Cross-border acquisitions of European multinationals

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This article presents the results of an extensive study on cross-border/international acquisitions of European multinationals in the period 1976–2000. The most common motives for cross-border acquisitions are market entry, increase in scale and economies of skills. There is a manifest preference for the United States of America. As yet, the influence of the (integrated) European Union is barely noticed. Two important preconditions for cross-border acquisitions are a unique competence that makes a company stand out from the competition and deep financial pockets.

More and more companies expand the scope of their activities beyond national frontiers (*Business Week*, 1996). This globalisation of corporate activities takes place through alliances, mergers and/or acquisitions or start-up of new activities (Jagersma, 2000; Wilson, 1980). This article presents a study into the cross-border acquisitions of European companies (Special, 1993; Kitching, 1974; Fortune, 1987, 1988; Business Week 1989, 1990, 1999; International Management, 1988). It is structured as follows. The next paragraph describes the purpose of the study. Subsequently, the findings of the study are presented. Finally, it puts into perspective some widespread beliefs that frequently turn out to be misconceptions (Haspeslagh and Jemison, 1987). The article ends with 'lessons learned' for boards and general managers.

Eye-catching growth vehicles

Of all methods of internationalisation that a company could follow, acquisition is the most spectacular and usually the most drastic one (Jensen and Ruback, 1983; Ghemawat and Ghadar, 2000). At macroeconomic level, this phenomenon is studied by analysing the fluctuation of acquisition activities and the effects thereof on, for instance, market forces (Jensen, 1984). This article, however, concentrates on the business considerations that play a part in the acquisition of a company and leaves the macroeconomic effects aside. It offers a qualitative analysis of the phenomenon of international acquisitions; it charts the characteristics of a large number of observed and studied cases.

It is important to make a distinction here between acquisitions and mergers (Singh and Montgomery, 1987). Through the years, many different interpretations of acquisitions and mergers have been used. To a considerable extent, this is caused by the incomparability of the results of many studies into the acquisition and merger behaviour of companies. In this article, the following distinction is made on the basis of common terminology (Jagersma, 2000): acquisitions are the result of the combination of two companies of different qualities, not necessarily by mutual agreement. Acquisitions show a disproportion in the levels of control (Anslinger and Copeland, 1996).

Mergers, on the other hand, are the result of the amalgamation of two equal companies. The amalgamation is realised with the consent of both parties. In this case the levels of control are equivalent. Finally, cross-border acquisitions are concerned when the companies in question are from different countries. My extensive database included cross-border acquisitions made by European companies during the period 1976–2000.

The analysis in this article has been structured around the following twelve research questions.

1. Why are foreign companies acquired (Berkovitz and Narayanan, 1993)? Different motives can be identified:
   Expansion: acquisitions make it possible to quickly anticipate a strong market growth. This way, a company is able to seize a significant part of this growth.
   Market entry: acquisitions make it possible to enter a market without extremely high initial expenses. It avoids the costs of market penetration and market development (Bleeke and Ernst, 1993). In addition, acquisitions are a way of circumventing (intended) protective measures
   Scale: cross-border acquisitions enable companies to achieve a critical mass in a short time. A certain minimum size is required for a company in order to keep up with its competitors.
   Geographic: by spreading the activities geographically, a company becomes less vulnerable.
   Finance: through acquisitions, local 'cash cows' can be acquired. It is possible, for instance, to formulate a new ambitious corporate strategy with the support of financial means of the (acquired) local company. The internationalisation in zone B can be financed, for example, with the internationalisation already realised (through acquisitions) in zone A.
   Economies of skills: as a result of acquisitions, companies are able to benefit from the mutual exchange of experiences, skills, and capabilities within geographically spread segments (Jagersma, 1997).
2. In what region/country is the company established that is the acquisition target i.e. what is the geographical direction of cross-border acquisition activities (Bleeke, Ernst, Isono and Weinberg 1990; Bleeke and Ernst, 1993)? A distinction can be made between Europe, the US, Japan and the category 'other countries'.
3. Is the acquisition paid in cash or in another way (Copeland, Koller and Murrin, 1990)?
4. What about the consolidation method? Are acquired activities integrated in the existing business, or does the acquired company continue to exist in its original form, i.e. without any organisational cross-connections between acquired and acquiring company (Sirower, 1997)?

5. Acquiring companies, were they small (less than 250 employees), medium-sized (250–1000 employees) or large (more than 1000 employees) (Kitching, 1974)?
6. Do acquiring companies want full control or do they agree to a partial control over the activities of acquired companies (Datta and Grant, 1990)?
7. Is the acquired foreign company run by the same executives after the acquisition took place (Buono and Bowditch, 1989; Shanley and Correa, 1992)?
8. Do the acquiring European company and the acquired foreign company know each other well, or is the acquisition also the first time they make their acquaintance (Napier, 1989; Sirower, 1997)?
9. Acquired foreign companies, are they financially healthy or are they ailing or even insolvent or bankrupt companies (Eccles and Crane, 1988)?
10. Acquiring companies, are they mostly large European companies (that is to say, the largest companies of their segment/industry), or do the medium-sized (250–1000 employees) or small companies (less than 250 employees) account for the majority of international acquisitions (Kitching, 1974)?
11. Are the activities of acquired and acquiring companies connected in some way, or are the two companies concerned operating in different stages of the value chain or in different segments/industries? In other words: what is the strategic direction of cross-border acquisitions – related/horizontal or unrelated/diversified (Singh and Montgomery, 1987; Haspeslagh and Jemison, 1991)?
12. What European companies account for the majority of cross-border acquisitions: industrial or service companies (Jagersma, 2003)?

