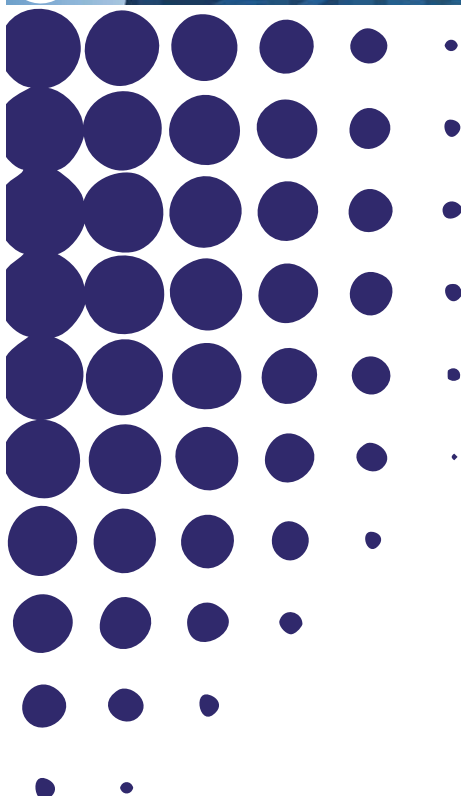


# WP4/15 SEARCH WORKING PAPER

## Firms' alliances in the European Neighboring Countries

*Maria Chiara Di Guardo and Raffaele Paci*

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## 4.5.1

### M&A and knowledge flows

*Maria Chiara Di Guardo and Raffaele Paci*

University of Cagliari, CRENoS

#### **Abstract**

In the last two decades Merger & Acquisition (M&A) activities worldwide rose to an unprecedented level mainly due to two factors: globalization and technological progress. M&A transactions, whatever is their motivation, generate potential knowledge flows between bidder and target firms that happen before, during and after the deal in the form of: information exchange in the due diligence phase and among managers; access to new technologies and organizational competencies; task and human integration; interaction of different organizational cultures; transfers of capabilities and resource sharing. Consequently, M&A transactions represent a valuable proxy for the exchange of knowledge across the geographical areas where companies are located offering therefore the opportunity to investigate into the knowledge flows between the European Union and its neighboring countries.

The aim of the paper is to analyse in details the M&A deals in the European Neighboring Countries (ENC) in order to explore the knowledge flows between firms in those areas and external firms. More specifically, we will examine the geographical directions of M&As and their sectoral scope. Data on M&A deals are retrieved from the SDC Platinum database (Thomson Financial) considering the period 2000-2011. Taken together, M&A data provide interesting evidence on the overall market-level impact of M&A on ENC and thus on the knowledge links that have been generated.

**Keywords:** Merger & Acquisition, knowledge flows, European Neighboring Countries

**JEL:** G34, L24, F23, O33

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## 1. Introduction

In the last two decades Merger & Acquisition (M&A) activities worldwide rose to an unprecedented level resembling a sort of “M&A fever” (Inkpen et al. 2000). This trend has been attributed mainly to two factors: globalization and technological progress. On the one hand, the growth of some emerging economies (East Asia, BRIIC) has greatly increased the competitive pressures. In this scenario M&As are strategic tools that firms use to achieve economies of scale and gain in market shares, to establish a transnational bridgehead without excessive startup costs, to gain excess to a foreign market, to circumvent government regulations.

On the other hand, technological progress has increased the skill premium, leading to what the literature has named “superstar” or “winner take all” effects (Davidson et al., 2012). In this context, many acquisitions are attempting to obtain highly developed technical expertise and skills of employees, high functioning teams for product development, or specific new technologies in fast-paced industries (Kozin & Young, 1994; Wysocky, 1997). Moreover, as some empirical studies show, M&A might act as an important vehicle for learning and organizational renewal (Barkema & Vermeulen, 1998; Karim & Mitchell, 2000; Vermeulen & Barkema, 2001) and might constitute positive shocks that revitalize organizations, broaden their knowledge base, and enhance their ability to react adequately to changing circumstances.

