reliability and comparability of data. Some of countries might not have government agencies to collect data regularly, or data might not show practical reality and in some countries data may be categorized too broadly to be of specific value.

Demarcation and scope of the study, is that the investigation is category specific and will focus on the mergers and acquisitions in emerging markets, also at how foreign direct investment affect M&As in developing countries. The study is exploring casual effects of M&A and the importance of these transactions in the emerging markets. Aspects such as uniqueness of M&As in the emerging countries are excluded whilst the study is also not necessarily taking cognizance of other external factors that influence mergers and acquisitions .The dissertation also involves comparative a comparative analysis which serves the function of deriving factors which may answer the research problem of this project and in this thesis different emerging markets will be treated as in a same group of the whole emerging market.

While the content of the thesis looks into the factors that the firms have control over generally, it also looks into outside factors that are beyond the firm's control. These include business fundamentals, worldwide events, human psychology etc. On foreign direct investments, the research works make comparative analysis among the multi-national enterprises (MNEs) and as well as countries within which they trade.

Several interrelated procedures are performed to summarize and rearrange the data. As most of this data is collected from the databases of organizations like UNCTAD, OECD, Thomson One Banker and IMAA websites, this data is then transformed into meaningful information. Academically, the sort of data collected in this fashion is known as descriptive analysis data. Descriptive statistics such as perceptual maps is therefore used to describe or summarize information about the population or sample, whilst multivariate data analysis allows for the simultaneous investigation of more than two variables (Zikmund, 2004: 453). Tabulation and cross - tabulations, is then utilized to analyze the data, providing perceptual maps. Tables placed in the final chapter of the research are used to achieve this end.

Chapter IV looks into empirical results of the research. The paper empirically investigates the determinants of growth through mergers and acquisitions in the emerging markets, specifically Brazil, Russia and South Africa. By analyzing firm characteristics, industry and aggregate market variables, I was able to determine the motives that were important in the decision to acquire. My results show that intangible capital and firm size significantly affect M&A decision.

Chapter V looks into supporting M&A data extracted from BRICS countries. The BRICS rise to prominence as major players within the global economy and consumer markets is

correspondingly reflected in their importance to M&A practitioners and multi-national corporations as this is also reflected in the increasing deal-flow in BRICS when compared to the global economy (Ari Lee, 2011). It begins by looking at M&A activities before, during global crisis and beyond it. It then gives summary of BRICS inward and outward FDI flows and how they affect favorably M&A transactions. Finally, it gives detailed analysis of other BRICS supporting data for the outward motivations and destinations.

Chapter VI looks into research conclusion, limitations and recommendations. With M&A and FDI information and data gathered from BRICS countries, my conclusion summarizes the benefits of M&As flowing to the emerging markets who undertake these activities. It then gives explanations on limitations which arise as the results of secondary nature of the data used. Finally, the paper gives recommendations on future research work that needs to be done on cross-border M&As as there has been an increasing popularity and importance of these transactions in the emerging markets.

## **Chapter IV - Empirical Results**

### **4.1 Background: Merger and Acquisitions through FDI in Emerging markets**

Two main modes of entry for FDI are M&A and Greenfields investments. For economic development; the two entry modes have different impacts. Greenfield investments are often seen as contributing more directly to the productive capacity of the host country. Initially, it contributes more to the transfer of technology and skills, the building of facilities and creation of jobs. While M&A involve the transfer of ownership of existing assets and it could lead to relocation of some activities. M&A is regarded as leading to repeated investments in the host country's productive capacity, bringing the developmental effects up to par with Greenfields investments (UNCTAD, 2000). Countries engage in a global competition, establish investment promotion agencies and enact policies to incentivize FDI to attract appropriate kind of FDI for their countries. Such incentive may take some form of fiscal or financial nature. Even though governments and authorities may compete to attract FDI in order to create jobs that will revitalize the economy, in some cases such incentive may not always succeed.

These incentives, like subsidies may distort markets and promote an unhealthy competition and thus divert resources away from the decisions needed to improve business climate and necessary investments in upgrading skills.

During the last two decades mergers and acquisitions have become a widely utilized strategic choice for companies' expansion (Bertrand & Zitouna, 2008). Mergers and acquisitions has become the most popular form of foreign direct investments (FDI). Approximately 85 percent of FDI transactions' value took the form of mergers and acquisitions in 1990s (Bertrand & Zitouna, 2006; Kang & Johansson, 2000). During 2006, the volume of global M&A activity reached an all-time high volume of \$3.8 trillion, with the U.S. and Europe sharing equally large chunks of the pie, roughly \$1.6 trillion each, according to Dealogic website (Ragozzino & J, Reuer, 2007).

The main factors behind the boom of international mergers and acquisitions are noted globalizations, technological change and deregulation (Antila & Kakkonen, 2008; Overman, 1999; Schuler & Jackson, 2001). Due to increasing competition, mergers and acquisitions

have spread out to transnational markets. These cross-border merger and acquisitions (CBMAs) occur when a firm expands operations to foreign markets (Amoateng, 2006).

Although mergers and acquisitions are widely utilized and well-recognized form of foreign direct investments, in numerous cases these processes or transactions do not proceed as planned. Previous studies (see for example Deng, 2010; Häkkinen et al., 2004; Nogeste, 2010) have stated the results of mergers and acquisitions are often disappointing.

Lodorfos & Boateng (2006) noted profitability of target companies often declines after the acquisition. Furthermore, especially in cross-border mergers and acquisitions various country backgrounds' are presented, wherefore among the main challenges are the management of various cultures and people (Antila & Kakkonen, 2008; Overman, 1999; Schuler & Jackson, 2001). According to Bloomberg Business week, online house eBay conceded that it had overpaid in its \$2.6billion acquisition of Internet telephone service Skype Technologies in 2005 and eBay took a write-down of \$1.4 billion (Rosenberg, 2007).

These significant failures are happening from developed economies, but how do emerging markets fair?

When the 5<sup>th</sup> BRICS summit was held in South Africa at the beginning of the year 2010, one of most important issue that the heads of member states (Brazil , Russia, India, China and South Africa) discussed was formation of development bank that will ensured financing development of infrastructure for the member countries. The BRICS members have been able to quickly establish a common purpose to diversify the current international financial institutions to be more inclusive and representative of today's economic realities. However, the details on how to do this seem to have been hard to agree on. Very little concrete information has been released on the proposed development bank. What was clear about the bank was that the BRICS nations had decided to fund their development bank with \$100 billion and the reserves were aimed at financing joint development ventures and are set to rival the dominance of the World Bank and IMF.

Such lack of information has made it difficult to gauge what the bank will and will not do, and therefore difficult to judge the kind of impact it is likely to have on global development. In its most successful form, it is hoped that the bank will achieve three things. First, it will respond to developing countries needs as opposed to the priorities of the lending institution. Second, it will fill any current gaps in financing, including access to finance for small and medium enterprises. Finally, it will finance infrastructure projects in places normally

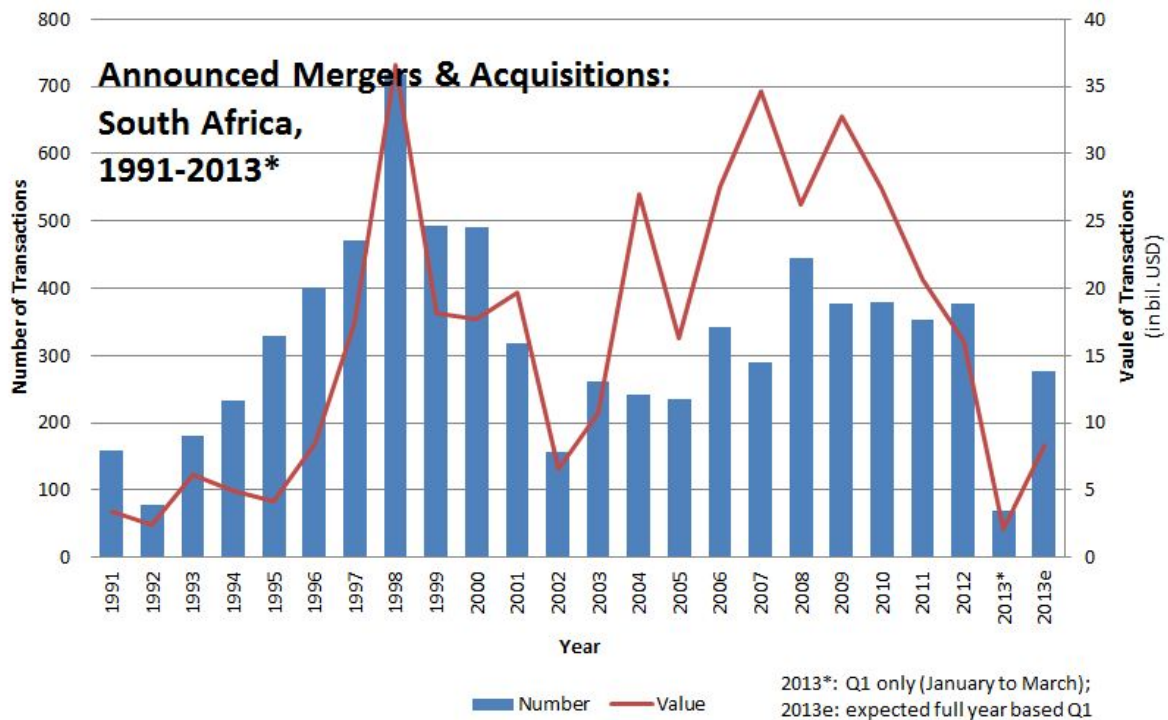
neglected by the private sector, and infrastructure projects to support an increased standard of living for all. On the other hand the bank could fail. The conflicting interests between the BRICS members may be too great to reach agreement for implementation (The Guardian, 8 May 2013).