Method of investigation

This study aims for valid and reliable results by using a research method based on case studies (Yin, 1997), using the following complementary data sources:

(i) Official communications to the financial press (press releases), especially *The Financial Times*, *The Wall Street Journal* (US and European edition), Reuters and Bloomberg.
(ii) Volumes (if possible from 1976 onwards) of well-known (financial) daily newspapers, like for instance *The Financial Times*, *The Wall Street Journal* (Europe), *Frankfurter Allgemeine*, *Het Financieele Dagblad* (the Dutch equivalent of The Financial Times) and *Financieel-Economische Tijd* (the Belgian equivalent of The Financial Times).
(iii) Annual reports of the top 500 European enterprises of *The Financial Times* (edition 2000) and annual reports of the top 100, 500 and/or 1000 companies of different European countries (published by different management magazines and newspapers), at different points in time (if possible, from 1976 onwards).
(iv) Databases of investment banks Goldman Sachs, Morgan Stanley Dean Witter, Merrill Lynch, CSFB, and UBS Warburg.

I have traced and extensively studied 2,933 well documented cross-border acquisitions made by European companies in a 25-year period (1976–2000). A separate and extensive file was opened of each cross-border acquisition. The international acquisitions were effectuated by a cross-section of European businesses. All data were entered in an electronic database. The aforementioned questions were used as starting point and guideline for the empirical study. A review of the results of this study is made in the next paragraph. I carried out the study in the period 1999–2002 (Jagersma, 2000).

Of the 2,933 cross-border acquisitions of European companies, the relative geographical spread of the acquiring parties is as follows:

Great Britain	31.2%
France	12.9%
Benelux (the Netherlands, Belgium and Luxembourg)	20.9%
Germany	7.1%
Scandinavia (Norway, Sweden, Denmark and Finland)	12.7%
Central Europe (Switzerland, Austria)	6.1%
Southern Europe (Portugal, Spain, Italy, Greece)	6.9%
Eastern Europe (Poland, Bulgaria, Slovakia, Czech Republic, Hungary, [former] Yugoslavia, Rumania)	2.2%

Conclusion: British and Benelux companies account for the majority of cross-border acquisitions in my database. British, Dutch and Belgian companies are very active on the international market for corporate control. Scandinavian companies also use this form of international expansion quite often. The large number of Swiss cross-border acquisitions is remarkable, as is the relatively small number of German cross-border acquisitions.

The small number of Eastern European cross-border acquisitions is closely related to the lack of experience in respect of this form of international growth. In addition, it has to be pointed out that it is difficult to trace international acquisitions made by Eastern European companies because they are often not well documented. The same applies to the cross-border acquisitions made by Southern European companies, although remarkable improvements have taken place in recent years.

Results

The results of this study will be addressed point by point, in accordance with the research questions that were formulated earlier in this article. In connection with the size of the research study, I consciously choose to present the results in this specific way. In the future I will realise a comparative analysis of cross-border acquisition behaviour of companies from different European countries.

The tables represent a relative score (that is to say, the scores of the 2,933 cross-border acquisitions in respect of the possible answers to the questions), expressed as a percentage. I will give a concise analysis of the different scores.

1. Major types of rationales

There are many explanations for cross-border acquisitions. The motive of shaping and giving meaning to a more intensive exchange of experiences, skills, and capabilities between various parts of corporations, (i.e. achieving economies of skills) had the highest score: 32%.

Remarkably, this motive has become increasingly important through the years, which applies to companies from all European regions. Economies of skills are the result of bundling and disseminating experiences and competencies from different corporations (i.e. the acquirer and acquired company) in order to be able to respond more effectively (in terms of value added) and efficiently (in terms of lower costs) to the local and global market. This is also called the realisation of horizontal synergy. According to my database, the more internationalising companies develop foreign activities located in more than one country, the higher is the importance of economies of skills. This applies to all companies from all European regions.

The desire to achieve economies of skills indicates that the management of many European companies give priority to the strategic and operational dimensions of an acquisition instead of to the financial and tax-related dimensions (Sirower, 1997). Cross-border acquisitions are made because companies want to strengthen their strategic position and to improve their business operations through the achievement of economies of skills. The decision to make a cross-border acquisition is first and foremost a strategic one, and to a much lesser extent a financial one.

Table 1: Why are foreign firms acquired?

Economies of skills	32%
Expansion	27%
Economies of scale	25%
Market entry	12%
Geographic risk spreading	3%
Financial	1%

ABN AMRO is an example of a multinational bank that has given a lot of attention to the potential of skills, capabilities and experience of the foreign acquisition candidate and to whether or not this potential could be used to the benefit of other ABN AMRO businesses located elsewhere. British publisher Reed Elsevier was able to expand its activities in professional information in Europe successfully through cross-border acquisitions in the eighties and nineties, partly because of the knowledge, skills and experience of professional information companies acquired in the seventies in the United States.