In general, M&A transactions, whatever is their motivation, represent important decisions for both bidder and target firms which involve relevant knowledge flows between them (Hussinger, 2010) and consequently between the geographical areas where companies are located. Further, the synergies expected from M&As often hinge on the acquiring firm’s ability to successfully transfer knowledge to the acquired unit (Birkinshaw et al., 2000). There are several activities performed by the two companies involved in a M&A which generate potential knowledge transfer embedded in the deal. Information exchange in the due diligence phase and among managers; access to new technologies and organizational competencies; task and human integration; interaction of different organizational cultures; transfers of capabilities and resource sharing.

We recognize that knowledge transfer in M&As is not unilateral neither automatic and that the relevance and importance of effective knowledge flows is a function of the recipient unit availability to open to new knowledge as well as function of the knowledge itself in terms of codifiability, teachability and observability. Nevertheless, an M&A deal is the outcome of complex search and decision processes by both the bidder and the target and, in most cases, it involves knowledge flows which are part of the organizational change process that happen before, during and after the M&A deal.

Therefore, the M&A transactions, exploiting the interregional complementarities, represent a valuable proxy for the exchange of knowledge across countries and regions and thus offer the opportunity to dig into the knowledge flows between the European Union (EU) and the European Neighboring Countries (ENC). M&A deals represent just one of the numerous indicators of knowledge diffusion which are worth considering like co-inventorship, patent citations, research networks and technological alliances. In this section 4.5.1 we focus on M&A while in section 4.5.2 we examine other type of agreements among firms like Joint Venture and Strategic Alliances. Moreover, other potential channels of knowledge flows which involve ENC are examined by Usai et al. (2012) and Autant Bernard & Chalaye (2012).

The relationships among EU and adjacent countries is a central issue because, after the last enlargements in 2004 and 2007, the eastern borders of EU shifted drastically reaching countries characterized by extremely different economic, cultural, social and political conditions with respect to the UE. As a consequence the EU, in alternative to further enlargements, has developed an integrated policy towards the non-candidate countries which are neighboring the EU at both the eastern and the Mediterranean borders. So far sixteen countries belong to the ENC group with different negotiating status and are involved in the European Neighborhood Policy (ENP) launched in 2004. Within the whole ENP is it useful to distinguish two strands: the eastern regional program which includes six countries on the East border (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine) and the southern regional program with ten countries of the South border (Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Syria, Tunisia, Palestinian Territory).

The aim of ENP is to create close, peaceful and cooperative relationships with bordering countries generating stronger economic integration and cross border co-operation programs (COM 373, 2004). Since its launch the ENP exhibited a significant degree of stability and continuity as it is reported by the annual review published by JCMSs (Whitman and Juncos, 2010 and 2011).<sup>1</sup> The core drivers of ENP are investment facilities, technical and financial support, and, more generally, the promise of enhanced relations in trade and people mobility. Thus, in addition to institutional and cultural issues, ENP covers a large number of economic themes like markets liberalization, trade, FDI, research, innovation diffusion, education, labor migration, environmental and safety standards.

The literature has mainly focused on the governance perspective of the European integration policy with EU and on the movements of tangible elements like goods (trade), capital (FDI) and people (migration) while less attention has been devoted to the flows of knowledge and innovation. Moreover, in spite of the importance of the M&A phenomenon in terms of economic value and, more important for our perspective, knowledge flows, we know surprisingly little about M&A

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<sup>1</sup> For a comprehensive overview of ENP see also Whitman and Wolff (2010) and Wesselink and Boschma (2012).

transactions that involve, as target or bidder, firms located in the ENC. So far, the existing literature on M&A activity has primarily examined the European Union and North American markets (Moschieri and Campa, 2009) overlooking the ENC in spite of the fact that the M&A market value in Central and Eastern Europe had tripled between 2004 and 2006 (PriceWaterHouseCoopers, 2006). The relevance of the phenomenon is clear at least from a theoretical point of view. For the ENC, in fact, M&A could be a fast way to activate knowledge transfer processes and to generate an important innovation pressure. Innovation considerations are, indeed, central to merger policy (Katz and Shelanski, 2004) because dynamic efficiency is critical to successful economic performance and innovation itself is a key dimension of market performance which is potentially affected by a merger.

