CHANGING TRENDS OF FOREIGN DIRECT INVESTMENTS AND MERGERS AND ACQUISITIONS: A GLOBAL LOOK AT THE PAST TWO DECADES

2.1 MARKET ENTRY AND LOCATIONAL STRATEGIES

PENELOPE E. QUAH AND MICHAEL C. MCDERMOTT

Abstract: This working paper explores the development of international or cross-border mergers and acquisitions (IM&As) activity during the past two decades. The paper identifies four distinctive time periods with their own characteristics. It is built on a previous research conducted by one of the authors that examined the growth of IM&As during the 1980s in OECD member countries.

The main trends noted were that prior to 1985 IM&As were modest in scale and exclusively involved companies headquartered in OECD member countries. International transactions with a value in excess of $500m were termed as "mega-mergers". However, deals are now characterised by even greater geographical concentration in terms of the value of concluded transactions, and there is a larger number of exceptionally large transactions. The current average size of an IM&A is now about $5 billion. Unlike in the 1980s, IM&As now account for the bulk of annual flows of foreign direct investment.

This working paper aims to examine the nature of the *phenomenon* itself. In short when we discuss IM&As in the year 2000, to what extent do we find that the *magnitude, trends and motives* are similar to two decades ago? This paper provides a succinct overview of trends in IM&As over the past two decades.

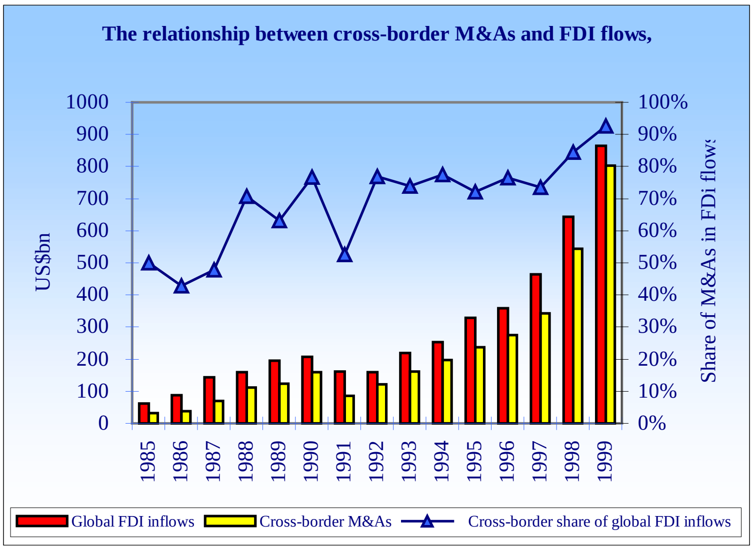
CONTENTS

LIST OF FIGURES AND TABLES

1. INTRODUCTION

UNCTAD's *World Investment Report, 1999* confirms that cross-border or international mergers and acquisitions (IM&As) is now in value terms the dominant form of foreign direct investment (FDI). In 1999, they were responsible for 92.7% per cent of global FDI (Figure 1).

FIGURE 1: THE RELATIONSHIP BETWEEN CROSS-BORDER M&AS AND FDI FLOWS, 1985-1999



Source: Authors, based on UNCTAD World Investment Reports

During the past two decades developed countries have reported massive increases in FDI inflows and outflows. In both cases, this can be directly attributable to a boom in IM&As (Figure 1). This is especially true of developed economies such as the UK and the US where the business culture and financial environment facilitate IM&As (Figure 2).

In contrast, FDI in emerging economies is still dominated by greenfield investments. There is evidence however that developing or emerging economies are beginning to participate in the IM&As boom as both buyers and sellers. The former is because they need to consolidate their position in global industries, and the latter is due to liberalisation as they join the WTO (e.g. in China) or respond to the Asian crisis (e.g. in Korea) (Figure 3).

FIGURE 2: CROSS-BORDER SELLERS BY GROUPING

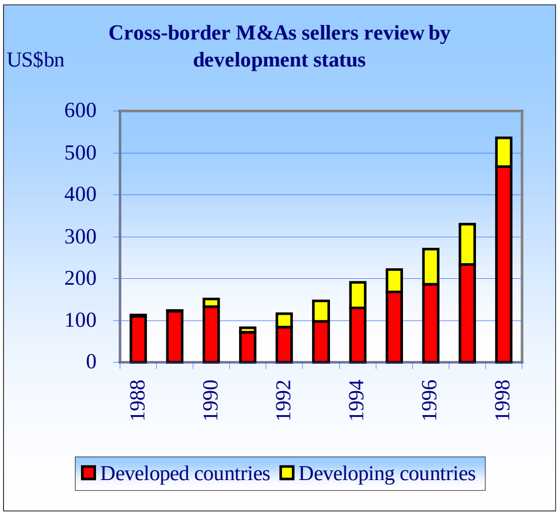
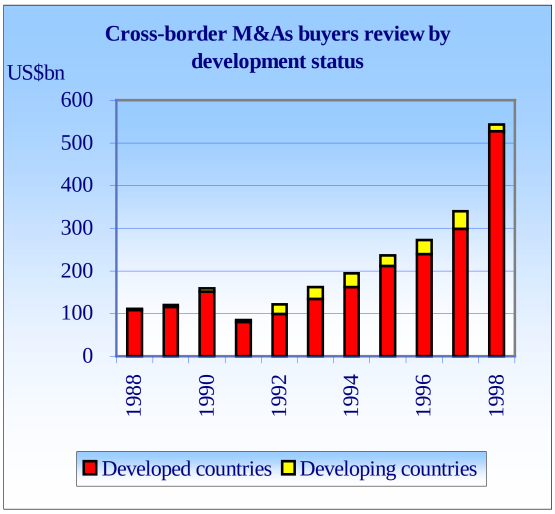