The motives of expansion and economies of scale played an important part (scores of respectively 27 and 25%). International acquisitions made it possible to rapidly expand scale and thus achieve objectives as profitability and market leadership in the short term. For that matter, many cross-border acquisitions of European telecommunications companies during the second half of the nineties show that these financial and strategic objectives were by no means always achieved.

Another motive frequently found was the one of gaining a foothold in an important growth market (12%). For this reason, cross-border acquisitions were continuously made in developing markets or fast growing product markets. Striking examples of this are the recent acquisitions by European companies in the Far East (to an increasing degree also in China) and those that took place in the eighties in the services sector in the United States. During a certain period (second half of the eighties till first half of the nineties), also Argentine market was also an attractive hunting ground for Spanish and other European companies that wanted to expand their interests in Argentina.

Apart from geographical markets, acquisitions can result in gaining a foothold on fast growing global product markets. This way, Daimler-Benz acquired important interests in the international aviation industry. For this same reason, Swiss financial service providers (especially retail and wholesale banks) took over many specialised investment banking activities in the United States and Great Britain in the eighties and nineties. This concerned both large, eye-catching acquisitions as well as a few dozen medium-sized and small acquisitions of high quality research firms and small and medium-sized local investment companies.

Due to reasons in particular related to risk spreading, cross-border acquisitions were seldom made in other currency areas (3%). In the chemical industry, European companies like Bayer, Basf and Akzo Nobel frequently acquired medium-sized and large companies in the United States and the United Kingdom. Similarly, in the services sector, European companies frequently acquired publishers and insurance companies in the United States for this reason. European retail organisations as Ahold and Carrefour made frequent acquisitions in the Far East on the basis of this argument.

Remarkably, the financial motive was hardly ever found (1%). The takeover of the Dutch company Worldonline by the Italian Tiscali in 2000 can be described as a cross-border acquisition primarily based on financial motives. Due to the deep financial pockets of Worldonline, Tiscali was able to considerably strengthen its position in the rest of Europe. In a way, Worldonline served as a financial springboard for the rest of Europe. Table 1 reflects the results of this research question.

2. Geographical direction

The majority of acquiring companies want to expand their activities in Europe, North America and Japan. Large companies in particular feel that their position, as global operators, has to match the economic potential of the three most important regions (Ohmae, 1985).

The vast majority of the acquisitions were made in Europe (49%) and the US (41%). Japan makes a relatively low score (2%), just like the category 'other countries' (8%). In the global market for corporate control, the trend is clearly set by the home market (i.e. Europe) and the United States. A permanent preference for Europe and the United States can be observed. Japan and the category 'other countries' have not gained in popularity in the last few years as destination for international acquisitions of European companies. Table 2 reflects the results of all companies.

Table 2: What is the geographical direction?

Europe	49%
United States of America	41%
Japan	2%
Other countries	8%

The high score of the United States calls for some explanation. Many European companies are active in the American market for corporate control, especially companies from Great Britain, the Netherlands, Sweden and Switzerland. British and Dutch companies in particular have close ties with the United States from way back. In the second half of the seventies, the American acquisitions of, for instance, Dutch companies, accounted for more than one third of the total value of all acquisitions (therefore not only international acquisitions!).

Both British and Dutch companies acquired more companies in the United States in terms of value than in Europe in the first half of the nineties. Swiss and Swedish companies – both from the industrial and services sectors – are striking runners-up. They also concentrate to a great extent on the United States. Although numerically speaking more acquisitions are made in Europe, the biggest international acquisitions of Swedish and (especially) Swiss companies are usually made in the United States.

By way of illustration: the turnover of the 'America' operations of the Dutch retailer Ahold and insurer Aegon was considerably higher in 2000 than the turnover of both companies in other parts of the world, including Europe, their home market. The same can be said for Swiss pharmaceuticals and private banks. Some companies have been active on the US market for decades. The concentration of many European companies on the US market can be explained on the basis of:

size – which creates a large level of support for all kinds of activities (there is enough room for each company to compete and to grow)
diversity – as a result of which many market niches can be accessed – also by smaller European companies, and
'psychological distance' – which is relatively small in view of the historical ties between the United States and Great Britain and the Netherlands in particular

In addition, the US has few restrictions for many European companies (there is a positive attitude towards the business sector in general), it is a highly dynamic market (for many companies, the US market is the most flexible and innovative market in the world and therefore the home of many new products and services) and it enables an anti-cyclic policy.

Furthermore, it is important that also the majority of the (for instance Asian) competitors of the globalising European business sector have found their way to the United States. In order to compete effectively on a global level, it is almost essential to be present in the US. Companies that are not present on the US market are at risk of losing global competitiveness.

3. Method of payment

The majority of transactions (46%) were cash, financed from the cash flow. The takeover price was seldom financed with loans (11%). Cash deals also dominated the exchange of shares (43%). Paying a cross-border acquisition in shares results in a dilution of the profits per share, which, in general, is not accepted by existing shareholders (Rappaport and Sirower, 1999; Eccles, Lanes and Wilson, 1999). This explains why many European companies prefer to pay acquisitions in cash (Table 3).