The aim of the paper is to investigate in details the M&A deals in the ENC in order to explore the knowledge flows between firms in those areas and external firms. More specifically, we will focus on the geographical directions of M&A transactions to assess the role of spatial and cultural proximity among countries. Moreover, we will examine the sectoral scope of the deals to assess the degree of industrial and technological relatedness of the transactions.

Data on M&A deals was retrieved from the SDC Platinum database (Thomson Financial) considering transactions between January 1<sup>st</sup> 2000 and December 31<sup>st</sup> 2011 for which the target or acquirer companies are based in one of the sixteen EU Neighboring Countries. We analyze each ENC, as target or acquirer, distinguishing between two macro groups: ENC- East and ENC-South.<sup>2</sup> We selected large, medium-sized, and small takeover transactions, because following Moeller et al. (2004), we believe that a focus only on large takeovers may give an incomplete picture of the impact of acquisitions on the ENC. Our final sample includes 6299 announced transactions in which the target company is based in one of the ENC, and 3871 announced transactions in which the acquirer company is based in one of the ENC. Taken together, these data provide interesting evidence on the overall market-level impact of M&A on ENC and thus on the knowledge links that have been generated.

The paper is organised as follows. In section 2 we describe the general dimension of the phenomenon; in section 3 we evaluate ENC as the target of the M&A process while in section 4, we analyze the role of ENC as acquirers in the M&A process. Some concluding remark are presented in section 5.

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<sup>2</sup> In the empirical analysis Palestinian Territory is not included since it never results either as acquirer or target of M&A deals.

## 2. The general dimension of the phenomenon

M&As offer the fastest means of building a sizeable presence in a new market, yet are fraught with risks of overpayment, inability to fully assess the value of acquired assets, and post-acquisition challenges including cross-cultural integration. As Silverman (1999) observes, a firm's technological resource base significantly influences its M&A cross-border decisions. In particular, a firm elects to enter markets in which it can exploit its existing technological resources and in which its existing resource base is strongest. However, Teece (1980) stresses how, for this to be true, it must be the case that the transfer of such excess resources is subject to market failure. In fact, if these resources can be efficiently sold, then there would not be any need for expansion. Moreover, Rossi and Volpin (2004) tested the relationship between shareholder/creditor rights and cross-country M&A and find that M&A activity is larger in countries with better accounting standards and stronger shareholder protection.

Therefore, we need to interpret the magnitude and geographical directions of the transactions considering that firms' decisions are affected by the economic, political and social events which are taking place in the various countries.

This article examines the evolution of the ENC M&A market between January 2000 and December 2011. Data are retrieved from the SDC Platinum contains M&A deals and joint ventures updated daily through over 200 English and foreign language news sources, SEC filings and their international counterparts, trade publications, wires and proprietary surveys of investment banks, law firms and other advisors. It includes all corporate transactions involving at least 5% of the ownership of a company where the transaction was valued at \$1 million or more (after 1992, deals of any value are covered) or where the value of the transaction was undisclosed. Both public and private transactions are covered.

Let us now briefly consider the definitions of M&A in details. *Merger* means any transaction that forms one economic unit out of two or more previous ones. Broadly speaking, there are three types of mergers. In a *horizontal* merger, two or more direct competitors, producing in the same market, are joined. A *vertical* merger links firms that are in different stages of production within a particular market. Finally, *conglomerate* mergers are unions of firms that are neither direct rival, nor produce in the same production chain. *Acquisition* means that company X buys a part of company Y sufficient to acquire its control (Ross *et al.*, 1999). From our data it is not possible to distinguish among the different types of transactions so, as it is common in the literature, we just consider M&A as a whole.