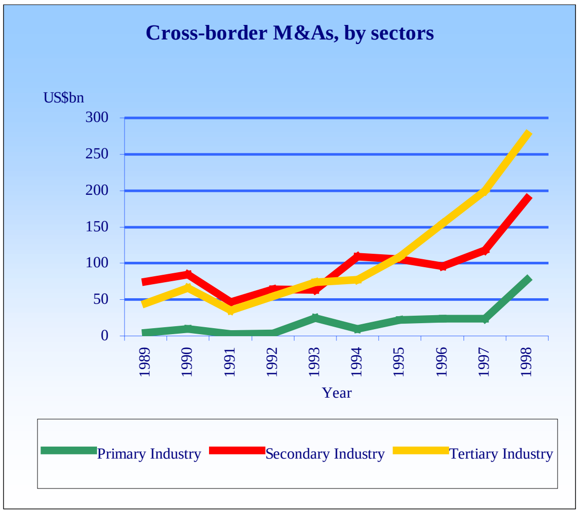
FIGURE 3: CROSS-BORDER BUYERS BY GROUPING



Source: Authors, based on UNCTAD World Investment Reports

Transnational Corporations (TNCs) in developed and emerging economies are employing IM&As to consolidate their position in sectors such as airlines, banking and other financial services, retailing, and telecommunications. Therefore, there has been a notable shift in IM&As activity from manufacturing to services. The latter now represent 53% of total IM&As (Figure 4).

FIGURE 4: SECTORAL DISTRIBUTION OF CROSS-BORDER M&AS, 1989-1998



Source: Authors, based on UNCTAD Investment Reports

This paper shows the development of the increasing popularity of European M&As and IM&As in general as a mode of market entry in the world. It will show how European companies grew in confidence in their bids and embarked on a strategy to be world leaders on the global platform, which relates to the theme of this conference "European Business in the Global network".

The paper also explores the development of IM&As activity during the past two decades. It identifies four distinctive time periods with their characteristics in terms of IM&As. It builds on previous research by one of the authors that examined the growth of IM&As during the 1980s in OECD member countries.

Prior to 1985 IM&As were modest in scale and exclusively involved companies headquartered in OECD member countries. For example, international transactions with a value in excess of $500m were classified as "mega-mergers" (Gray and McDermott, 1987; McDermott and Gray, 1989).

The authors highlighted too that in most OECD member countries there were very real barriers to IM&As, especially if this involved a hostile takeover bid. In countries like Germany and Japan, businesses were particularly immune to the threat of a hostile takeover, whether domestic or international.

In addition to looking at trends in IM&As, various studies in the late 1980s examined the motives for IM&As which have been classified into five main categories as seen in Table 1.

TABLE 1: MOTIVATIONS FOR ACQUISITIONS

Strategic Motivations	Economic Motivations	Behavioral / Managerial Motivations	Financial Motivations	Reactive Motivations
Instant growth	Economies of scale	Increase sales growth	Increase shareholder value	Competitive pressures
Buy rather build market share	Synergy in value chain activities	Increase management utility	Valuation gap theory	Saturated domestic markets
Diversification	Improve efficiency	Separation of ownership and control		
Competitive motivations	Purchase unique resources	Improve security: Risk		
Defensive motivations	Market power			

Sources: Steiner, 1975; Ravenscraft and Scherer 1989; Cooke, 1986 and 1988; Love and Scouller, 1990; Hamill 1988 and 1991; Hitt, Ireland & Hoskisson, 1995; Trautwein, 1990; Czinkota, Tokainen & Moffett, 1996

During the 1990s the academic literature has moved away from simply focusing upon the strategic dimension to IM&As, and instead begun to analyse the managerial challenges (Haspelagh and Jemison, 1991; Rumelt, 1982; Montgomery, 1985; Nathanson, 1985; Michel and Shaked, 1984; and Lubatkin, 1987). It is relatively easy to decide that a company is an attractive takeover target. Much more elusive has been developing a culture and system that enables the acquirer to fulfil its expectations of the transaction.

This paper does not aim to contribute to this recent managerial literature. Instead it seeks to examine the nature of the phenomenon itself. In short when we discuss IM&As in the year 2000, to what extent do we find that the magnitude, trends and motives are similar to two decades ago? This paper provides a succinct overview of IM&As over the past two decades.

It will be seen that during that period there has been a dramatic change in the nature of IM&As. Such changes include:

- It is now possible to conclude IM&As in a growing number of original OECD member nations, even those that were once so implacably opposed to hostile bids
- In emerging economies, there has been a profound change in policy, enabling foreign MNCs to conclude significant IM&As for the first time

- In order to gain market share or market leadership in individual emerging markets, developed country MNCs are buying local market leaders for significant prices
- Large IM&As are no longer accompanied by substantial waves of voluntary divestment of the operations of the acquired company
- MNCs from developing economies (e.g. Mexico, Singapore, South Korea) are also now using IM&As to achieve their global expansion plans

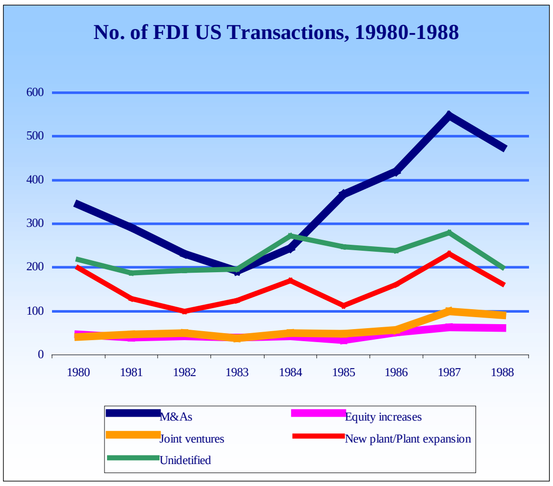
2. LIFE-CYCLE OF IM&AS IN THE PAST 20 YEARS

2.1 1980-1984: Before the phenomenon

In this period, IM&As were significantly small in value and in number. The accumulated IM&As during these five years was an estimated $50 billion, representing only 21 per cent of FDI inflows. Other modes of market entry development were more popular in many countries such as greenfield investment or joint ventures due to political and trades barriers, seen most acutely in Japan.