Table 3: Is the acquisition paid in cash or in another way?

Cash	46%
Loans	11%
Exchange of shares	43%

It is striking, however, that Southern and Eastern European companies show a dominant preference for cash transactions. Relatively speaking, companies from Great Britain, the Benelux, Scandinavia and Central Europe frequently use loan capital. These companies also score relatively high on share transactions.

4. Consolidation method

An important question for the acquiring company is whether the acquired party is integrated into the existing portfolio or continues to be an independent activity (Haspeslagh and Jemison, 1991). The majority of acquired companies was integrated in one way or another in order to profit from advantages like cost and revenue economies. In addition, from a control point of view, it was easier to manage the new combination. The vast majority of cross-border acquisitions were followed by one or more reorganisations. According to my database this was related to, among others the:

- financial condition of the acquired company (not always as profitable and well-functioning from an operational point of view)
- necessary adjustments in order to rearrange both companies (integration) or to align business operations (coordination), and
- harmonisation of strategic and operational policies (among others, the alignment or incorporation of systems and processes that most of the time were different and for that reason did not communicate well with each other)

Table 4 reflects the results of this research question.

Table 4: What is the consolidation method?

Integrated	81%
Independent	19%

5. Size of the acquisition

Acquired companies frequently were medium-sized (34%) or large (45%), see Table 5. In all probability, the group of large acquired companies dominates the database because of the visibility of this kind of cross-border acquisitions. Against this background, the number of medium-sized acquisition candidates is remarkable. European companies have a preference for medium-sized or large cross-border acquisitions.

Small companies are regarded as less attractive (21%). This is understandable if we relate the size of cross-border acquisitions to the motives dealt with above. The preference for medium-sized and large foreign companies explains, for instance, the high score of strategic motives of 'increase in scale', 'expansion', 'market entry' and 'economies of skills.' Size is an important precondition if a company wants to materialise many of the aforementioned motives (i.e. latent advantages) for acquisition.

Many small cross-border acquisitions involved local companies that were not performing well from a financial point of view. In general, these companies were acquired because they had an interesting/unique product that made them stand out in the line of business in which they operated and competed (among others with larger companies, often the acquiring parties). This way, a local (though weak) competitor (which in itself had an interesting product that fitted in with the product portfolios of the acquiring company), was taken off the market.

Table 5: Size of the acquisition – small, medium-sized or large?

Small (< 250 employees)	21%
Medium-sized (250–1000 employees)	34%
Large (> 1000 employees)	45%

The fact that a relatively high number of small companies was acquired is also due to the political sensibility related to acquisitions of larger companies. A smaller company does not attract attention and when acquired, it causes less political turmoil. This appears to play a role especially in the financial services and media sectors as well as in defence-related industries.

6. Partial or total control

Acquiring European companies showed a distinct preference for total acquisition (79%, table 6). Acquired companies were forced to follow acquiring companies' corporate and competitive strategies. Important reasons to make total instead of partial cross-border acquisitions were:

- to gain a better grip on the business operations of the acquired company
- to expand globally or locally at a higher pace, and
- to have the possibility not to disclose the results; for instance, in the United States, many majority participating interests are under the obligation of disclosing their results, whereas 100% participating interests are often released from this obligation

Senior executives strongly prefer full acquisitions. The full ownership of a new acquisition means having control over all dimensions (both strategic and operational).

Table 6: Do acquiring companies want full or partial control?

Full control	79%
Partial control	21%

Some European companies deliberately use a multi-tiered acquisition strategy, i.e. gaining total control over a company by acquiring it in different phases. Especially in the financial services sector and the information sector (particularly media and multimedia companies), often a participation of 51 to 60 percent in the foreign company is acquired (in my terminology a 'partial acquisition'). In time, the participating interests are expanded. This way, majority interests are often increased to 100% (a 'full acquisition'), especially when the region in which operations take place is of great or increasing importance to the internationalising company. Various European service providers like publisher VNU (the Netherlands), retailer Delhaize (Belgium), Swiss banks and insurance companies have used this strategy – particularly in the United States.

7. Continuation of management

After acquisition, the acquired company is practically always continued under the same management (and often also under the same name) (87%, Table 7). Acquiring European companies – from all regions – are hesitant to adjust (read: 'replace') management of the acquired company directly after the acquisition. They prefer to maintain the existing management. This way, an acquiring company is able to take advantage of the experience and commercial relations of sitting management. Compared to an acquiring company, an acquired company is often much better acquainted with a local market and its customers, in particular because of this management. Acquiring parties also seek to profit from strong ties between existing management of an acquired company and local and national political leaders.

Table 7: Is the acquired foreign company run by the same executives after the acquisition took place?

Same management	87%
New management	13%

In fact, acquiring companies only break with existing management of an acquired company if it has been responsible for a really bad – in particular financial – performance.

8. Acquaintance

In many cases, acquiring and acquired companies had been in contact with each other in one way or another some considerable time before the acquisition (this applies to 88% of the acquisitions, Table 8). The fact that companies involved are acquainted reduces their insecurity in respect of each other's capacities and consequently, the possibility of failure. In itself, this result is understandable. In general, companies take over others that are in the same line as their own business i.e. colleagues whom they know well (see also research question 11).