According to the African Development Bank report released in 2012, the recent years, mergers and acquisition activities have become an important channel for investment in Africa for both local and global market players. Mergers and Acquisition deals have allowed companies especially the Trans-National Companies to consolidate their positions in African markets, contributing to better market access and competitiveness, both locally and internationally. Ncube, (2011) mentions that the African mergers and acquisition market is still very small compared with other regions in the world, including some of the emerging markets in BRICS countries. He also notes that there are also regional disparities within the continent as the market is essentially dominated by deals in Northern (Egypt) and Southern Africa (South Africa). Despite the impact of the ongoing recession on markets worldwide, M&A activities in emerging markets especially in Africa have showed resilience and their slowdown has been tempered. "Africa is becoming much more important for a lot of the global banks and as a consequence, you are seeing increased competition," said Johann Scholtz, banking analyst at Afrifocus Securities in Cape Town (Reuters, Jan 19, 2011)

The graphs below show the trends of announced M&A in the emerging markets from period 1991-2013. The first graph (Graph 1) represents the picture of announced South African M&A during the same period. Noticeable peaks of the M&A were during period 1995 to 2000 and as from 2006 it has been as steady rise. Detailed analyses of the movements are explained categorically below.

Russia has experienced an elongated worse period in M&A from 1993 to 2007. There has been a revived rise in M&A from 2008, reaching a peak in 2010. The trend decreased from 2011 and kept steady until 2013. The Brazilian M&A history followed similar trend to Russia but at higher values, and it had noticeable rise between 1998 and 2001. It peaked in 2007 and kept a constant until a fall in the beginning of 2013. These trials and tribulations have caused or affected by various events either within companies or outside factors like politics, financial crises, technological changes or environmental etc. Analytical details are given below.

**Graph 1: South African Mergers and Acquisitions (1991 – 2013)**



**Source: IMAA Institute - 2013**

South Africa has been going through a sweeping transformation process since the early 1990's. This transformation process unleashed new political and economic dynamics in the country which had far reaching consequences for all its citizens. One of the most important economic consequences of this process was trade liberalization. The South African economy opened its doors overnight to a highly competitive international business environment. The sheltered economic seclusion characterised by the "apartheid era" was suddenly something of the past. (Botha, 1998:6) South Africa, as an emerging market, is becoming more confident of its strength in an international environment and is viewed by the international community as the gateway to Africa and therefore an attractive partner of choice. (Parsons, 1999:41) South African businesses will in this regard inevitably be exposed to international practices and trends. One of these international trends is the rampant occurrence of CBMAs. According to a research paper by Nel (July 2000), South Africa has enjoyed a high volume of mergers and acquisitions activity. Two examples he cited are as follows:

- The merger of Anglo American Corporation and Minorco to form Anglo American plc at value of R71.3 billion and,

- That of financial service interest of AAC and Rand Merchant Bank Holdings to form First Rand, which saw an amount of R59 billion passing hands.

He notes that South African M&A activity is unique due to absence of hostile takeovers (Ross, 1996:574). And his reasons for this are that the shareholder base in South Africa is too small for any successful hostile take-overs (Du Toit, 1999:46). From this and many other examples, we have a rise in M&A in South Africa due to liberation of trade, free market and exchange controls that were made possible by the economic policy of the ruling party ANC called Growth, Employment and Redistribution (GEAR).

Compared with other emerging markets studied in this thesis, M&A in South Africa have on average maintained a rhythmic pace through the period under study. This may be due to various factors existing in the South African market sector. These include free market economy; market regulated exchange rates, available capital for investment and political tolerance etc. According to South African ambassador in China, Mr Bheki Langa, he says SA is uniquely placed to bring the African perspective to the BRICS forum. As a largest developing country investor in Africa countries and with an economy accounting for 18% of the continent's GDP and 27% of Sub-Saharan Africa's GDP SA can pass important attributes to the BRICS (Stevens & Freemantle, 2010)

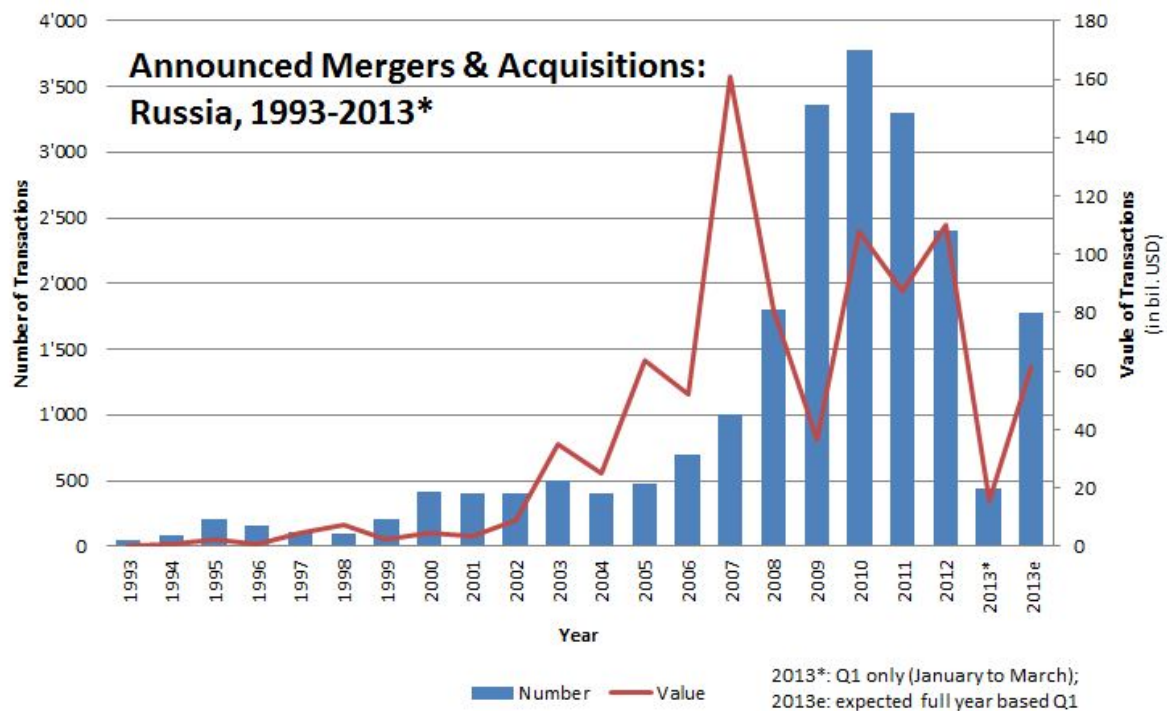
From the beginning of the 90s, M&A in value and in numbers have been steadily increasing. Right at the helm of the financial crises, South Africa M&A in value and numbers reached their highest peak, at US\$ 35bil and 700 numbers of transactions respectively. Since then, they have kept an average growth of around 350 in transaction numbers while the value jumped to an average of US\$30bil from 2003 to the present.

But the disadvantage that could hinder growth in CBMA is the fact that South Africa has strong union presence in the labour market. And for this reason, the auditing firm Ernst & Young has revealed a somber outlook about investing in South Africa. There was a strong contrast between the drivers for M&A in South Africa and those for the rest of Africa in 2012. Relatively untapped African nations continued to attract growth driven investment for resource security. Conversely, deal activity in South Africa's mature mining and metals sector largely stemmed from industry reorganization in response to widespread labor unrest, growing resource nationalism, and higher than inflation wage and energy cost increases, together with a number of transactions restructuring previous black economic empowerment (BEE) deals during the year (Ernst & Young, 2013). This revelation came after South Africa

has just commemorated the Lonmin mine so-called Marikana massacre where 44 people were killed by police over wage increase disputes.

In 2013, overall M&A activity has come to under pressure as the emerging markets also show some sluggish growth. Mr. Katz from ENS law firm says “M&A activity has been affected by slowdown in shares in South Africa and other emerging markets. The current economic climate in South Africa has also had an impact on the investment activity in the country, especially with regards to the volatility of the rand and labour unrest in various sectors” According to the Business Day report by Alistair Anderson, dated 13 August 2013, during the first half of 2013, 206 transactions were recorded in South Africa with estimated total value of R121.4 billion. In 2012’s first half, 217 transactions worth as total of R65 billion were recorded. He continues to say, of the 206 deals, only 29 with a total of R16.7billion were across border and six involved investments in other African countries with a value of R718 million and there were nine incoming cross-border deals from all sources valued at R4.6 billion and 20 outgoing with a value of R12 billion. The largest deal of the first six months of the year was the sale by BFP Billiton to Petro China International of its interest in East and West Browse gas resources off Western Australia for US\$1.63 billion.