However, the situation was different in the US. Not only was the US undoubtedly the main destination for IM&As activity, it was the most common mode of inward investment as seen in Figure 5.

FIGURE 5: NUMBER OF FDI US TRANSACTIONS, 1980-1988 (EXCLUDING REAL ESTATE)



Source: Gray and McDermott (1987), based on data from US Department of Commerce, Investment Analysis Division

During this time frame in Europe, the policy environment was still very much in favour of finding national solutions to try and create 'national champions". For example Ford was prevented from acquiring Britain's Austin Rover and Fiat outbid Ford in bidding for Italy's Alfa Romeo. Virtually half (48%) of total US purchases were made in the UK and Canada (Table 2).

TABLE 2: THE NUMBER OF FOREIGN ACQUISITIONS BY US COMPANIES BY NATIONALITY, 1980-1986

	1980	1981	1982	1983	1984	1985	1986	Total
UK	*38*	*27*	*30*	*39*	*45*	*44*	*50*	**273**
Canada	*15*	*8*	*30*	*35*	*24*	*42*	*54*	**208**
Germany	8	11	12	13	13	15	13	**85**
France	7	12	8	8	15	16	12	**78**
Australia	2	7	6	3	6	7	7	**38**
Switzerland	2	1	10	11	3	5	5	**37**
Italy	3	3	2	6	6	13	4	**37**
Netherlands			3	8	3	7	5	**26**
Japan	5	3		3	7	7	2	**27**
Spain		1	2	3	6	3	4	**19**
Belgium	1	1	2	1	3	3	6	**17**
Sweden	1	2		1	3	3	2	**12**
Other	13	20	15	15	13	11	16	**103**
Total	**95**	**96**	**120**	**146**	**147**	**176**	**180**	**960**

Source: Gray and McDermott (1987), based on data provided by W T Grimm & Co.

US MNCs were very cautious about IM&As during this period. Between 1981 and 1984 they spent only $6.9billion (Gray and McDermott, 1987) on IM&As.

On the other hand, European MNCs were beginning to use IM&As to expand internationally. This attracted considerable attention precisely because their deals concluded in the USA during the 1970s had been spectacularly unsuccessful. This often reflected the fact that then they had purchased weak US businesses (e.g. Renault's purchase of AMC). UK, Canada and Germany were the most active acquirers during the early 1980s (Table 3).

TABLE 3: NUMBER AND PERCENTAGE OF US ACQUISITIONS BY FOREIGN COMPANIES BY SOURCE COUNTRY, 1980-1984

Country	1980		1981		1982		1983		1984		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Canada	68	20	53	18	38	14	34	18	31	13	224	16
France	24	7	20	7	13	4.5	8	4	15	6	80	6
W. Germany	51	15	26	9	16	6	11	6	12	5	116	9
Japan	17	5	26	9	15	5.5	9	4.5	32	13	99	7
Netherlands	19	5.5	14	5	23	8	17	9	15	6	88	7
Switzerland	19	5.5	8	3	8	3	9	4.5	15	3	59	4
UK	82	24	71	24	110	39	64	33	77	31	404	30
Other	64	18	73	25	56	20	40	21	56	23	289	21
Total	**344**	**100**	**291**	**100**	**279**	**100**	**192**	**100**	**245**	**100**	**1351**	**100**

Source: Gray and McDermott (1987) based on US Department of Commerce, Investment Analysis Division

There was a clear change in outlook during the early 1980s over the 1970s, and it was evident that companies were seeking to acquire businesses that were market leaders in their particular niche with a strong brand identity. Many European companies thus began consolidating their world status with a substantial US acquisition (e.g. Nestlé acquisition of Carnation). Most acquisitions were in the automotive and the food and beverages industries.

2.2 1985-1989: Surge of IM&As

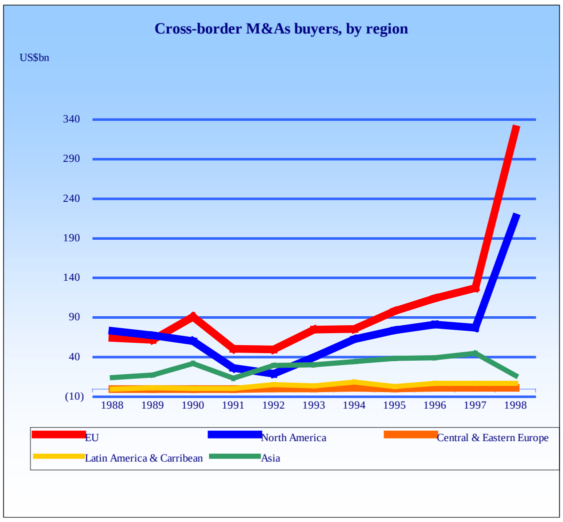
The most noticeable trend during this period is that IM&As began to pick up by 1988, when a boom of IM&As was recorded. For the first time, 66.9% of global FDI outflows consisted of IM&As. Majority of the IM&As took place in developed countries where M&As policy regulations were beginning to relax as compared to the developing countries.

58% of global M&As was completed in the North American region during the late 1980s, making the region the most popular destination. The UK was the most active buyer in the US during this boom period followed by commanding 27% of total IM&As. This is followed by France (12.4%), the US (12.2%), Japan (10.9%) and Canada (6%).