Table 8: Do the acquiring and acquired companies know each other well?

They know each other well	88%
They don't know each other well	12%

The results for this question show that many European companies, before actually acquiring another business, apparently orient themselves quite well on the potential international market for corporate control. This applies to companies both from Northern and Central Europe as well as from Southern and Eastern Europe.

9. Financial health

European companies mainly acquire financially sound foreign businesses (in 84% of the cases). The share of acquired bankrupt companies in the total number of cross-border acquisitions was small. European companies want to expand their geographical scope with solid acquisition partners. The fear of being burdened with a financial shipwreck is high. This also is – at least partly – the reason that cross-border acquisitions normally are well prepared. The vast majority of acquiring parties make intensive use of the services of top lawyers, strategy consultants, investment bankers and tax consultants.

Table 9: Acquired companies – financially healthy or not?

Financially healthy	84%
Financially not healthy	16%

In general, companies are willing (and have the capacity) to pay substantial amounts for acquisition candidates. A high acquisition price is perceived to indicate that the foreign company (in all likelihood) is not a 'risk factor'. Many managers of acquiring parties feel that the other side of 'buying a pig in a poke' is pitch-black. A disastrously executed international acquisition frequently results in the end of the career of a top manager. I have constantly found this psychological factor in my study. 'Best' is perceived as 'expensive' in the end. This psychological factor is found in all European regions.

For that same reason, European companies often dislike large-scale restructuring processes of foreign acquisition candidates. The actual realisation of international acquisitions claims most of their attention. Therefore, incorporation of foreign acquisition candidates in the portfolio of the acquiring companies has to be a smooth process. In this context, the evident preference for financially sound companies is only natural. Table 9 reflects the results of this research question.

10. Size of the acquiring company

The majority of cross-border acquisitions were made by the largest companies from the respective industries (62%, see also Table 10). This pattern applies to all European regions.

Table 10: Size of the acquiring company – small, medium or large?

Small	2%
Medium	36%
Large	62%

It appears from actual practice that large companies prefer large cross-border acquisitions. The research results show that the largest companies make the largest acquisitions. This result is in line with the results of the previous research question. In general, companies like BP, Vodafone, Philips, LVMH, VW, Daimler-Benz, UBS, Unilever, Shell, Deutsche Bank and Akzo Nobel are responsible for the largest acquisitions. Large European companies rarely acquire small foreign companies. In isolated cases, medium-sized companies are acquired. The 'bigger is better' strategy is dominant.

In general, medium-sized companies take over small foreign companies. European medium-sized companies rarely take over medium-sized foreign companies. Small European companies only venture onto the field of international acquisitions in isolated cases. For the majority of the small companies, a cross-border acquisition is a bridge too far.

11. Relatedness

It appeared from my study that to a high degree the majority of cross-border acquisitions is related to the activities of the acquiring company (94%, see also table 11). Related cross-border acquisitions are less venturesome and make it easier to achieve economies of scale and experience (Hopkins, 1987; Melicher and Rush, 1996).

European companies rarely make cross-border acquisitions in non-related industries. For the same reason non-related diversification hardly ever occurred. A successful non-related cross-border acquisition was that of the American cosmetic giant Cheesebrough-Pond's by Unilever in 1987 for an amount of $3.1 billion. In my database, this was one of the rare successful non-related cross-border diversifications.

Table 11: Are the activities of acquired and acquiring companies related or unrelated?

Related	94%
Unrelated	6%

The majority of cross-border acquisitions had a horizontal character. If we look at the top 25 cross-border acquisitions made by European companies initiated for instance in 1998, it is remarkable that more than 20 had a horizontal character. Well-known examples from that top 25 are acquisitions of Amoco by BP, Chrysler by Daimler-Benz, Giant Food by Ahold, Banco Real by ABN AMRO, Courtaulds by Akzo Nobel and of Fina by Total – all horizontal cross-border acquisitions. Looking at the largest cross-border acquisitions of European companies in the year 1999, a similar image emerges. The following eight examples are included in the top ten of the largest international acquisitions in 1999:

- American Airtouch Communications by Vodafone for as much as $69.3 billion
- Swedish Astra by the British Zeneca for $37.7 billion
- American Arco Atlantic Richfield by BP Amoco for $34 billion
- French Rhone Poulenc by German steel group Hoechst for $22 billion
- Argentine YPF by Spanish oil company Repsol for $15.45 billion
- British One 2 One by Deutsche Telekom for $13.6 billion
- American TransAmerica by Dutch insurer Aegon at a price of $9.7 billion
- Rothmans International by British BAT Industries for $8.51 billion

Horizontal cross-border mega-acquisitions realised right at the end of my research period were acquisitions of the American Bestfoods by Unilever (for $25.07 billion), Orange by France Telecome (for $46 billion), the Canadian Seagram by the French Vivendi (for $42.8 billion) and of Credit Commercial de France (CCF) by HSBC Holdings (for $11.2 billion). Non-related cross-border acquisitions by European companies are isolated cases in the practice of the European business sector.