**Graph 2: Russian Mergers and Acquisitions (1991 – 2013)**



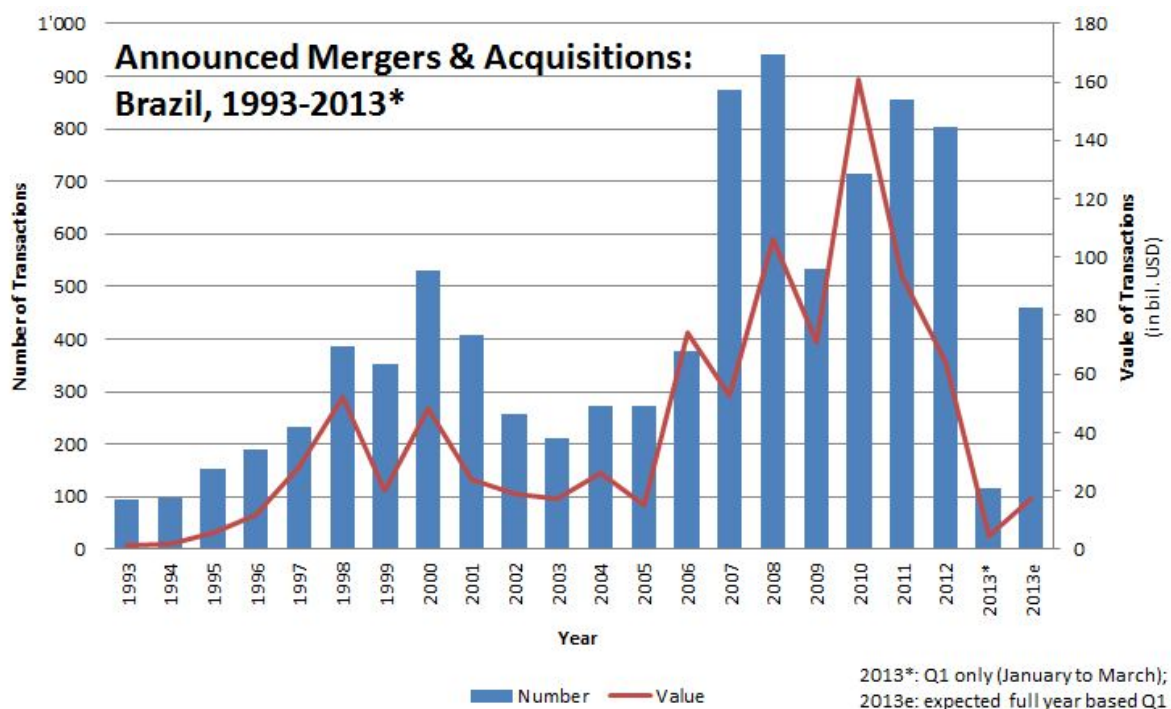
**Source: IMAA Institute - 2013**

Since the phasing out of the Communist Soviet in the early 90s, the Russian market has been characterised as a developing market. In the last two decades, the country has experienced significant and most drastic changes. Russia’s privatization can be linked directly with the fall of the communist rule. Privation in Russia was followed in a systematic transfer of control from the state to private ownership in a number of enterprises and wide range of economic sectors. Even though internationalization and Western lifestyle have entered the nation, recent world economic downturns have in some ways weakened the amount competition that the nation was beginning to experience. Laisi (2010), states that the Russian state declared that railways should merge in order to strengthen market competitiveness. And in 2008, railway freight operator listed on the London Stock Exchange went for successful initial public offering (Grantham, 2008; Stupachenko, 2009). Privatization of the Russian economy occurred in two major phases: voucher privatization and the liquidation of small enterprises (1992 to 1994) and cash sales (1995 to 2002) , and by end of 1993 about 70 percent of all small enterprises (about 75,000 enterprises) were privatized mostly for cash and usually quite quickly (W, Baer & T, Bang, 2002).

In graph 2 above, the pattern of M&A in Russia showed a slow rise during 1990 decade. Even though the number of M&A transactions increased slightly during the same period; the value of these transactions seemed to be significantly lower in comparison.

From 2001 up to 2009, there was a significant improvement in the value of the M&A transactions compared to the number of transactions. Between 2006 and 2007, while the number of transactions was 1200 on average, the financial value shot up to US\$160m while the world experienced financial crises. Only after the financial downturn that the world experienced significant reduction in M&A transaction, but the number of transactions gained momentum and shot up to over 3500 transactions in 2010. Although there has slowdown in global CBMAs, Russian’s M&A has shown resilience and only if the country could ensure progressive market policies, less political hindrances and more company transparency the future for direct investments is guaranteed to be brighter.

**Graph 3: Brazilian Mergers and Acquisitions (1991 – 2013)**



**Source: IMAA Institute - 2013**

Brazil is regarded as one of the fastest growing economies in the world. Its economy is one of the largest in Latin American nations. Adding advantage to Brazil’s economic success is that Brazil takes part in diverse groups including BRICS, WTO, G8 and many more. Brazil’s economy has soared as its GDP, overall employment and middle class population hit record

levels and as its market mature, M&A activity has steadily increased. Respondents agree that foreign investment is the primary driver behind the uptick in M&A industry consolidation. And large multinational companies are capitalizing on Brazil's fast-paced growth, which is fuelling the smaller domestic firms to consolidate in order to compete.

The Brazilian M&A environment remain dynamic in the sense that tax laws are subject to frequent changes, which at most create tax planning opportunities and at worst create pitfalls for pitfalls that frustrate M&A tax advisors. Looking into the M&A graph above, although Brazil started very slowly due major economic and political reforms in the beginning of the 90s, and it has managed to experience some mixed fortunes in these direct investments. From 1997 to 2002, Brazil experienced a rise in number of M&A transactions, while value of these remained lower. And from 2006 to 2012, the numbers of these transactions shot higher on average 700 transactions per year, while their value also showed some improvement, shooting to highest of US\$160bil in 2010, then dropping to the lowest at US\$50bil by the end of 2013. Major transactions that occurred around 2008 period include the merger of Sadia and Perdiao, which are two of biggest food companies in the country resulting in the formation of Brazil Foods, one of the largest companies in Latin America. There was also a purchase of large retail companies Ponto Frio and Casas Bahia by Pao de Acucar which is a major supermarket chain.

In 2010, the chemical company Braskem acquired Quattor, another petrochemical company in exploration of pre-salt oil reserves which has generated large revenues. And this acquisition formed one of the largest companies of its kind in the world, which had become a regular contractor for Petrobras and the Brazilian Government.

According to the 2012 PWC Economic report on M&A, the European economic crisis has contributed to a reduction in global investment flows and many industrialized countries happened to experience some recession, (2012) PWC report on M&A in Brazil. But Brazil is said to have thrived even in this environment and was able to remain attractive in the international market as it remained competitive among the traditional M&A markets as it continued to consolidate its status of a secure country to hold investments. Although numbers of domestic investors remained the same, with noticeable increase in transaction volume, foreign investors maintained their focus on the M&A market and the signs of financial crises appear less pronounced as there was significant increase in deal volume with foreign buyers compared to the beginning of the global crisis in 2008.

Among the growing industrial sectors, the infrastructure sector shows most significant growth as the demand is growing in major infrastructure projects which are essential in supporting the regions urbanization as well as large influx of tourism that the 2016 Olympics and 2014 World Cup is destined to attract.

## **4.2 How FDI affects Mergers and Acquisitions in the Emerging countries**

In the recent years, it has emerged that MNE in emerging countries gained momentum in relation to CBMAs, and the reason being well endowment of natural resources in Africa and in Latin America largely driven by privatization of state-owned utilities and financial services enterprises. These MNEs from emerging markets, not only do they push for CBMAs for specific reason, but also do so to gain access to reputable and well set markets, in the process of securing well-known brands and trustworthy customers. For example, the Indian group, Tata has been commanding force to be reckoned around the world in the motor industry. Not only did it do this through production of its own vehicles, but it pushed to acquire Jaguar as one of the sterling brand under its arm. The rise of global direct investments from foreign countries (OFDI) has showed some remarkable results, especially in the emerging economies. According to OECD report (2012), since 1980 – 1985 when global OFDI flows averaged roughly US\$50 billion per year, OFDI flows have grown by a factor of forty to surpass US\$2.1 trillion in 2007 and in 2008, due to financial crisis and the global economic downturn, global OFDI flows fell by roughly 10% to US\$1.9 trillion.

According to the paper by Calderon et al, FDI flows to developing countries surged in the 1990s to become leading source of external financing and this rise was accompanied by a marked change in its composition: investment taking form of acquisition of existing assets (i.e. M&A) grew much more rapidly than investment in new assets (“Greenfield” FDI), especially in countries undertaking extensive privatization of public enterprises. As MNE companies in developing countries or emerging markets make equity investments in developed countries, it is well observed that their objectives dovetail with the political goals of their governments. For examples, governments in Russia and China are eager to enter established markets and grab a share of economic power. In 2004, the Russian government established a Stabilization Fund as part of the federal budget to balance the federal budget. In

2008, the Fund was split into Reserve Fund which invests abroad in low-yield securities and to be used when oil and gas incomes fall.

In order to succeed when venturing abroad, this required a lot of concerted effort with much trial and error to create maintain sound strategic fit.

Shown in table 1 below is some of the recent statistical data compiled by Organization for Economic Co-operation and Development (OECD), looking into transactional value of FDI through mergers and acquisitions among the emerging and developed markets.

**Table 3: BRICS countries FDI Data (2005 - 2011) in US\$m**

Inward FDI	Country	2005	2006	2007	2008	2009	2010	2011
	Brazil	15,066	18,822	34,585	45,058	25,949	48,506	66,660
Russia	12,886	29,701	55,073	75,002	36,500	43,288	52,878	
India	7,622	20,328	25,506	43,406	35,596	24,159	31,554	
China	72,406	72,715	83,521	108,312	95,000	114,734	123,985	
SA	6,647	-527	5,695	9,006	5,365	1,228	5,807	
Outward FDI	Country	2005	2006	2007	2008	2009	2010	2011
	Brazil	2,517	28,202	7,067	20,457	-10,084	11,588	-1,029
Russia	12,767	23,151	45,916	55,594	43,665	52,523	67,283	
India	2,985	14,285	19,594	19,257	15,927	3,151	14,752	
China	12,261	21,160	22,469	52,150	56,530	68,811	65,117	
SA	930	6,063	2,966	-3134	1,151	-76	-635	

Source: UNCTADSTAT, Database, <http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx>, accessed 22 February 2013.

According to preliminary estimates conducted and revealed by the 2013 OECD studies, these show that FDI globally have been on the sliding scale. Table 1 shows some interesting contrast between the inward and outward FDIs by the BRICS countries for the period 2005 to 2011. Starting with Brazil, inward FDI showed an improvement of 13%, from US\$15,066m to US\$66,660m. This is in big contrast to the outward FDI which fell by over 300%, from \$2,517 to –US\$1,029m. Year 2011 shows a high increase in value of outward FDI as Brazil MNE show restoration of confidence to other BRICS countries. Compared to Brazil, Russia shows some improvement in outward FDI. Russian inward FDI increased from US\$12,886 in 2005 to US\$52,878m in 2011. Outward FDI were the top among the BRICS countries, they show and improvement of 81%, rising from US\$12,767m in 2005 to US\$67,283. Compared to the rest of BRICS countries, South Africa value of FDI were the lowest. Inward FDI remain slightly the same on average through the period, coming down from US\$6,647m to a mere US\$5,807m. And the factors mentioned above have played different roles according to

individual country. In South African situation, trade unions enjoy some bargaining power when it comes to labour disputes due to its alliance with ruling party, ANC.