In Western Europe, the US was uncharacteristically the most active acquirer, especially in the UK (e.g. SmithKline acquired Beecham in 1989 for $4.5 billion). The Japanese, spurred by the success in the US also began to cast their acquisitive interest in Europe. UK firms acquired the status of being the most active international acquirers during this boom period. Many European companies consolidated their world status with a substantial US acquisition with an avalanche of bids such as Unilever's $3.1 billion for Cheseborough-Pond's in 1985. Electrolux of Sweden became the undisputed number one global domestic appliance producer in 1986 with its $745 million acquisition of White Consolidated. Hoechst AG of Germany became the world's largest chemical company with its $2.85 billion acquisition of Celanese.

European companies displayed more confidence than their North American rivals in bidding and the days of acquiring the dross of American rivals disappeared. Their main aim was to be world market leaders and this strategy required deals to be completed quickly. The 1980s got a glimpse of European firms' (especially from the EU) potential domination of the tables in the 1990s as seen Figure 6.

FIGURE 6: CROSS-BORDER BUYERS BY REGION, 1988-1998



Source: Authors, based on UNCTAD World Investment Reports

Majority of IM&As activity concentrated in the secondary sector as chemicals and pharmaceuticals, food, beverages and tobacco and electrical and electronic engineering industries. But a notable shift towards the end of 1980s towards services was observed during the end of 1980s, as seen in (Table 4) where banking and finance, insurance industries were for the first time among the top 10 most acquisitive industries.

TABLE 4: TOP 10 INDUSTRIES FOR 1989

(Unit: US$ billion)

1989			
Rank	*Industry*	*Value*	*Share*
1	Chemicals and chemical products	12.99	10.51%
2	Manufacture of paper and paper products; printing & publishing	11.32	9.15%
3	Food, beverages and tobacco	11.09	8.97%
4	Electrical and electronic engineering	11.08	8.96%
5	Banking and finance	7.22	5.84%
6	Insurance, except compulsory social security	7.16	5.79%
7	Hotels and catering	5.61	4.54%
8	Coke, petroleum products and nuclear fuel	5.14	4.16%
9	Motor vehicles and other transport equipment	4.77	3.86%
10	Owning and dealing in real estate	4.71	3.81%

Source: Authors, based on UNCTAD World Investment Reports

This boom in IM&As in the late 1980s is best viewed as a strategic and economic response of transnational corporations (TNCs) to the changing international business environment. Key elements of the international business environment in the 1980s contributing to the boom included:

- Globalisation and heightened competition;
- Improvements in efficiency;
- Access to expensive technological advances;
- The Single Market programme of the EU;
- Financial considerations; and
- Rapid economic growth.

The first three were considered as structural factors that influenced positively the continuation of cross-border IM&As over the longer term. The last three were considered as short-term factors that helped explain the bulge in FDI flows in the late 1980s.

2.3 1990-1994: Slowdown in IM&As Activity

The most significant trend that emerged during this period was that as the developed economies fell into a trough with a slowdown in FDI and IM&As activity, the emerging economies such as China and the Asia-Pacific NIEs began to generate higher FDI inward investments and increasing levels of IM&As.

Though IM&As activity continued to grow in 1990, a reversal of fortune soon occurred in the following year. Between 1991 and 1993, only $370 billion of IM&As took place that represented only 31% of global FDI. This decline was parallel to that of global FDI flows that total only $1,196 billion for the three years. Global investments fell into a cyclical trough and were partly reflected in economic activity. Slower economic growth and lower profitability of investments combined with tighter credit and increasing capital cost dampened IM&As activity.

Another explanation is the boom in the financial markets of the mid-1980s ended with a crash in 1987 that was followed by the worst recession – a ruthless and devious recession that repeatedly crushed expectations of recovery. The landscape became littered corpses of companies that took on excessive debt in the boom period, whether for acquisitions or otherwise. The lack of confidence and therefore lack of takeover activity between 1991 and 1994 was further been compounded by a few other specific factors:

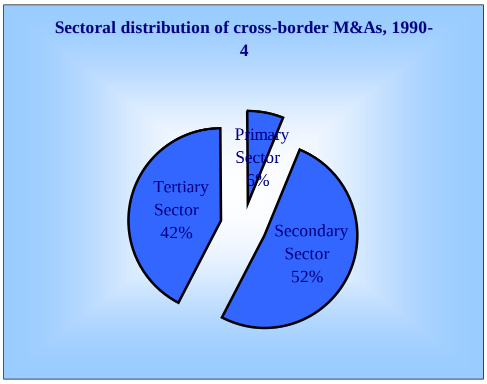
- Dramatic events such as the unification of Germany, the demise of USSR, the Iraqi invasion of Kuwait, and the turmoil in the financial markets took place simultaneously.
- There was a more restrictive environment in the UK – both emotional and regulatory in response to the spate of scandals surrounding acquisitions and acquisition-driven companies, and in reaction against the perceived excesses of the 1980s.
- A ready supply of bank financing dried up.
- The stock market was both very selective in the deals it would support, but at the same time, at levels high enough to provide few opportunities for cheap acquisitions

Most of the modest IM&As activity took place in the Western Europe region with a significant drop of IM&As activity in the North America region. The drastic decline drop of US activity can be explained by the fact that the European companies did not make significant changes within corporate Europe and within their own national boundaries and they remained restricted by a combination of competition considerations and the lack of availability of acquisition targets. The European multinationals continued to focus much of their international expansion predominantly in the US. UK and US companies acquired in

Europe, but on a much smaller scale displaying the smaller size of available companies in Europe.