12. Kind of company

Industrial companies account for the majority of cross-border acquisitions (78%, see Table 12). In this respect, there are significant differences between the different European regions. British – and to a lesser degree Dutch and French – companies especially are more active than other companies as acquiring party in the information-intensive services sector like banking, insurance, publishing, media and multimedia. Both Southern and Eastern European companies are mainly active as acquiring party in the industrial sector.

Table 12: Which European companies account for the majority of cross-border acquisitions?

Industrial companies	78%
Service companies	22%

On the whole, European services companies account for a much smaller part of the total number of cross-border acquisitions than industrial companies do. In a way, this is understandable. The majority of globalising companies is (still) involved in the production or trading of goods (I included trading companies – borderline cases – in the category of industrial companies). The majority of service companies, especially those in Southern and Eastern Europe, simply lack experience to expand their activities by making foreign acquisitions.

It appears to be difficult to make cross-border acquisitions in services industries. National characteristics like government restrictions (for instance, in respect of sectors like banking and insurance) often are a barrier for foreign services companies to enter a foreign market. For that reason, acquisitions of information-intensive companies – e.g. especially media companies in the larger European and non-European countries – is often either impossible or accompanied with annoying, mostly superfluous, preconditions (so-called 'informal barriers').

From the end of the seventies and the beginning of the eighties onwards, cross-border acquisitions made by publishers, insurers and banks have been increasing. The number of cross-border acquisitions of (multi)media companies also has increased rapidly in recent years. Nearly all large services companies made one or more cross-border acquisitions in the nineties. The number of medium-sized and small European services companies that use cross-border acquisitions are, however, few and far between.

Strategic issues

In a way, my extensive database obscures the view of reality. Further analysis shows that the majority of European companies internationalise mostly along the path of organic expansion (Jagersma, 2000). ABN AMRO, Gucci and Unilever are striking examples of this: these companies make many eye-catching cross-border acquisitions, but on further analysis of the company specific data, growth is achieved particularly through internal development.

Apart from strategic matters addressed in this study, more tactical matters can be distinguished. These tactical matters also determine whether or not cross-border acquisitions are made. For example, negotiating on an acquisition price influences both a negotiating climate and pricing. In this study, I have merely concentrated on some strategic dimensions and a number of related questions, not taking into account tactical and operational considerations. Two additional strategic issues regarding the content and results of this study will be discussed in this paragraph:

- the influence of the European Union (EU) on the cross-border acquisition behaviour of European companies, and
- the international character of cross-border acquisitions

EU

The euphoria surrounding the euro and the EU has to be differentiated. For a long time, the euro/EU had an almost magic undertone. With the approximation of the 'real' internal market, various predominantly non-European companies started to expand in Europe in general, and in particular to make acquisitions. These acquisitions were often motivated by fear of a second (after 1992) Fortress Europe. From the point of view of anticipating management, it was a widespread belief that for the same reason, European companies also had to expand to other countries (Ohmae, 1989). If they did not, they would come off worst in the rising 'multi-market competition' battle for market leadership (Bartlett and Goshal, 1989). The results of this study indicate otherwise, however.

The coming of the EU has rarely been decisive for international growth through acquisitions by European companies. No significant relation could be found in the study between the increasing integration of the European market on one hand, and the cross-border acquisition behaviour of European companies on the other hand. Furthermore, the coming of an integrated Europe did not significantly influence the cross-border acquisition behaviour of (especially Eastern-) European companies that were not part of the EU. Without a doubt, the fact that they were already located in Europe will have something to do with this. Nevertheless, I was surprised about the absence of this connection so often assumed in the financial press.

European companies have strategic and operational motives to expand their activities through cross-border acquisitions. Political motives will play a significant role from time to time, but for the European companies that I studied, they were clearly of marginal importance (Pound, 1992).

Geographical concentration

I would also like to pass a comment on geographical diversity of cross-border operations. Acquisitions by European companies were often made in one region or country. Especially companies from Great Britain, the Benelux, Scandinavia and Southern Europe used this cross-border acquisition approach. A few illustrative examples are the focus of:

- many large European publishers and various British and Dutch insurance companies on the United States
- various large European retailers on North and South America
- large and medium-sized Spanish multinationals (industrial and services companies) on the Spanish-speaking part of South and Central America
- many European banks on certain parts (especially the Mid West and North-East) of the United States

Many other European companies also use this 'geographical concentration strategy' (Jagersma, 1993). This way, advantage can be taken of economies of scale and skills. The majority of internationalising European companies are active in only one region/country. There are very few real 'global' European companies (*Wall Street Journal*/World Economic Forum, 2000).

Unique competencies and deep financial pockets

Almost all European companies that made many acquisitions had at least one unique, distinctive competence (that made them stand out abroad) and deep financial pockets. Most European companies internationalised their scope through acquisitions from a financially strong position. This applied to both small companies (that internationalised in lucrative market niches) and the better known medium-sized and well-known large companies. The presence of deep financial pockets is important, given the fact that the debt-equity ratios of various companies frequently were subjected to great pressure after a cross-border acquisition was made.