There has been a strategic shift in the way the funds are being invested, instead of traditional investments SWFs are redesigned to favour equity-type investments either through state-owned investments funds or MNE companies for companies with more capabilities and know-how in industries that are crucial to their own economies. But one of the disadvantages to the continued success of these sovereign wealth funds is that the investments and political agendas of some of SWFs are secretive.

The following sections of the thesis look at foreign direct investment and how these have been viewed as the most influential transactions in the mergers and acquisitions in the each country discussed in the preceding chapters. It also looks at M&A transactions with other BRICS countries and developed countries.

## **South Africa**

Empirical studies conducted to determine FDI in South Africa deal with aggregate FDI flow, and do not take into consideration the mode of entry and associated determinants (Wilson, 2013). The research report done by Baker & McKenzie, April 2012 states that South Africa is an important center of business for all of Sub-Saharan Africa, boasting the largest economy on the continent and a government committed to developing a free market. South Africa been long regarded as a gateway to Africa, the country has the continent's fifth-largest population and was acknowledged as a crucial market for investors when it was added to the BRICS bloc of countries in December 2010. The cornerstone of South African M&A legislative framework is the Companies Act, 2008. The Act regulates fundamental transactions, amalgamation and mergers.

South Africa's infrastructure is by far the best on the continent, as home to 80% of the continent's rail network and to the region's biggest stock exchange. It has the largest middle class, proportional to its population, of any African country. In the World Bank's "Ease of Doing Business" index, South Africa ranks 35th out of 183 and second in Africa (after Mauritius). For the soundness of auditing standards and the regulation of its securities exchanges, it is second to none. According to Mr. Lucky Phakeng, the Executive Director of the Takeover Regulation Panel, the country's mergers and regulations are distinctive in that

South Africa requires that the target valuation price be disclosed, thus providing additional transparency to investors.

South Africa M&A activities started at the beginning of the 1990s when a new political era was ushered by changes advocated by former State President FW. De Klerk. In the mid-1990s, when former President Mandela took over reigns, the country was much concerned with reconstruction and development after the ills of apartheid South Africa. When former State President took over, the concentration was on growing the economy and more focus on free market activities to ensure development of equity shares and Black Economic Equity. In 2010, South Africa managed to host successfully FIFA world cup, which had a significant boost for the country's reputation. Even though South Africa is regarded as prosperous economy and market liberalization, it struggles with scourge of diseases, poverty and unemployment. And the government always set targets to try and reduce these, and for the government to reduce achieve the target unemployment levels it looks into FDI to provide the necessary stimulus. And because South African (as part of developing countries) experience low savings, FDI investments bring a lot of benefits which positive impact on employment which help in skill transfer, establishment of new production capacity, and improvement in production processes to increase competitiveness in local products.

Below are some of the examples that have led to economic and financial benefits that South Africa has managed to gain through cross-border mergers and acquisitions transactions.

First example is one of old and well established brewing company. In its website, SAB Miller states that it is one of the world's leading breweries with more than 200 beer brands and some 70,000 employees in over 75 countries. According to the Mergers and Acquisition Analysis: SAB Miller Plc. acquisition of Royal Grolsch NV written by Allen Mongeau, 2009, SAB Miller was founded in 1895 and today is a an international enterprise with market value of 21 British pounds, producing a range of premium beers , including six numbering amongst the top50 brands in the world (Mongeau, 2009).

Another example is Old Mutual. Old Mutual has history of more than 160 years as South African based mutual society prior to its public listing in 1999. The company history include a journey of successful and diverse mergers in different markets, locally and globally. While Old Mutual is a long- established firm with its origins dating back in the 19<sup>th</sup> century, its UK asset management arm, RDR-ready business (Brearly, 2013).

FDI in SA has been regarded as the key driver of M&A activity; as was experienced during the financial crisis. One of the biggest announcements was 20% investment by China's largest Bank ICBC into Standard Bank, valued at R36.7 billion. There was also Bin' LCC's acquisition of Edcon group valued around R25 billion.

According to the ABSA website, the nineties saw the formation of one of the largest retail banks in South Africa through the merger of a number of smaller banks. In 1997 the grouping became known as Absa Bank Ltd (Absa), and by the turn of the millennium Absa was one of the four largest banks in the country. In 2005 international financial services group, Barclays PLC acquired a 54% stake in Absa. With the backing of Barclays, Absa Corporate and Merchant Bank (ACMB) was re-positioned to become a redefining force in the local investment banking arena. A year after the historic Barclays/Absa deal, Absa unveiled its new investment banking division: Absa Capital. Through its affiliation to Barclays Capital, Absa Capital provides a seamless investment banking solution, unmatched in South Africa (ABSA website history).

MTN stands among the giants in telecommunication investments. Without doubt, telecommunication has low fixed line penetration as well as large Africa and Middle East populations, was added advantage for MTN. These factors have made these continents the world's fastest growing telecommunication markets.

According to Business report, dated June 23, 2013, while Africa saw a 5 percent increase in FDI to \$50 billion last year, as quoted by World Investment Report, South Africa has lost ground showing a disappointing 24 percent decline to the country as FDI to SA fell from \$6bn in 2011 to 4.6bn in 2012, largely because of a couple of net divestments in last quarter of 2012.", said Jorge Malia, the head of research at Industrial Development Corporation (IDC).

South Africa continues to feel the effects of sluggish global economy, but due to its strong and vibrant market policies, on more limited basis compared to rest of the world. The M&A started picking after 2010 and continued to 2011, this as the results of the increase in cross-border investments into South Africa, many of the transactions involve Chinese, Indian and Japanese parties. Though at a slow pace, there have been relatively few BEE deals which have provided great impetus to South Africa M&A market.

## **Russia**

Russia was coming out of seven decades of communism, where all large industries were the property of the state, where private property rights were limited, and where market institutions did not exist (Baer & Bang, 2002). A lot still needs to happen regarding economic reforms that will ensure encouragement and sustainability of direct investments to the country. For instance, Russian laws do not differentiate between public and private companies in manner followed by the developed countries in the West and it is always advised for those who want to invest in Russia to carefully consider requirements for mandatory public offers even when transaction is intended to private. And terms such as friendly or hostile takeovers are not commonly used in Russian business. Also noticeable to Russian companies is the availability of information to prospective buyer(s), for example a buyer who is not a shareholder of the target company only has access to information that is publicly available.

History of Russian M&A has been fairly steady. The traditional M&A companies are oil & gas, financial services, natural resources as well as telecommunications and pharmaceuticals. These multinationals have claimed a bigger piece of the pie. Since 2010, M&A has been booming due to rock bottom prices and this has led to the emergence of a new class of emerging-market multinationals (Nuttall, 2010). Filippov (2010) believes that Russian multinationals have played a leading role among other emerging companies within the BRICS formation. But he also believes that this part of literature has not been researched widely in comparative to other emerging markets. Russians were also taking advantage of world economic downturn by investing in developed markets to continue diversification away from domestic markets. According to Ernst & Young report (2011), "Doing business in Russia", certain transactions (including mergers, acquisitions, establishment of new companies, purchase and sale of shares and/or assets) are subject to antimonopoly control. There are areas of business where the Russian government sets restrictions for doing business. For example Russian legislation sets limits in areas where authorities deem them to be of strategic significance. These areas include environment sector, nuclear industry, military equipment, aviation and mass media activities etc.

Russia's economy is characterised by its dependency on the natural resources sector and is primarily based on extraction of non-renewable and rare resources that generate economic rents. Such rent-seeking motives somehow change the drivers of M&A and their effectiveness especially

in the presence of institutional hazards (Henisz, 2000). Therefore, additional cost burdens arising from necessity of gaining permits and government approval might make M&A less likely to improve acquiring company required returns on its investment. There are particularly active sectors in M&A transactions in Russia. These include Fast Moving Consumer Goods (FMCG), financial services, and general manufacturing services. Russian M&A history comes a long way. In his 2010 report, M, Knoll, states that a decade ago, deal activity in Russia was limited and transactions often were planned and executed without proper preparation and most of the time the involvement of financial advisor was very limited (Knoll,2010). A lot has changed when it comes to business deals in Russia, especially M&A. Russian markets seem to have caught quickly with all current global development. The market has become sophisticated and most of M&A transactions of over US\$50million are prepared and executed with involvement of a financial advisor, either the seller or the buyer side. Whereas the Russian M&A market have come a long way, a lot remains to be done to achieve a mature market to sustain this industry.

Over the historical brief period, Russia has become a major outward investing country on the global stage and its registered OFDI stock increased from US\$2billion in 1993 to US\$203billion in 2008, making it the second largest among emerging economies behind Hong Kong. Russian MNEs hold more FDI assets than Brazil (US\$162billion), China (US\$148billion) and India US\$ 62billion) (Panibratov, 2010). The international activities and strategic actions in Russia MNC are important and deemed urgent under conditions of transitional basis of the Russian economy. The pace of development of Russian MNC seem to be accelerating due to high commodity prices and shifts in manufacturing industries. And these factors have led to an increase in the number of cross-border investments by Russian MNC. Because the Russian economy is blessed with abundant natural gasses, high oil reserves, Aluminium, nickel etc. combined with a tacit approval from Russian government have now allowed MNC to invest to diversify outside of Russia through M&A and direct investments in Greenfields opportunities.

Russia seems to be making progress regarding internalization and global competitiveness. Kearny (2013) report asserts that Russia has advanced to the 11th spot as it seeks economic diversification and modernization. It completed its ascension to the WTO in 2012; bringing increased access to export markets and investors. This also commits Russia to integrating into the global economic system and reducing FDI restrictions in many services industries (A.T Kearney, 2013).

Russia's appeal as an investment destination has been increasing based largely on its burgeoning consumer market and expanding industrial base (Baker & Mckenzie, April 2013). Investors approached by E&Y group rated the country one of the most attractive global investment destinations, up 8 percentage points over the 2011 figure. This was the largest increase for any destination. However, long-standing weaknesses in the investment environment seem to persist as market-oriented policies are likely to be mixed with increased state intervention in some areas.