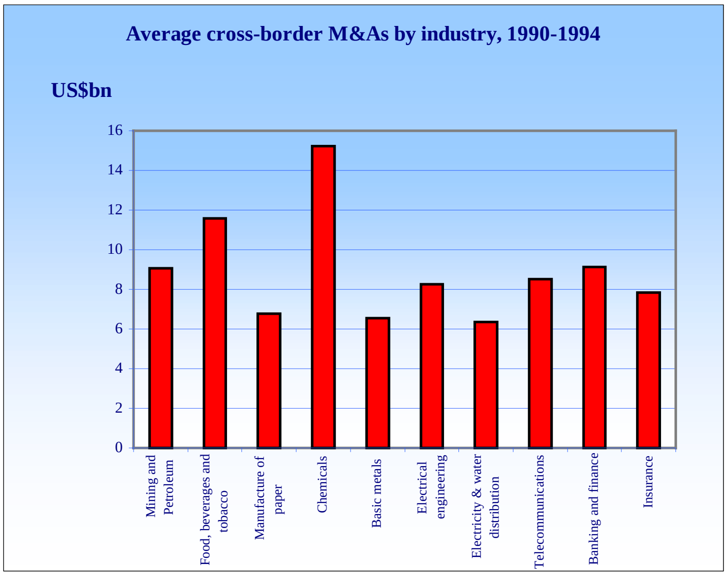
IM&As concentrated in certain industries during the early nineties. Between 1990 and 1994, an average of 51% of total IM&As deals were completed in the manufacturing sector, also known as the secondary sector (Figure 7). The food and beverages, chemicals and mining industries dominated the IM&As activity during this period as seen in (Figure 8).

FIGURE 7: CROSS-BORDER M&AS BY INDUSTRY SECTORS, 1990-1994



Source: Authors, based on UNCTAD World Investment Reports

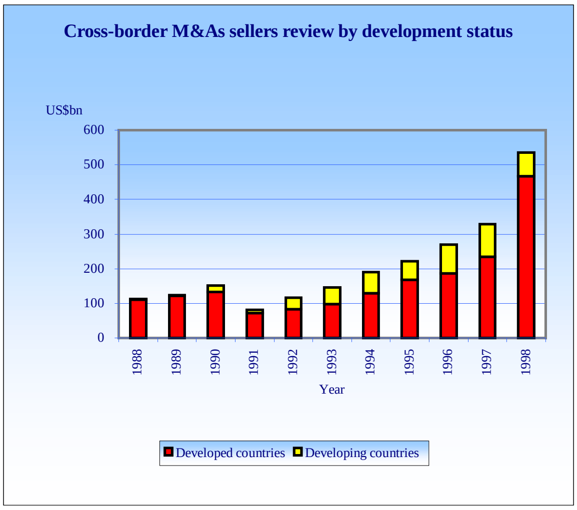
FIGURE 8: POPULAR INDUSTRIES IN THE EARLY 1990S



Source: Authors, based on UNCTAD World Investment Reports

But while the developed world fell into a slump, the developing countries received two-thirds increase in FDI between the late 1980s and 1990s, a huge change from the previous decade when inflows to industrial countries dominated the tables. IM&As activities became increasingly an important vehicle for FDI in developing countries during the 1990s, as a comparison to the low activity level of IM&A in the 1980s. As seen in the Figure 9, IM&As sales increase from a mere $2 billion in 1989 to an impressive $97 billion 1997. The South, East and South-east Asian countries and the Latin American countries that received the lion's share were those with more open policy regimes, large markets (either domestic or through regional agreements), and relatively high incomes.

FIGURE 9: CROSS-BORDER SELLERS BY DEVELOPMENT STATUS, 1988-1998



Source: Authors, based on UNCTAD World Investment Reports

The nineties also saw more developing Asian firms using IM&As a mode of entry into neighbouring countries. The IM&As activity concentrated in the South, East and South East Asia countries such as China, Taiwan, Korea, Hong Kong, Singapore and Malaysia.

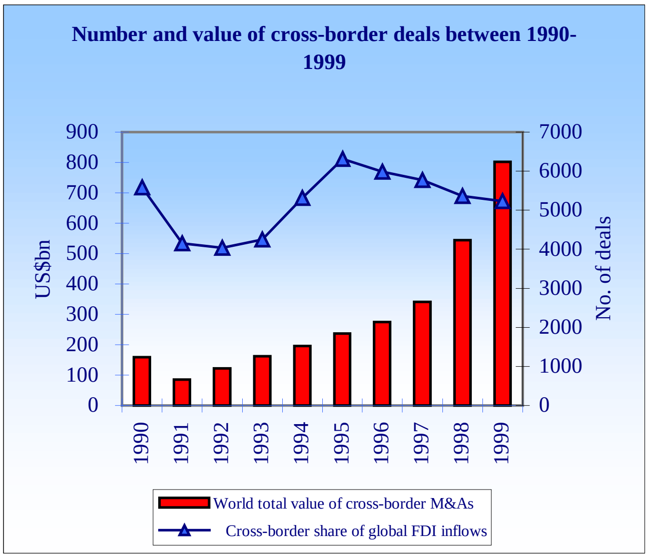
The trough in the developed countries showed that the aggressive pursuit of IM&As by TNCs as an instrument to expand international production in the latter half of the 1980s has been superseded by a greater focuses on integration and rationalisation of their networks in the early 1990s. However, the continued impact of structural factors is likely to ensure the importance of cross-border IM&As as a mode of FDI seen the later half of 1990s next.

2.4 1995-1999: IM&As is the name of the game

During this time frame, IM&As began to liven up once again in the developed economies during late 1994. The absolute value of IM&As was large enough to affect the level, direction and composition of FDI flows, which rose to unprecedented heights and the following are the reasons for the dramatic increase. The most significant trend of the new growth of IM&As during this period is the constant record-breaking mega-deals.