Table 1 shows data on M&A activities sorted by country and status of the transaction for the period 2000-2011. In our sample the most active M&A markets are Ukraine (2425 deals announced



as target of which 1658 completed, and 1093 deals announced as acquirer of which 858 completed) and Israel (1588 deals announced as target and 1559 as acquirer). A considerable number of transactions is also shown by Egypt and Jordan. The remaining of the ENC account for less than 18 per cent of the total number of announced deals and 20 per cent of completed deals both as target and bidder. Thus, excluding Ukraine and Israel, the number of deals involving ENC is extremely low, especially when the ENC act as acquirer.

Among the ENC-East group, Ukraine is the “new star” in attracting investments (Price WaterHouseCoupers, 2006) and it represents one of the most important target country. Moreover, Ukraine borders to both the EU and Russia and is characterized by a strong co-operation willingness (Wolczuk, 2008) with an asymmetric interdependence with the EU (Melnikovska & Schweickert, 2008). Among the ENC-South group, Israel represents the most important target nation in terms of number of M&As. Despite its geographical collocation, Israel is part of the West economy with an important GDP comparable with that of the richest EU countries and with a R&D average expenditure accounting 4.5 per cent of GDP, hither than Italy or Germany.

There are no great differences among the ENC-East and ENC-South groups in the magnitude of the transactions since each area represents almost 50 per cent of the deals announced and completed, despite the fact that, in terms of aggregate GDP, ENC-East is almost five times smaller than ENC-South, and that in 2008 the population of ENC-East is of 75 million against 197 million of ENC-South. Table 1 also shows some similarities across countries. For example, looking at the ENC as target, M&A deals volumes in Morocco and Belarus -which is often regarded as the “last dictatorship” in Europe- are similar, although their governance regime is quite different. On the contrary, the numbers are totally different when we look at these two regions as acquirers (24 transaction for Belarus, against 112 transactions for Morocco).

If we weight, by taking their ratio, the number of M&A in which the ENC is target with the GDP (constant value of the year 2005, in euros), Jordan (4%) is the most active in M&As, followed by Moldova (3.7%) and Ukraine (3.7%). When we use the number of M&A in which the ENC is acquirer, Jordan firms are still the most active in the M&A process, followed by Israel (1.2%) and Ukraine (1.3%). This result is only partially consistent with prior research that has established a link between the legal environment and its effect on the ability of the country to attract and sustain M&A activity.

An interesting aspect of M&A transactions is how many announced deals are actually completed and if there exist significant differences among countries in the completion rate. From Table 1 we can see that on average 64.9 per cent of announced M&A deals get completed when the ENC are involved as target (see also Figure 1), and on average 71.2 per cent of announced M&A

deals get completed when the ENC are involved as acquirers. The highest percentage of completed deals as acquirer is found in Moldova (89%), Azerbaijan (87%) and Jordan (88%) while, in Jordan (83%) and Morocco (81%) we record the highest percentages as target countries. At the other end of the list we find Libya and Egypt and Azerbaijan and Belarus which, as target nations, see respectively only 60 and 50 per cent of completed transactions. This may signal a situation of uncertainty in these countries linked to the political situation which makes more difficult the completion of the acquisitions.