According to Baker & Mckenzie report (2012) CBMA transactions involving Russia totaled US\$78 billion. Unlike respondents from other high-growth markets included in this study, who cited ease of doing business as the most important factor facilitating cross-border transactions, Russian respondents emphasized openness to foreign investment as the most significant factor. Like the Chinese, 42% of Russian-based executives surveyed cited valuation misalignment as one of the most prevalent obstacles to cross-border deals, while 59% cited operating risks such as weak infrastructure and legal/regulatory issues as factors that strongly or very strongly affected their businesses (Baker & Mckenzie, April 2013).

But not all is good news, the Moscow News Business section, dated 25 August 2011 reported that proposed mergers and acquisitions in Brazil, Russia, Indian and China were collapsing at their fastest-ever rate. It further stated that almost half of those cancelled deals originated in Russia. This has been alluded to a rising tax burden to Russian companies while a year on year value comparisons are distorted by the market's bias towards a few large deals. It singled out the banking, power generation, transport and coal mining have been active sectors during year 2011, but the previously highflying metals and food industries slowed sharply. Russian energy and utility companies have made \$6 billion of deals outside of BRICs. That compares with \$5.1 billion by Indian companies, according to data commissioned by the Hindu newspaper from Dealogic. Chinese energy and utility companies did \$7.4 billion worth of deals and Brazilian corporations, a much smaller \$700million in the same period. While energy security drives global companies to seek skates in their suppliers, Russian energy companies like Gapromneft, Lukoil and Rosneft have been seeking refinery and storage capacity in Europe in past few years.

A survey of 32 influential Western European forest companies indicates that purely economic factors, such as labour or raw material costs, are not the main reasons these companies refrain

from investing. Instead, the companies identify a number of institutional factors, such as ambiguous legal systems; difficulties in negotiating with local authorities; unfair tax enforcement; and general political instability as the main impediments to foreign direct investment in the sector. These factors have led many companies to abandon previously considered investments in Russia, and also to terminate existing business relationships with Russian partners. The survey results also indicate that, while many investors were attracted by the potential for a growing Russian markets, they have become more and more aware of the many institutional obstacles challenging growth in the sectors (M, Nilson & P Soderholm, 2002).

In its 2011 mergers and acquisitions research report, KPMG has reported that 2011 was a rather disappointing year for M&A both globally and in Russia. Compared to the 6% decline in the value of global mergers and acquisitions deals, Russia's M&A market experienced an even stronger reduction in value, by almost 28%. This is a sign of its continuing higher volatility, but also the result of fewer mega deals taking place than in previous years. The top of the league table, as well as overall activity, is dominated by domestic activity, reflecting the current low appetite of foreign investors in relation to acquiring Russian assets. The large share of oil and gas and metals and mining deals among the high-value transactions mirrors the industrial landscape of Russia.

KPMG report further elaborates that the impact of global political, economic and regulatory events was reflected in 2011 M&A activity. 41,328 deals in total were announced globally during 2011, a fall by 3%, equal to half of the increase in activity recorded in 2010. The combined value of deals announced in 2011 totaled US\$2.25 trillion, down by 7% compared to growth of 21% in 2010 deal value. Continued appetite for mega deals, those valued in excess of US\$10 billion, in the US and Europe underpinned the high total deal value in 2011. The Russian M&A market have experienced considerably greater levels of volatility over the last five years compared to global activity. Russia saw a much more pronounced fall in activity during 2009, and whilst global volumes have remained above 2006 levels for the last two years, Russia is still below 50% of the 2006 level by number of deals.

Due to worldwide mounting concerns coming from the outlook in Europe, especially in the Eurozone, which was coupled with slowdown in Russian M&S activities due to Russian presidential elections, this resulted in brakes applied in investment activities in the last quarter of 2011. As a result, the value of deals announced in 2011 totaled US\$71.1billion,

which excludes the US\$20.7 billion acquisition of Weather Investments by VimpleCom, one of the ten largest deals globally in 2010, represented a fall of 8% (KPMG, 2011).

The E&Y report (2011) expressed that the key players in Russian mergers and acquisitions during 2011 included Digital Sky Technologies, Gazprom, NLMK and VTB Bank, announcing 21 deals between them with a combined value of US\$23.1 billion, or nearly one third of the total announced Russian deal value in the year. The largest player was VTB, which announced nine transactions during 2011 with a combined total value of US\$10.0 billion, equal to 14% of the total Russian deal value. VTB's largest transaction outside of its core financial services sector was the acquisition of a 20% stake in Metalloinvest for US\$2.5 billion, partly through a debt-to-equity swap. Digital Sky Technologies, the Internet-focused investment firm, was a party to investor groups which announced six investments in global social media and e-commerce companies totaling US\$4.45 billion during the year. Gazprom and NLMK each announced three transactions in their own core sectors during 2011, with combined values of US\$4.0 billion and US\$4.6 billion respectively.

The three energy and natural resources sectors – metals and mining, oil and gas, and power and utilities – dominated Russian M&A activity in 2011, accounting for approximately 45% of the total deal value and around 25% of the total deal volume, with a similar position in the previous year. The real estate and construction, transport and infrastructure, and financial services sectors saw a significant increase in their share of Russian deal value in 2011, whilst the communications and media sector accounted for a disproportionate share of deal value in 2010 due to VimpleCom's acquisition of Weather Investments (KPMG, 2011).

The top ten deals in Russian M&A during 2011 amounted to US\$26.6 billion, equal to 37% of announced deals. Transactions in the energy and natural resources sectors accounted for seven out of the top ten deals, including the largest and only inbound transaction, the US\$4 billion acquisition of a 12.1% stake in Novatek by Total. Outside of the top ten, Luna Holdings (TPG Capital and VTB Capital) and the European Bank for Reconstruction and Development (EBRD) USD1.2 billion acquisition of a further 43.2% stake in Lenta, the Russian retail hypermarket and cash and carry chain, was the largest deal in the Russian consumer goods, retail and agriculture sector during 2011. This was primarily due to the uncertainties surrounding the elections in Russia and the ongoing fiscal problems in the Eurozone. Clarity over the economic priorities of the new government is expected to revitalize the markets. White & Case (2013), report that in Q1-Q3 2013, there were 59 deals

with a deal value in the region of US\$26.6 billion according to merger market's Russian M&A roundup. And the most active sectors for corporate activities were TMT and energy, mining and utilities (White & Case, 2013).

During the World Economic Forum in Davos, Switzerland (January, 2014), Russian Deputy Prime Minister Arkady Dvorkovich said his country's slow growth rate was partly due to the economic conditions of its trading partners, Europe and China. He added that internal constraints were the main impediments to progress. Russia has an ambition to join the community of the world's wealthiest industrialized nations. In the recent years, Russia's economy has been expanding at a slower pace and it is projected that it will continue doing so and in this end, Russia will need a truly innovative solutions to avoid the middle-income trap. A sound foundation for sustainable growth will have to be built on greater efficiency, accountability and transparency of government services, investment in human capital, fostering of regional competitiveness and responsible stewardship of natural resources endowments. The economic, political and social developments in Russia would be of great importance to the world community, given Russia's ascension to the World Trade Organisation, presidency of the G20 and forthcoming Winter Olympics and chairmanship of the G8

## **Brazil**

Many factors affect trade and investments in each country, whether developing or developed and FDI has crucial role in the progress and the country's economy improvement in order to attract multinational firms. Such development needs to be accompanied by progressive Government policies to make the country suitable to invest by domestic and foreign firms. And according to Euromonitor (2010), it says Brazil has the second FDI inflow in the world and Brazil Central Bank (2009) FDI confirmed that the number stood at US\$25.9 billion. One of the milestones in Brazilian history is that after coming from self-imposed seclusion which lasted over two generations, Brazil has managed to revitalize its relationship with the rest of the world.

Brazil's former President, Mello initiated a very aggressive economic reform liberalization and is credited with opening up Brazil to foreign investors and he is the reason for significant increase in Brazil M&A. But, the real reason for increase in Brazil M&A was the change in laws towards deregulation and international trade flows. Financial innovation coupled to deregulation apparently increased instead of reducing systemic risk and financial markets

became increasingly integrated, with their size and influence increasing markedly for all countries (Baumann, 1998).

After currency crisis in 1999, Brazil adopted floating exchange rate regime and it implemented several liberalization policies to boost FDI. On the market front, Brazil allowed for greater flexibility in the foreign exchange market, it abolished minimum average maturity for external loans and financial transaction tax on capital inflows and restrictions on foreigner's ability to invest in the securities market were all removed. At the beginning of 21<sup>st</sup> century, like most economies, Brazil was hit by economic crisis that was triggered by the burst of the dot-com bubble and this led to decrease in economic activity , global FDI inflows fell by 51% in 2001 (UNCTAD, 2002).

In its LinkedIn website, Airports Company South Africa has stated that, in partnership with the Brazilian company, Invepar Company was successful in a bid to manage the development, maintenance and operations of Guarulhos International Airport in São Paulo, Brazil. To this end, the company continues to play its role as a driver of South Africa's economy by demonstrating socioeconomic and environmental responsibility through its programmes (Airports Company South Africa LinkedIn, 2013). Not only these are benefits between these countries, some research companies have put forward some few.

Brazil's large and growing domestic market, diversified economy and political stability make the country one of the most attractive among emerging market investment destinations (Baker & Mckenzie, April 2013). A strong financial system and openness toward foreign investment are some of the country's principal strengths. However, the complex tax system and high tax burden, as well as weaknesses in public services, will continue to weigh on the business environment.

(Baker & Mackenzie, 2011) According to their survey results, slightly more than 70% of Brazil-based respondents cited legal and regulatory issues as the operating risks that most strongly affect their businesses, while approximately 60% highlight tax policy and weak infrastructure as the most significant operating risks. In terms of cross-border activity originating in this market, Brazil ranked behind only China in the number of transactions valued at more than US\$1 billion in the last five years. The vast majority of Brazil-based respondents predicted their companies will be increasing cross-border transactions over the next two years, with 48% attributing the increase to changes in corporate growth strategies.