As seen in Figure 10, though the total number of IM&As deals dropped from 5,528 to 5,231 between 1990 and 1999, the total value of deals increased by $642.7 billion. Between the period of 1995 – 1999, there was a total of 341 $1 billion deals valued at $1,168.7 billion.

FIGURE 10: CROSS-BORDER M&AS IN THE 1990S



Source: Authors, based on KPMG database

Most of the mega-deals were completed in the developed economies and western countries became very aggressive in terms of size of their purchases. The European countries such as the UK, Germany, France, Netherlands was among the aggressive purchasers (Table 5).

TABLE 5: ABOVE $1 BILLION DEALS, TOP TEN COUNTRIES, 1995-1999

Purchasing Countries	Total # deals	Total value $billion
United States	92	226.78
United Kingdom	42	302.83
Germany	38	156.26
France	31	97.44
Netherlands	31	95.69
Switzerland	17	57.13
Canada	16	52.54
Japan	9	29.37
Australia	8	13.98
Spain	8	28.42

Source: Authors, based on KPMG database

The average size of an IM&A as of 1998 was estimated to be $5 billion and in 1999 there were ten deals recorded to be above the $10 billion mark which was unheard of in the 1980s. For example German's Hoechst AG's purchase of Marion Merrill Dow of the US was the largest deal of the year at $7.1 billion in 1995 and the biggest deal of 1999 was $69 billion by UK's Vodafone Group plc acquisition of Airtouch Communications Inc of the US. Though the Western Europe region attracted the an average of 38% highest level of IM&As of all regions (mostly in the EU) between 1988-1998, the US had the highest share of IM&As inflows among all countries (average of 30%) for the same period.

While the western world was booming with IM&As, the Asian region recorded a slowdown of IM&As activity towards the end of 1990s. Asian countries witnessed a sharp fall in inward deals, as international companies shied away from the region's economies and financial problems. IM&As sales activity in 1998 fell by 45% over 1996's peak of $60.3 billion (Figure 11). Investors became cautious as the region dealt with the worst crisis since its FDI boom in the early 1990s. Indonesia was hit the hardest from the crisis. There were two exceptions. Japan and South Korea saw a noticeable increase of IM&As inflows into the countries as corporate restructuring in the country offered growing possibilities to western companies. The financial crisis had a domino effect on the Latin American region as sales and purchases were dampened (Figure 12).

FIGURE 11: CROSS-BORDER M&AS FOR ASIA REGION

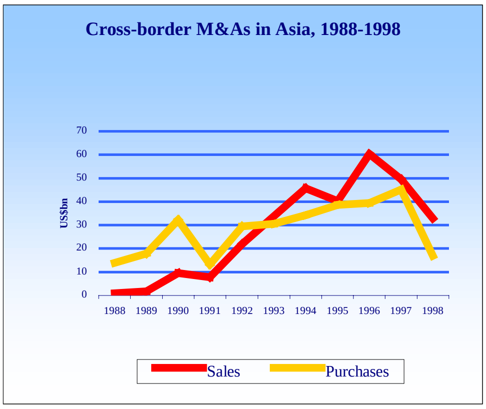
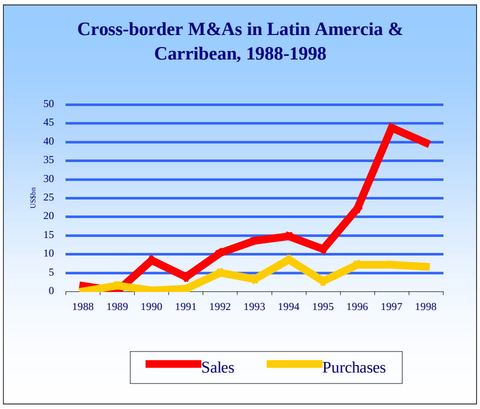


FIGURE 12: CROSS-BORDER M&AS FOR LATIN AMERICAN & CARIBBEAN REGION



Source: Authors, based on UNCTAD World Investment Reports

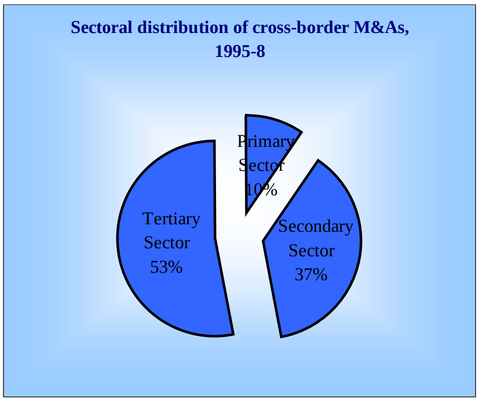
However, these countries at the time this paper is written are currently recovering from the crisis and inward deals are slowly increasing once again. Also, noticeable is that countries like Singapore, Hong Kong, and South Korea are getting actively involved as buyers, not just sellers. This is due to the increasing competition the local companies are facing from global competitors that have invaded the region making the local companies more vulnerable. I order to gain market share or market leadership in individual emerging markets, developed countries MNCs are buying local market leaders for significant prices.

Therefore, there was and still is this urgent need for the Asian companies to embark on a strategy that permitted them to attempt in becoming global players too to avoid being taken over by a foreign entity. For example, in Singapore, Singapore Telecom bided for Cable and Wireless in Hong Kong in March 2000, and its biggest bank DBS has plans for regional acquisitions.