If completion upon announcement as acquirer happens more often in ENC-East than in ENC-South, we find a different situation when the ENC is the target. Moreover, international and domestic deals do not have the similar likelihood of completion. This data could indicate for these countries some kind of resistance to international integration linked to political and institutional issues. Many developing countries in this area, for cultural, religious reasons or simply for fear of giving too much control to foreign multinationals, are hostile to incoming foreign direct investment especially to the hegemonic powers of the west in the form of the USA and the EU. As a results some developing countries have pursued an active policy of restricting incoming M&As. At the same time these data could be related with peculiar economic situation characterized by a high corruption and low indexes in easiness of doing business (World Bank Database, 2008-2009) which have direct effect on the M&A process. For instance, in Algeria, 65 per cent of the firms pay the cost of corruption, through informal payments to public officials, in Egypt this figure increases to 98 percent (World Bank Database, 2010). We verify which are the partner countries with the highest number of completed deals: in the case of Syria the partner countries are India, Egypt and Saudi Arabia, while the M&A uncompleted are with firms coming from USA and UK.

Moreover, the number of uncompleted M&A are sector-specific. Politically sensitive sectors of the economy, those which are of strategic importance for the government, are characterized by a high degree of political control (Keeler, 1993). Therefore, it would be logical to think that firms involved in M&As in politically sensitive areas are less likely to complete the deal without problems. In countries like Ukraine and Moldova, natural resources are a politically sensitive sector of the economy compared to services, for example. Moreover, empirical literature finds that regulation of the local market has a significant impact on mergers. A high degree of regulation in the target countries tends to prevent foreign firms from acquiring local players, while deregulation and privatization often leads to increasing M&A activities (Buch & DeLong, 2004). Interesting is the case of Israel characterized by a lower level of completed M&A over announced both as acquirer (63.3 %) or target (59.4 %). We can speculate that this results is linked with the peculiar



political situation of Israel where the conflict between Hamas and Israel and the religious tensions in that areas may have played a decisive role in limiting the rate of completion.

Other interesting elements on M&A flows can be drawn by looking at the net acquirer rate for each country  $i$ , computed on completed deals, defined as:

$$(A_i - T_i) / (A_i + T_i)$$

where  $A$  and  $T$  are the deals when country  $i$  is respectively the acquirer and the target. The index goes from -1 when the country does not perform any acquisition to +1 when it has only acquisitions; the value is equal to 0 when the two flows are equal.

From Figure 2 we can see that only three countries are net acquirer: Lybia and Lebanon (with a low number of total deals) and also Israel which is however characterized by a very high number of transactions. All other countries show a negative index since the number of target deals is higher than acquisition deals.

Since we are interested in analyzing the deals which have been effectively implemented, in the rest of the article we limit our attention to the completed M&A investigating in details their geographical and sectoral dimensions.

### 3. The ENC as target

In this section, focusing on the completed deals, we analyze the evolution over time of M&A when the ENC's firm is the target. We will devote specific attention to the geographical and sector dimensions of the transactions to assess whether spatial, cultural and cognitive proximity play a relevant role in influencing firms decisions.

In general M&A deals represent important decisions for organizations. M&A could be motivated by a range of factors such as growth by market expansion, acquisition of special resources, achievement of scale economies, geographical expansion and international diversification. It has been sustained that firms may engage in M&A so as to increase their market power, increasing their size relative to industry's competitors and reducing competition (Scherer & Ross, 1990). As a matter of fact, M&A often involve diversification and expansion into new markets. At the same time they can be disruptive, producing unexpected entries by buyers, cross-cultural dislocation, and changes in strategic assumptions about a local market (Ghoshal & Bartlett, 1990). Clear enough, M&A decisions depend on the availability of appropriate targets.

We start analyzing in Table 2 the evolution over the period 2000-2011 of the number of completed M&A deals in the ENC as target (see also Figure 3). The overall distribution of deals by

year shows that, after a decline in the period 2000-2002, the market of M&A has grown very quickly from the year 2005 especially in the eastern ENC. At the same time we can notice a tendency to decrease in the last two years due specifically to the sharp reduction shown by Ukraine, due to the international economic crisis. In the South area, we note that for countries like Libya or Syria the number of M&A deals is almost constant across the years, while in Jordan we observe an incredible and constant increase in the level of M&A deals especially after 2005.