And according to Merco Press News Agency, May 12th 2011,Guillermo Quintero BP president of BP's Brazil division reported that the oil giant was looking to acquire stakes in Brazilian oil fields to increase the production in South America. He estimated that BP was to spend over \$20 billion to expand its operations around the world in the same year and basically looking to new areas including Brazil and Russia to increase oil production. Brazil business newspapers also reported that BP received the final approval to complete the purchase of ten exploration and production blocks in Brazil from Devon Energy. In 2010, the Chinese were active acquiring assets in Brazil. In addition, Brazil's Mines and Energy Ministry is planning to include frontier areas in north and northeast Brazil in the highly anticipated round 11 for the new oil and natural gas blocks. Brazil is a relatively large recipient of foreign direct investments, accumulating 45 percent of all FDI in South America and nearly a quarter of the whole of Latin America and the Caribbean. Transnational corporations have had an important role in the economic history of Brazilian agriculture. Monsanto, DuPont, Dow Chemicals and Bunge, have been active in the country for decades (FAO for UN, 2012).

In the world today, it is often quoted that Brazil is the third most attractive investment destination by value globally with only China and US attracting higher proportion of inbound direct investments from foreign countries. But the 2014 FAFA World Cup and 2016 Summer Olympic Games are acting as catalyst for public and private investment to upgrade Brazil's infrastructure. Brazil , as a member of the emerging BRICS economies enjoy success when it comes to multi-million M&A deals because developed economies have mature industrial sectors; sophisticated business services providers and leading consumer brands. Companies based in the low growth developed economies are compelled to look into faster growing economies like Brazil for promising business opportunities. Brazil's unfulfilled domestic demand, high growth potential and globally competitive returns have spurred M&A actions, both inbound and outbound.

Investment in the Brazilian economy is expected to remain very strong as the country prepares to host Soccer World Cup in 2014 and the Olympics in 2016. And infrastructure investment is particularly singled out as driving force as the Brazilian economy continue to modernize in preparations of these big events to be hosted by the country. According to Brazilian press, the government has pumped US220 billion as part of 2<sup>nd</sup> phase of its National Growth Acceleration Program, to support economic recovery and focusing on infrastructure development.

### **4.3 Comparative statistics of the Emerging Countries and Firms**

Every country around the world will do whatever possible or makes commitment to ensure that they maintain environment for investment as this is core to long-term, sustainable, economic growth. For example, South Africa is regarded historically as a low-savings developing economy with high domestic investment requirements and the country needs to attract foreign direct investment in order to support domestic financing requirements. Russia has historically been known as a model socialist country, which strict requires economic and political reform and other capital and labour reforms to be able to attract massive foreign direct invest to rebuild that country. The Brazilian economy is characterized by moderately free markets and an inward-oriented economy. It is regarded as one of the fastest-growing major economies in the world and is expected to become one of the five largest economies in the world. With the fifth BRICS Summit in South Africa just came and gone from 26–27 March 2013, the shift in global economic power to the BRICS has seem to become clear worldwide. Such power has further been evidenced by Intra-BRICS trade which has been growing well. According to Standard Bank Corporate, it estimates that such growth had reached \$310 billion in 2012.

There are numerous trends currently affecting the cross- border mergers and acquisitions market. Investors from emerging economies are look set and increasingly interested in developed economies to invest their capital. And this has led to growing trend in activity by private equity funds in emerging economies; much has led to national investment strategies to grow. In the process, new hot sectors are emerging, particularly in financial services and infrastructure. This has led to a rise in valuations as a result of emerging market investments. Whilst the target location of mergers and acquisitions activity may be evolving and changing, for many, the reason for engaging in M&A remains the same. It is either access to gain geographical markets or building scale and all these remain the likeliest motivation to participate. This is the indication that M&A in the emerging markets remains the simplest and most effective way for businesses to gain a footprint and build scale in new geographies or territories. Sun et al. (2012) proposed that the emerging-economy multi-national corporates (MNCs) are mostly motivated by industrial factor endowments, dynamic learning, value creation, strategic assets, and institutional facilitation.

The seminal paper presented by Jensen & Ruback (1983) concluded that there is evidence “that corporate takeovers generate positive gains, which target firm shareholders benefit and that bidding firm shareholders do not lose” (Jensen & Ruback (1983), page 5) and the highly influential article by Roll (1986) who introduces the hubris hypothesis in an attempt to explain some of the empirical findings in this area of research, are just a few excellent examples of this enormous literature of merger and acquisition in the emerging markets. Below are some of the statistics results as mostly the results of mergers and acquisitions in the emerging markets.

According to the research done by a global strategic management consulting firm A.T. Kearney in 2008, it reports that at the beginning of 2002 , deals between developing and developed countries grew at an annual rate of 19%, far in excess of the industry average and four times faster than the deals conducted within either developing and developed countries alone and while it was not large in absolute terms, the rate of growth indicated how rapidly the developing world was catching up in the M&A business. The study further found that the companies from developing countries such as China, India Russia UAE and South Africa were fast snapping up established firms at an astonishing rate. Of the 2,168 majority acquisitions between developed and developing countries in 2007, almost 20%, a total of 421 were driven by companies from developing countries.

Russian financial and business news continue to report that Russian mergers and acquisitions market, including the largest transactions, continues to be dominated by domestic deals. This view is also endorsed by the 2011 KPMG research on the Russian M&A market. The report says while other BRICS partners like South Africa and Brazil had shown somewhat promising results on M&A deals in the last two years, 2011 was a rather disappointing year for M&A both globally and in Russia. Compared to the 6% decline in the value of global M&A deals, Russia’s M&A market experienced an even stronger reduction in value, by almost 28%. This is a sign of its continuing higher volatility, but also the result of fewer mega deals taking place than in previous years. The top of the league table, as well as overall activity, is dominated by domestic activity, reflecting the current low appetite of foreign investors in relation to acquiring Russian assets. The large share of oil and gas and metals and mining deals among the high-value transactions mirrors the industrial landscape of Russia. The significant outbound investment in social media and e-commerce businesses was

primarily driven by one player, which analysts do not believe is indicative of a future trend in the Russian communications and media sector (KPMG,2011).

The impact of global political, economic and regulatory events reflected adversely in last few years on merger and acquisitions activity. A 2011 KPMG report shows that a total of 41,328 deals that were announced globally during 2011, a fall of 3% equal to half of the increase in activity recorded in 2010. The combined value of deals announced in 2011 totaled USD2.25 trillion, down by 7% compared to growth of 21% in 2010 deal value. However, the report further states that the mergers and acquisitions activity in Russia demonstrated comparatively strong resilience in 2011 in a global context and the number of deals announced increased by 5% to 394, although unlike the US and Europe, M&A in Russia is dominated by seed capital (<US\$10 million) and mid-market (>US\$10 million <US\$250 million) transactions, which accounted for 85% of all deals.

Mounting concerns regarding the economic outlook in Europe coupled with the typical slowdown in activity ahead of Russian presidential elections resulted in the brakes being applied during the second half of the year though. As a result, the value of deals announced in 2011 totaled US\$71.1 billion, which excluding the US\$20.7 billion acquisition of Weather Investments by VimpleCom, one of the ten largest deals globally in 2010 which represented a fall of 8%. M&A continues to be a largely domestic affair in Russia; inbound activity accounted for 20% of all transactions in 2011 (2010: 18%), whilst outbound activity rose to 10% (2010: 6%), driven predominately by the communications and media, and metals and mining sectors, which accounted for more than half of all outbound transactions (KPMG, 2011).

There is also a problem of investment image, as evidenced by the fact that MNEs with Russian affiliates are more optimistic than potential foreign investors.

Key players in Russian M&A during 2011 included Digital Sky Technologies, Gazprom, NLMK and VTB Bank, announcing 21 deals between them with a combined value of US\$23.1 billion, or nearly one third of the total announced Russian deal value in the year. The largest player was VTB, which announced nine transactions during 2011 with a combined total value of US\$10.0 billion, equal to 14% of the total Russian deal value. VTB's largest transaction outside of its core financial services sector was the acquisition of a 20% stake in Metalloinvest for USD2.5 billion, partly through a debt-to-equity swap. Digital Sky Technologies, the Internet-focused investment firm, was a party to investor groups which

announced six investments in global social media and e-commerce companies totaling US\$4.45 billion during the year. Gazprom and NLMK each announced three transactions in their own core sectors during 2011, with combined values of US\$4.0 billion and US\$4.6 billion respectively.

According to official statements, Russia tries to liberalize its FDI climate and supports economic modernization with the help of foreign investment. The three energy and natural resources sectors, that is, metals and mining, oil and gas, and power and utilities were the sectors seem to dominate Russian M&A activity in the most recent years, accounting for approximately 45% of the total deal value and around 25% of the total deal volume. The real estate and construction, transport and infrastructure, and financial services sectors saw a significant increase in their share of Russian deal value in the same period, whilst the communications and media sector accounted for a disproportionate share of deal value in 2010 due to VimpleCom's acquisition of Weather Investments, as previously noted.

KPMG report demonstrates further that the top ten deals in Russian M&A during 2011 amounted to US\$26.6 billion, equal to 37% of announced deals. Of these deals, transactions in the energy and natural resources sectors accounted for seven out the top ten deals, including the largest and only inbound transaction, the US\$4 billion acquisition of a 12.1% stake in Novatek by Total. Outside of the top ten, Luna Holdings (TPG Capital and VTB Capital) and the European Bank for Reconstruction and Development (EBRD) US\$1.2 billion acquisition of a further 43.2% stake in Lenta, the Russian retail hypermarket and cash and carry chain, were the largest deal in the Russian consumer goods, retail and agriculture sector during 2011. The beginning of 2012 has been characterized by relatively low activity levels and the absence of large scale transactions. And this dullness was primarily due to the uncertainties surrounding the elections in Russia and the ongoing fiscal problems in the Eurozone. Clarity over the economic priorities of the new government is expected to revitalize the markets.