A few companies with unfavourable debt-equity ratios were forced, after a sizeable cross-border acquisition, to alienate certain components through divestments and 'break-ups' (Sadtler, Campbell and Koch, 1997). A case in point is divestments realised by various European telecommunications companies in the year 2000.

Value-maximising reality requires a complex balancing act

Rapid improvements in information, communication and transportation technologies lead to better informed and more demanding customers everywhere in the world and to increasingly open and interlinked markets where global players compete. Nowadays, the challenge for many corporations is not whether to expand globally, but how to. From an offensive viewpoint, geographic expansion offers one of the few opportunities for growth when the home market is mature or domestic competition is already concentrated. From a defensive viewpoint, the arguments for expansion can be even more compelling and more urgent.

It is difficult to turn a blind eye to the fact that Europe (but also the Americas and Asia) is restructuring; in many industries, customers, suppliers and competitors are getting bigger and becoming increasingly global, and purely national competitors are looking increasingly vulnerable. Unfortunately, while the need for international expansion may appear ever more pressing, the risk of destroying value through inappropriate initiatives is also getting more and more real.

One useful way of deciding between alternative cross-border expansion strategies is to assess how well each will meet – and not exceed – the company's objectives along three dimensions (Jagersma, 2000):

- Control – which functions need to be directly controlled in order to maximise value and which can be left to third parties?
- Scale – what scale is needed in each national market, and overall across the world? Clearly, this will be heavily influenced by which global and/or pan-European vision has been agreed
- Speed of expansion – how fast the desired scale must be achieved, given the lifecycle of the product and the nature of local and global competition

Clearly, if a cross-border expansion strategy under-delivers against the company's objectives, then the chances are it will destroy value, even if it looks attractive in the short term. Equally, exceeding these objectives can incur a cost – in terms of cash, human resources or risk – that will not be justified because it will not help to fulfil the overall company vision. The different routes to global expansion deliver very different scores against the three criteria. Organic development – growing the business from scratch – will deliver complete control of all business functions but will usually be slow and will not, at least in mature markets, generally result in significant scale. Alliances, on the other hand, can generate scale rapidly, but will usually involve sacrificing complete control over some element of the business. Finally, acquisition will typically score high against all three criteria, but at a cost.

Unilever may be a good example of a company continuing to build leading positions separately in a number of national food markets, but also exploiting the benefits of global scale and skills – in product categories such as ice cream, frozen food and cosmetics. To maintain competitive advantage, it needs to control most functions – except distribution. And the maturity of most European and American food markets means that it has needed to build national scale rapidly. In Unilever's case, therefore, cross-border acquisition has been the preferred route.

When Electrolux began its expansion drive in the European white goods industry, it did not have the benefit of a unique value proposition. To gain competitive advantage, it needed to keep down costs by controlling and integrating most aspects of the business on a pan-European basis – including R&D, manufacturing, marketing and branding. It also needed sufficient scale to justify plants dedicated to specific products (all front loading washing machines to be produced in Italy, all microwaves in the UK). And it needed all of this fast – because the industry was already mature and competitors were perfectly capable of following Electrolux's lead. In these circumstances, it is likely that neither organic development nor local alliances would have worked. Since 1990, Electrolux has made over 40 acquisitions in Europe alone.

Turning a cross-border acquisition into value-maximising reality requires a complex balancing act – creating and pursuing opportunities with the utmost vigour whilst at the same time not getting carried away by the sort of management hubris that so often destroys value. This balancing act is not a task for the faint hearted.

Few organisations can manage this balancing act by committee; either the CEO himself or his deputed 'acquisition champion' must be given control of the process. Therefore, perhaps the single most important step that a CEO can take is to find and appoint an 'acquisition champion' – someone who can lead the cross-border acquisition process through all of its inevitable pitfalls, both external and internal. The two major challenges for the CEO and his acquisition champion are: winning over a potential acquisition candidate, and avoiding the temptation to overpay.

In continental Europe and Asia, hostile acquisitions are still a rarity. In many cases, local acquisition candidates will be controlled by banks or a small group of family shareholders, whose decision on whether or not to sell will be determined by many factors besides price. Government too can often play a major role and may need to be persuaded against their instincts. Overcoming these challenges requires a lengthy ‘courtship’. The champion needs to demonstrate perseverance, coupled with the ability to complete the negotiation rapidly once a deal has been struck in principle. Equally important, of course, is avoiding the temptation to overpay and end up destroying value.

If one wishes to avoid becoming the target of tomorrow’s cross-border raiders, there is no alternative but to do one’s homework now and be willing to walk away if the price is too high.

Lessons for practitioners

Many European companies that are aggressively pursuing cross-border acquisitions should not be. Companies that have significant opportunities to improve core business performance should do so. Companies that try to diversify away from problems in their core businesses through cross-border acquisitions are more likely to compound their problems than solve them.