To sum up IM&As in the late 1990s, activity concentrated in industries that were

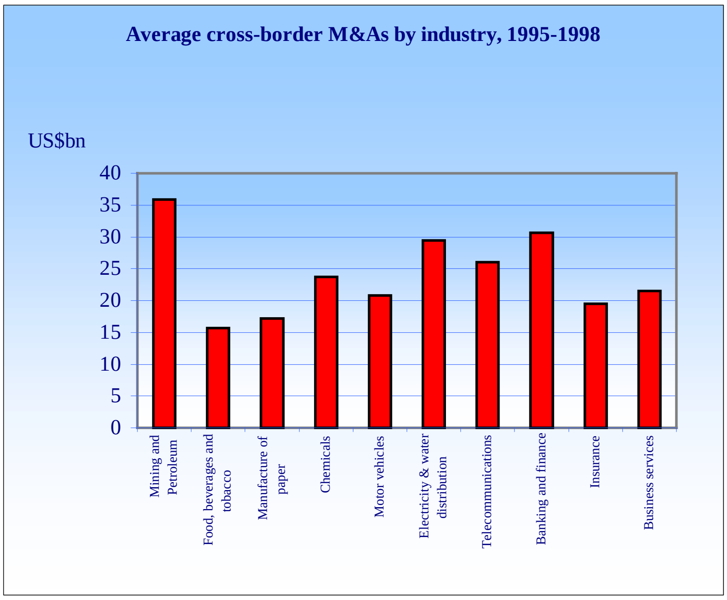
- Losing comparative advantages;
- Facing with over-capacity or low demand (e.g. automobiles and defence; changes in mode of competition as a result of high technological orientation (e.g. oils and chemicals);
- Facing high R&D expenditures (e.g. pharmaceuticals);
- Going through liberalisation and deregulation of previously state-owned sectors such as financial services and telecommunications (Figures 13 & 14).

FIGURE 13: CROSS-BORDER M&AS BY INDUSTRY SECTORS, 1995-1998



Source: Authors, based on UNCTAD World Investment Reports

FIGURE 14: POPULAR INDUSTRIES IN THE LATE 1990S



Source: Authors, based on UNCTAD World Investment Reports

3. DRIVERS OF MERGERS AND ACQUISITIONS

Over the past three decades since the 1970s, the characteristics of why IM&As take place have changed due to political, economical, social and technological factors (Appendix 1). As governments open up industries and liberalised certain industries, a surged of IM&As activity has occurred. Also, IM&As have become increasingly common mode of entry into new markets and governments relax controls of foreign ownership in home countries.

In the 1980s, the main drivers of IM&As were more financial of nature. Companies acquired firms in similar or related industries to gain economies of scale, boost market share, or become a key player through geographical diversification. Defence motives were also part of the drive to acquire as the perception was the bigger the firm, the "safer' the firm is from being acquired. Most of the IM&As deals took place in anticipation of the Single Market in 1992.

After the initial hiccup of IM&As activity in the early 1990s, the forces behind the dramatic growth of cross-border IM&As in the 1990s were at times specific to a particular in industry or country, but often are general in nature. Countries over the past decade experienced technological change an economic reforms, including liberalisation of trade and investment policies, and geographic and product markets convergence. In response, industries have been consolidating. Motives for acquiring were more strategic in nature.

Many of the largest cross-border IM&As occurred in the telecommunications sector where formerly domestic companies are racing to achieve global reach as national monopolies disintegrated and were sold-off. Other general motives include economic growth, rising share prices and the desire of firms to shed affiliates in unrelated sectors.

The current wave of IM&As does not seem deterred by relatively poor results that have been observed. Under fiercer competitive pressure brought about by globalisation and rapid technological advances, expanding firm size and managing a portfolio of locational assets are increasingly becoming important for firms, as it enables them to take advantage of resources and markets world-wide.

The search of financial, managerial and operational synergies, as well as economies of scale also drive this search for size. Size also puts the firm in a better position to keep pace with an uncertain and rapidly evolving technological environment where costs of research are rising phenomenally in an increasing knowledge-intensive world economy.

4. CONCLUSION

This paper has shown that the characteristics of IM&As have changed drastically since the late 1970s in terms of sheer size and geographical diversification.

As globalisation accelerated through liberalisation and deregulation in the developed world, between the late 1980s and 1990s, US did not remain dominant in IM&As activity. From the mid-1990s, European companies became more active in selling and aggressive in buying companies on the global platform. Even the European countries that were once opposed to hostile bid are witnessing the growing popularity of IM&As as an entry mode. The main motive for the surge of popularity of IM&As as a mode of market entry in Europe was and still is to gain market share or leadership as seen in the telecommunications and financial services industries.

This paper has also demonstrated that there has also been a prevailing shift of IM&As activity from the manufacturing to services industries over the past two decades due to deregulation. And that IM&As has become an accepted and natural avenue for business development, certainly in the Anglo-Saxon economies and increasingly on the Continent and elsewhere.

The authors predict that the popularity of IM&As seen in the developed world will spread rapidly in the developing countries and in Japan. MNCs from developing economies such as Mexico, Singapore, South Korea have begun to use IM&As as a strategy in their global expansion because there has been a profound change in policy, enabling foreign MNCs to conclude significant IM&As for the first time. As these countries recover from their financial crisis they are definitely the players to look out for on the global platform as they gain strength and power in the new millennium.

To conclude, as the world embraces the new century, IM&As will continue to grow in size and value as more countries liberalise and deregulate their state industries and as liberalisation of trade, investments and capital markets continue around the world. The phenomenon will continue.