And in 2012 as President Putin managed to regain his reigns, there have some expectations that smaller domestic M&A deals would dominate the Russian market once again. And these transactions were expected to be driven by further consolidation in sectors such as retail, by ongoing vertical integration along the value chain in telecoms, and by the sale of non-core assets by the large industrial groups in oil and gas and potentially the metals and mining

sector. Transportation and logistics deals are likely to play an increasing role, with some larger scale deals in this sector expected. In the financial services sector, smaller banks may engage in mergers to ensure they have the necessary scale to survive, while cross-border activity is expected to primarily be outbound and driven by the major state-controlled banks. The insurance market may experience some consolidation and potentially cross-border inbound interest. The revival of cross-border inbound transactions into Russian markets is expected to depend on the overall development of the global markets from financial crises, as well as improvement of the conditions for investment in Russia. And the target sectors are mainly in the consumer and industrial markets (with the exception of natural resources and energy) and potentially the agriculture sector. Outbound activities will continue to be driven by downstream expansion along the value chain of energy and resource exports and the desire to acquire capabilities and know-how in foreign markets.

## **4. Chapter V – Supporting data from BRICS countries**

### **5.1 M&As Activities, Global Crisis and Beyond**

The financial crisis that began in the latter half of 2007 has not adversely affected the overall volume of FDI inflows. In fact, the research paper released by Vilnius Gediminas Technical University (2010), the world FDI flows fell moderately in 2008 following a five-year period of uninterrupted growth and during the sharpening financial crisis and economic downturn, global FDI inflows fell from a historic high of \$1.979 billion in 2007 to \$1.697 billion in 2008, a decline of 14 %. The slide continued into 2009. The crisis also had a dampening effect on cross-border M&A, the value of which fell considerably in the first half of 2008 compared with the second half of 2007 (Burksaitiene, 2010).

In the period leading to 2007/8 financial crises, this situation has resulted in a fall in FDI to and from developed countries. The UNCTAD report, 2008 shows that inflows to developed countries as a whole declined by 29% to reach US\$962 billion, and they slid even more rapidly in the first quarter of 2009. Overall, FDI to the European Union (EU) amounted to US\$503 billion in 2008, down 40% from its level in 2007. These have resulted in further decline in CBMAs, while TNCs from China and the Russian Federation were by far the largest investors from the developing countries. According to FDI monitor (2012), in 2012 for the first time ever, developing economies absorbed more FDI than developed countries, accounting for 52 per cent of global FDI flows and the biggest fall in FDI inflows occurred in developed countries, which now account for only 42 per cent of global flows. Developing economies also generated almost one third of global FDI outflows, continuing a steady upward trend.

As the crisis deepens, an apparent two way move in FDI was evident between developed and developing countries. This was revealed by decreased earnings of developed country TNCs and a decline in syndicated bank loans that have particularly limited financing for investment. The report says that a drop in leveraged buyout transactions also dampened cross-border M&A, further depressing FDI flows. These events led to declines in cross-border M&A sales in developed countries by 33 % in 2008 whilst cross-border M&As in developing countries, however, rose during the year by some 16 %, with much of that increase registered by Africa and Asia, although from a generally low level in Africa.

Cross border M&A is the major driving force behind decline in FDI. It is therefore, due to shrinking corporate profits and plummeting stock prices that have greatly diminished the

value of these kinds of M&A operations. Companies from developed economies used M&A for their expansion into new markets presented by developing economies.

For nearly five years since the financial crisis, activity in mergers and acquisitions have remained stunted while other investment banking activities such as debt issuance have sprung back to life. And according to paper written by Anousha Sakoui & Anne-Sylvaine Chassany (2013, page 1) called “M&A activity shows signs of revival” it says A rise in business confidence, with rallying equity markets and the re-emergence of “animal spirits” at board level, is making a difference this time round. “When others are out there doing deals, it is easier for a board considering a big deal to move,” adds Mr. Aquila. “If no one else is doing deals, the question is why you are doing an acquisition now? “And the total value of global M&A reached \$492.7bn by the end of February, up 24 per cent on the first two months of 2012, according to data provider Dealogic.

M&A activity in 2012 continued to be constrained by uncertain macroeconomic conditions, which have dampened dealmakers’ confidence. Although there were several bright spots in transactional activity, momentum was difficult to sustain, and buyers and sellers are entering 2013 in a cautious mood.

## 5.2 Summary of BRICKS Inward and Outward FDI Flows

As per research prepared by the South African Institute of International Affairs (SAIIA) for their 63rd policy briefing on Economic Diplomacy Programme dated March 2013, it states that the traditional sources of outward FDI slowed in reaction to the 2007–09 financial crisis, interest in the emerging economies' FDI trends intensified. It goes on to say, developing countries were affected only moderately by the economic slump (due in part to the one-year time lag). The BRIC grouping and South Africa, before it joined in 2011, were noticed for their regional economic leadership; contribution to global GDP; impressive trade performance; and for their notable inward FDI growth on average, which is significantly made by M&A.

From all the analyses stated above, these statistics reflects the growing attractiveness of three countries to foreign investors – even during the economic slump. Their respective investment climates have improved significantly in the last two decades that includes macroeconomic stability and a greater openness to foreign ownership of business resources.

Sector and policy challenges remain. Multilaterals and governments continue to tackle information deficiencies in reporting inward FDI flows. Outward FDI data is much more difficult to monitor – especially under the radar transactions into specific destination countries.

UNCTAD (2012) asserts that, on a global level, emerging economies were responsible for over 28% of outward FDI from 2009–10. Outward FDI growth signals an economy's emergence as a global player, beyond initial forays through trade, being an irrevocable commitment to establishing productive resources in another jurisdiction. There is a staunch believe that developing country multinational corporations are better able to adapt to other developing host countries, since conditions, including prices, supply chains and the scale of production are similar or comparable to the MNC home country. South Africa has been leading in FDI to other BRICS countries, while China was leader to the rest of the world.

The series below shows net inflows (new investments inflows less disinvestment) in the reporting economy from foreign investors. Data are in U.S dollars and the period 1994 - 2012

Table.2

<b>Foreign direct investments , net flows (BoP, current US\$)</b>									
<b>(in US\$ mil)</b>									
<b>Countries</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
<b>Brasil</b>	\$ 3 072	\$ 4 859	\$ 11 200	\$ 19 650	\$ 31 913	\$ 28 576	\$ 32 779	\$ 22 457	\$ 16 590
<b>Russia</b>	\$ 690	\$ 2 065	\$ 2 579	\$ 4 865	\$ 2 761	\$ 3 309	\$ 2 714	\$ 2 748	\$ 3 461
<b>South Africa</b>	\$ 374	\$ 1 248	\$ 816	\$ 3 811	\$ 550	\$ 1 503	\$ 969	\$ 7 270	\$ 1 480

<b>Countries</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>Brasil</b>	\$ 10 144	\$ 18 166	\$ 15 460	\$ 19 378	\$ 44 579	\$ 50 716	\$ 31 481	\$ 53 345	\$ 71 539	\$ 76 111
<b>Russia</b>	\$ 7 958	\$ 15 444	\$ 15 508	\$ 37 595	\$ 55 874	\$ 74 783	\$ 36 583	\$ 43 168	\$ 55 084	\$ 50 661
<b>South Africa</b>	\$ 783	\$ 701	\$ 6 522	\$ 623	\$ 6 587	\$ 9 885	\$ 7 624	\$ 3 693	\$ 4 139	\$ 4 644

Source:IMF BoP database, supplemented by data from UN Conference on Trade and Development and official national sources.

Catalog Sources World Development Indicators

The data presented in table 2 above depicts Brazil as leading Russia and South Africa when it comes to net flows of direct investments. Even though South Africa is regarded as the later come to the BRICS nations, it lags far behind from its BRICS counter parts. But with its natural resources and flexible markets with relative ease in political climate, it is hope that these advantages may help South Africa to forge closer to its counterparts in the near future. And Most of the competitive international markets regard South Africa as a gateway to resource abundant Africa continent.

### 5.3 Other BRICS Supporting Data for Outward FDI Motivations and Destinations

Historically outward investment from developing countries has been mainly within the same region.

This ‘neighborhood effect’ is associated generally with commonalities in language and culture and familiarity with location, climate and factors of production. Sample data up to the late 1990s show intra-regional FDI flows among developing countries in Latin America and Asia dominated. By 2004–05 Africa and the Middle East began to attract developing Asian resource-seeking investors (BRICS Policy Diplomacy Programme, March 2013)

Sub-Saharan Africa (SSA) has the largest number of low-income countries in the world. However, its FDI inflows have not compared with other regions, even though many African economies have improved their business, political and macroeconomic environments, making them increasingly attractive. Recently China, India and Brazil have overtaken the traditional investors, especially in African resources sectors. The BRICS policy document state that this trend may be reversed once the EU, the US and Japan fully recovers from the global economic slowdown.

**Brazil:** Early Brazilian outward FDI was driven by energy and mining; but over 2006–11 FDI into these primary industries declined significantly in favour of investment in the financial services sector. Top sectors for outward FDI include mining, oil and gas, construction, banking, steel, and food and beverages. Top recipients include its neighbours in the Mercosur region, the US and Europe.

Despite strong diaspora ties with the continent, Brazilian FDI to Africa comprises just fewer than 10% of total FDI outflows. Since 2003 there have been 25 new Brazilian investments in Africa, mostly in resources – primarily in Nigeria, South Africa, Angola and Mozambique. Brazil was Africa’s third-largest trading partner in 2010 and has amplified its involvement in African agriculture through trade and investment and increasingly in renewable energy.

There is no official outward FDI policy for Brazilian MNCs, but the Brazilian National Development Bank offers below-market interest rates to select companies.

**Russia:** Russia’s outward investment has been characterised by the neighbourhood effect, to former Soviet countries. However, Russian MNCs have preferred buyouts or the

establishment of new companies in the former Soviet mould. Russian MNCs are generally large exporters and their motives are market-seeking.

Other motivations include reducing the effect of the US and Europe's protectionism in the metals sector; securing exports against political instability in transit countries; asset-seeking motives in developed countries; and resource-seeking in Africa and Kazakhstan.

Russian government support for outward FDI is reportedly absent, although there is state support for subsidiaries of large MNCs like LUKOIL and UC RUSAL.