Although having a strong core business is no guarantee of success with cross-border acquisitions, a strong core business is highly correlated with cross-border acquisition success. Better managed companies have a better chance of adding value. My analyses of consistently successful European cross-border acquirers indicates that they have several approaches in common:

- They restructure candidates and use financial engineering to extract value and lower the effective acquisition price
- They add both operating and strategic value to the acquired candidate and harness the candidate’s superior capabilities to add value to their own business portfolio
- They use a disciplined process to identify and value attractive candidates
- They carefully manage candidates post-acquisition to ensure that value is extracted

Nearly all cross-border acquirers use financial engineering within 12 months of the cross-border acquisition, to improve the economics of the acquired entity. Successful European acquirers employ a variety of restructuring/financial engineering approaches: selling businesses to companies that will pay handsomely for synergies, disposing of under-utilised corporate assets (e.g. real estate), changing capital structures, and stripping over-funded pension plans.

Virtually all successful European cross-border acquirers do more than restructure and financially engineer. They also add significant strategic and operating value. Successful acquirers use three approaches for adding value:

Skills transfer (i.e. upgrading the general management and/or functional skills of the acquired company using people, systems, and philosophies from the acquirer). General management skill transfer can serve to create strategic and operational improvements. Functional skill transfer can take place in any and all of the major functional activities of the acquired entity, depending on the leverageable skill base of the acquiring firm and, of course, on which functional activities are key to competitive advantage.

Create and exploit functional economies of scale, e.g. achieve critical mass in R&D (necessary to support major R&D investments), eliminate duplicative (development) efforts, consolidate manufacturing plants, and combine sales, distribution and service systems (i.e. consolidate and rationalise the assets and systems of the combined entities). The principal objective in this approach is to fundamentally improve the relative cost position of the combined firms.

Change industry structure, e.g. solve structural overcapacity problems and change value-added supplier-customer relationships. This approach is particularly applicable to industries undergoing discontinuities due to deregulation, globalisation, substantial technological change, or material changes in customer buying patterns. In these situations, opportunities arise to create new and sustainable competitive advantages by recognising, early on, what the future competitive structure is likely to be. For instance, acquisitions to create global financial supermarkets (i.e. the international strategy of ING) were designed to change the basis of competition in multiple financial services businesses by locking up customer groups and offering one-stop shopping.

Furthermore, successful European acquirers assess their own strengths and weaknesses to determine how they will add value to acquired candidates, actively search for candidates instead of waiting for opportunities to be brought to them (the best (local/global) acquisition candidates are usually those that are not being shopped by investment bankers), and go to great pains to value a candidate accurately and do not overpay.

Successful European acquirers are able to add value after they acquire. Well thought-out post-acquisition integration is an essential part of their approach. The extent and type of post-acquisition integration needed depend on what needs to be done to extract value from the acquired company and thus offset premiums and create value for the shareholders of the acquiring company (Hubbard, 1999). A foreign acquisition that must be restructured/financially engineered to create value requires an integration program very different in extent and type from one that seeks to capitalise on functional economies of scale.

If restructuring/financial engineering is the primary means of adding value, management transfers and functional consolidation plans are not that important. In contrast, an acquisition predicated on functional synergies through skills transfer or economies of scale requires a great deal more organisational integration. In addition to integrating the two corporate centres, the acquirer must decide how synergistic businesses can be integrated to share functions. Should the acquired company be fully functionalised and integrated into the acquiring company's businesses or should only one function be broken out and shared?

Appropriate integration is key to capturing most functional and operational synergies. The actual integration process requires careful planning because of the large number of communications that need to be handled well.

The extent of integration ultimately planned, has to be communicated to the top management team of the acquired company to ensure that their expectations are properly managed and key players can be locked in. Systems must be integrated in a series of steps carefully sequenced to minimise operational disruptions and departures of talented people.

Integration steps must be consistent with strategic, financial and organisational needs. The focus must be on 'beat the competition', not 'beat those other guys'. Successful cross-border post-acquisition management will be greatly facilitated by integrated thinking in which the challenges of the post-acquisition period are anticipated and incorporated into pre-acquisition planning.

Cross-border acquisition programs are not for every company. They are not a panacea to ensure corporate health. Well-managed European companies that have exhausted value creation opportunities in their core businesses should actively evaluate both cross-border acquisition programs and internal growth initiatives as vehicles for ongoing shareholder value creation. Companies with poorly performing core businesses should focus on fixing those businesses before pursuing cross-border acquisition opportunities. A corporation that has difficulty adding value to its core businesses is unlikely to add value to an acquired company.

'Make haste with caution'

The question of how to expand globally has moved to the forefront of many European CEOs' attention. The potential benefits are huge, but so too are the risks of inappropriate expansion. With the stakes so high, the best advice seems to be 'make haste with caution'. First, challenge and re-challenge the cross-border vision; if such a vision cannot be clearly articulated or if it lacks full corporate support, then do not expand globally. Second, make sure that an organic expansion strategy (i.e. growth through acquisition) is truly consistent with the objectives of the vision. Third, find an 'acquisition champion' with the personal qualities and internal credibility to pursue international expansion vigorously and systematically.

There is no doubt that cross-border acquisitions are not the 'ideal' solution. Numerous case studies underline the potential problems that can arise. However, recognising the increasing enlargement of trade, economic and political unions (e.g. the expansion of the EU) through the world, this form of global expansion may be critical for many companies. Consequently, identifying and anticipating the problems well in advance must be of concern to the CEO and his general management team. Trade, economic and/or political integration will create continued momentum in the growth and importance of cross-border acquisitions.

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