APPENDIX 1: CHANGES OF IM&AS CHARACTERISTICS OVER THE PAST THREE DECADES

Characteristics	1960's & 1970's	1980's	1990's
Type	• Diversification	• Related industries • Consolidation	• Further consolidation in similar or related industries • Greater geographical concentration
Size	• Small corporations were more vulnerable	• Small corporations were also the prey • Emergence of deals above US$500m	• Increasing Size, especially in the late 1990s • Mega-deals of more than US$1b each (1998: over US$10b a deal emerged)
Motives	• Spread risks of business through diversification • Increase market share • Buy instant success	• To gain economies of scale • To boost market share • To become a key player through geographical diversification • To buy instant success (acquisitions of brands) • For defence	• Unique to each industry • To gain economies of scale • Search for operational, financial and managerial synergies • To attain dominant market position • Short-term financial gains in terms of stock value • For defence
Driving Forces	• Increasing costs • Consolidating world status	• Consolidation • Restructuring • Globalisation • Anticipation of Single Market in Europe • Self-generation elements	• Global progress of deregulation • Liberalisation of trade, investments and capital markets • Intensifying competition • Increasing acceptance of IM&A • Shift towards accounting standards that enable corporations to be compared on a international basis
Industries	Mostly manufacturing industries: • Motor Vehicles • Food and beverages	Focus was manufacturing shifting towards services: • Chemicals / Pharmaceuticals • Food, beverages and tobacco • Motor vehicles (Far East and Japan) • Manufacture of paper • Electrical and electronic engineering • Advertising	Focus shifted to services: • Telecommunications • Insurance • Banking and finance • Utilities • Business services (consultancies) • Mining and Petroleum • Chemicals / Pharmaceuticals
Buyers	• France, UK, US and Germany	• US, Western Europe (UK), Canada, Japan and Germany	• US, UK, Germany, France and Netherlands
Sellers	• US, Japan	Mostly developed industries: • US, Canada, UK, Germany, France and Japan	Increasingly common in developing countries (Latin America and East Asia): • US, UK, China, Brazil and Netherlands, Japan

Source: Authors

REFERENCES

Cooke, T.E (1986), *Mergers and Acquisitions,* Basil Blackwell.

Czinkota, M.R., Ronkainen, I.A. and Moffett, M.H. (1996), *International Business*, 4th Edition, The Dryden Press. United States.

Gray, S.J. and McDermott, M.C. (1989), *Mega-Merger Mayhem: Takeover Strategies, Battles and Controls,* Paul Chapman Publishing Ltd.

Hamill, J. (1988), US Acquisitions and the Internationalisation of British Industry, *Acquisition Monthly*, November.

Hamill, J. (1991), Strategic Restructuring through International Acquisitions and Divestments, *Journal of General Management*, 17(1) Autumn: 27-55.

Hamill, J. (1991), Strategic Restructuring through International Acquisitions and Divestments, *Journal of General Management*, 17(1) Autumn: 27-55.

Haspeslagh, P.C. and Jemison, D.B (1991), *Managing acquisitions: Creating value through corporate renewal,* The Free Press, A Division of Macmillan, Inc.

Hitt M.A., Ireland, R.D. and Hoskisson, R.E (1996); *Strategic Management: Competitiveness and Globalisation;* West Publishing Company, USA.

Love, J.H. and Scouller, J. (1990) Growth by Acquisitions: The Lessons of Experience; *Journal of General Management*; 15(3)(Spring): 4-19.

Lubatkin, M. (1987), Merger strategies and stockholder value, *Strategic Management Journal*, 8: 39-53.

Michel, A. and Shaked, I. (1984), Does Business Diversification affect Performance?, *Financial Management*, 13: 18-25.

Montgomery, C.A. (1985), Product-Market Diversification and Market Power, *Academy of Management Journal*, 28: 789-98.

Nathanson, D.A. (1985), The Strategic Diversity Classification System: A Framework for Decision Making, In W.D. Guth, ed., *Handbook of Business Strategy*, pp.1-20, New York: Warren, Gorham and Lamont

Organisation for Economic Co-operation and Development, (1995), *Financial market trends*, June, OECD, France.

Organisation for Economic Co-operation and Development, (1997), *Financial market trends*, June, OECD, France.

Ravenscraft, D.J. and Scherer, F.M. (1989), The Profitability of Mergers", *International Journal of Industrial Organization*, .7: 101-16.

Rumelt, R.P. (1982), Diversification Strategy and Profitability, *Strategic Management Journal*, 3: 359-69.

Steiner, P.O. (1975); *Mergers: Motives, Effects and Control*; University of Michigan Press.

Trautwein, F. (1990); Merger Motives and Merger Prescriptions'; *Strategic Management Journal*, 11(4): 283-95.

United Nations Centre on Transnational Corporations, (1989), The process of transtionalization and transnational mergers, *UNCTC Current Studies*, Series A:8, United Nations, New York.

United Nations Conference on Trade and Development (1992), Transnational corporations as engines of growth, *World Investment Report*, United Nations Publication, Switzerland.

United Nations Conference on Trade and Development (1993), Transnational corporations and integrated international production, *World Investment Report*, United Nations Publication, Switzerland.

United Nations Conference on Trade and Development (1995), Transnational corporations and competitiveness, *World Investment Report*, United Nations Publication, Switzerland.

United Nations Conference on Trade and Development (1996), Investment, trade and international policy arrangements, *World Investment Report*, United Nations Publication, Switzerland.

United Nations Conference on Trade and Development (1997), Transnational corporations, market structure and competition policy, *World Investment Report*, United Nations Publication, Switzerland.

United Nations Conference on Trade and Development (1998), Trade and investment, *World Investment Report*, United Nations Publication, Switzerland.

United Nations Conference on Trade and Development (1999), Foreign direct investment and the challenge of development, *World Investment Report*, United Nations Publication, Switzerland

Notes:

Due to the difficulty of obtaining cross-border M&As statistics before 1985, the figures used are provisional and were derived from one of the figures in the UNCTAD World Investment Report (1998).

UNCTAD's cross-border M&As statistics are based on KPMG Corporate Finance Group whose database dates back to 1990.

Special thanks to Jairum Arun of KPMG Finance for providing the number of completed acquisitions between 1990-1999 that were used in Table 5 and Figure 10.