Information deficiencies about investing conditions and requirements for doing business abroad have been identified as crucial shortcomings, which are exacerbated by the limited overseas presence of Russian economic and trade representatives.

**South Africa:** As the economic and political dynamo on the African continent, South Africa is a leading source of FDI in other African countries. By 2005, 34 of Johannesburg Stock Exchange listed companies had projects in 27 African countries. Outward FDI projects include mining, infrastructure, engineering, manufacturing, wholesale, retail, media and financial services. No formal regulatory policy exists for South Africa's outward FDI flows, but the government has encouraged local companies to invest on the continent. The country's first generation bilateral investment treaties (BITs) signed shortly after the 1994 transition, mostly with European countries, will not be renewed until the completion of a BIT policy framework review. However, South Africa is considering a series of new generation BITs with those African countries viewed as key to its trade and economic strategy. Notably, the South African government recently tabled a Foreign Investment Bill, which focuses on inward FDI and investor protection.

Generally, the evidence suggests that intra-BRICS countries' investment is not substantial. Traditional economies play a pivotal role in investment in the BRICS countries, with the EU, the US and Japan having been critical in this regard.

## **Chapter VI – Research conclusion, Limitations and Recommendations**

### **6.1 Conclusion**

This research has showed that FDI through CBMA can help increase investment in the emerging markets. M&A do bring significant benefits to host countries in terms of transfers of capital, technology and know-how and, especially, increased potential for follow-up investments and business expansions. But M&A can also bring costs, such as a potential downgrading of local capabilities, a weakening of competition or a reduction in employment. According to UNTACD World Investment report, 2013, FDI policies play an important role in maximizing the benefits and minimizing the costs of cross-border M&A; for instance, through sectoral reservations, ownership regulations, size criteria, competition screening and incentives. Emerging economies are low-income, rapid growth countries that are using economic liberalization as their primary engine of growth. Both private and public enterprises have had to develop unique strategies to cope with the broad scope and rapidity of economic and political changes in their respective economies.

Even when the world was faced with financial crises, M&A in emerging markets showed resistant and was a proof that if these countries could focus on setting their policies towards attracting direct investments, their economic success can be sustained for generations to come. Factors relating to transparency of company financials and data, releasing market regulations for free flow of capital, less restrictive exchange regimes and conducive economic and political environment are some that need attention. As for local MNEs, these companies need to be aware of factors that may cause failure to their CBMA transaction. They need to explore cross border alliances and partnership, and finding customers. International business plan will play a vital role to define the company's present status and to measure the desired results. Accepting diverse of culture is also important to keep result oriented staff and satisfied customer base.

Given the appropriate host-country policies and a basic level of development, a preponderance of studies shows that FDI mainly from M&A triggers technology spillovers, assists human capital formation, contributes to international trade integration, helps create a more competitive business environment and enhances enterprise development. All of these contribute to higher economic growth, which is the most potent tool for alleviating poverty in developing countries and the emerging markets. The world economy abounds with big

opportunities and with capital abundant and interest rates low, buying into a market is a company best tool for tapping into the growth potential.

Most of the mergers and acquisitions followed by the emerging markets have been structured around the term called collaborative or partnering approach to acquisitions. And some of its key elements include keeping the acquired company structurally separate from the acquirer company, also retaining most of the key people and assets of the acquired company and sometimes giving them a lot of autonomy to run their operations. There has some selective coordination or intervention by the acquirer organization in these cross border M&A. This approach seems to be quite distinct from that traditionally followed by many western multinationals, where you find the acquiring companies set terms of engagement, new technology, strategies to follow and key milestones to be achieved by the staff and management. What has been evident in the report is that, at least until now, this approach has worked quite well in these acquisitions. Almost throughout the literature, the report tries to outline conditions under which the approach to post-acquisition integration is more suitable and sustainable, especially for the multinationals from the emerging markets. The fact is that many businesses recognize the uncompromising demand to venture overseas, or within their region, so as to seek out growth and profits. SAB Miller has illustrated the advantages of experience particularly in CBMA deals as the company moved into more than 30 countries in the last two decades by acquiring their local brands. It continues to maintain and develop these brands, at the same time it has created a disciplined business system that enables it to add value to each acquisition it has undertaken. And finally, Anheuser-Busch InBev, which developed its managerial skills from a small Brazilian brewer, has managed to incorporate similar disciplines and has been equally successful with its M&A strategy and these big companies have managed to make remarkable records of profitable growth.

Most of the literature results give evidence of the fact that, not every company has what it takes to pursue M&A successfully. MNE companies should have a deep understanding of their strategies and start from a position of strength and thus committing to developing a repeatable model and making necessary investments.

## **6.2 Limitations**

As mentioned in Chapter III of the research paper, the data contains some limitations which arise as the result of its secondary nature from different companies. Obtaining of the suitable sample and relevant data required to the completion of the analyses indicated the biggest problem in the course research. Although the data and financial statistics are produced by well-known and trusted sources, the originality of the financial data may be affected by differences arising from the management practices and organizational mechanisms. The bulk of the results is sourced from companies' annual financial statements and there is always a possibility that they don't reflect each company's fair reflection. The fact that these are multinational entities, multiple financial and accounting factors affect their results, for example, the exchange rates fluctuations, different tax regimes and many other accounting underlying reporting guidelines and policies.

UNCTAD and OECD are one of major organizations that are credited by the developed countries with regards to reporting credible results. But looking at this data from the emerging markets, some analyst and scholars might conclude that the financial data is biased towards achieving a specific economic and politic dimension.

## **6.3 Recommendations**

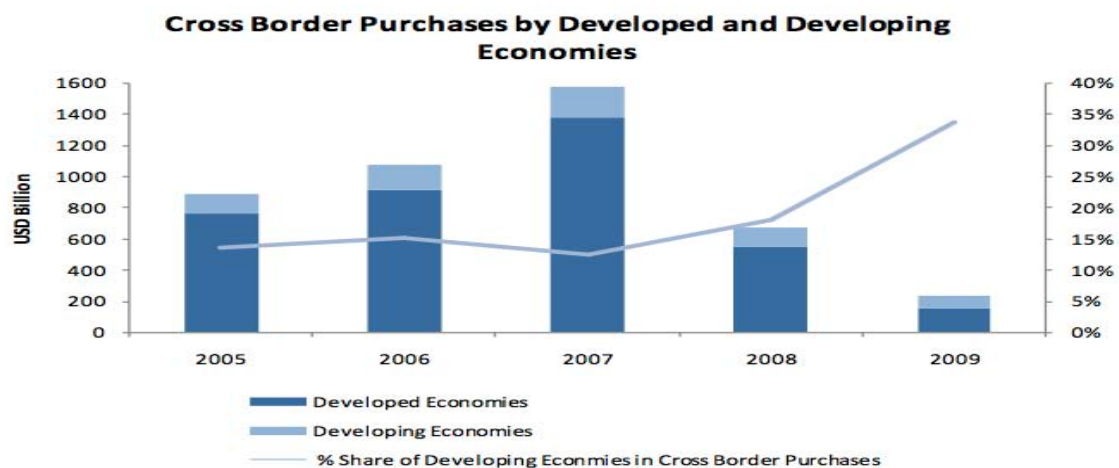
This research paper has concentrated on examining the seemingly interesting trends in mergers and acquisitions that is either initiated by the multinationals companies in the emerging to developed countries or by these countries targeting companies in the BRICS countries. In that regards, there are still a lot of research methodology that needs to be explore and which also need deeper investigation as to the sustainability of M&A in emerging countries.

## 5. Chapter VII - Appendix, Bibliography and Supporting Data tables

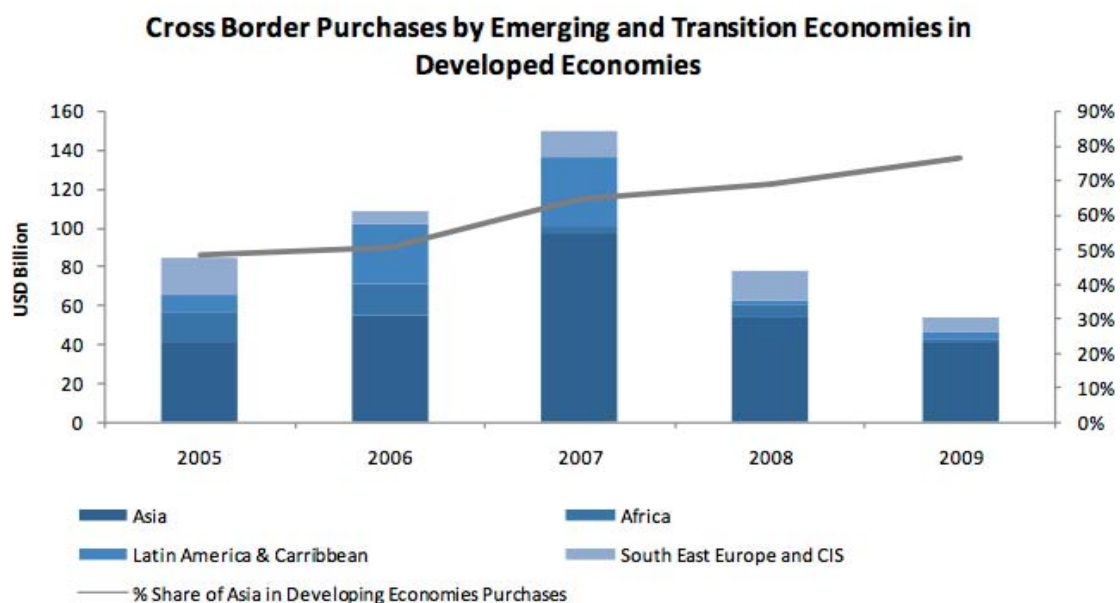
### 7.1 Appendix

According to UNCTAD, there were 80,000 transactional corporations in 2009. While developed countries accounted for the bulk of the TNCs across the globe, a paradigm shift has been occurring during the last decade. The trans-nationalization of emerging market firms reflects the maturity in their business processes and their increasing appetite for international growth.

Graph 1:



Graph 2:



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