It is interesting to link our findings with the international diffusion of the M&As to remark some interesting processes. Literature has emphasized that M&As generally occur in waves and cycles (Fauli-Oller, 2000). The so called “Fifth Wave” between 1993-2000 was characterized by cross border M&As, and mega mergers, and was particularly remarkable compared to its predecessors. For the first time, continental European firms were as eager to participate in takeovers as their US and UK counterparts, and M&A activity in Europe hit levels similar to those experienced in the US. The “Sixth Wave” invests the period between the years 2003 – 2008 with a sharp increase of M&A activities in 2006 both in terms of numbers and value. This wave is characterized by the globalization process, private equity pressure, and shareholder activism. Since the start of globalization, multinational companies have been engaging more heavily on cross-border trade and investments, which has heightened economic interdependence among national markets. Finally, from 2008 to 2011, M&A activity sank to its lowest levels since 2004, due to the economic downturn.

As Table 2 and Figure 3 show, while Israel’s M&A time flow seems consistent with the international M&A waves approach, the data for countries like Ukraine and, more generally, for all the ENC-East group, are inconsistent with the international pattern. In fact, we do not observe a decreasing level of M&A after 2008, but a constant and relevant increase, and this process does not start in 2004 but only after 2006. These peculiar “waves” are probably related to the political and economic environment that characterized this area. All countries, to a greater or lesser extent, have had imperfect ‘transitions’ to capitalism and democracy. In many of them since 1998, ‘colored’ revolutions have occurred—Belarus (2001 and 2006), Georgia (2003), Ukraine (2004) and Azerbaijan (2005) and only in more recent years the political stabilization has allowed to open the economy to the international markets. For Belarus, for example, the increase of M&As observed lately and in countertrend with the international waves, might be explained with the 2009 paradigm shift that has taken place in the EU’s policy promoting functional co-operation.

This empirical evidence remarks the importance of considering the quality of the legal, regulatory, and economic environment within a country to study M&A (e.g. Rossi and Volpin,

2004) while the M&A literature has in general underscored the importance of these institutional factors (Peng et al., 2009).

We complete this general description of the deals with ENC as target by looking at the characteristics of the acquirer. Table 3 shows that the vast majority (92%) of total deals has been completed by corporate buyers and this share is quite stable across countries. Table 4 reports the status of the buyer showing that the principal component (46%) are private corporate firms followed by public companies (32%). For this dimension there are relevant differences among areas and countries. In the ENC-South public companies show a larger incidence (41%) due mainly by Israel (49%) while in ENC-East the presence of private firms as buyers is higher (53%) with Ukraine presenting the highest value (66%). These results confirm that public companies, which are more dependent on external evaluation, prefer to operate in more stable and secure markets like Israel. On the other hand, the entrance in unstable and risk markets like Ukraine is more likely by private companies where the decision and evaluation are more internal and centralized.

### *3.1 The geographical dimension*

As we already discussed, M&A are mainly driven by economic factors like profit opportunities, market power, entry in new markets, technological acquisition. However the effectiveness of these factors is greatly mediated by proximity between bidder and target company in terms of geographical and cultural elements. In other words it is more likely, all other factors held constant, to observe more transactions between countries which are closed in the geographical space or which are linked by historical and cultural elements. Therefore, in this section we analyse the geographical scope of M&A involving ENC as target country and we examine in details the origin countries of the acquirer firms in the international transactions.

Table 5 distinguishes among domestic and international or cross-border M&As. A domestic acquisition is defined as an acquisition in which the headquarters of the acquirer and the acquired firms are in the same country. An international acquisition is defined as an acquisition in which the headquarters of the acquirer and the acquired firms are located in different countries (Shimizu et al., 2004). Generally speaking, if compared to the USA or the EU, few transactions occur among domestic firms: 47 per cent on average but with Armenia, Belarus and Algeria positioned on less than 10 per cent (see also Figure 4). On the other hand 53 per cent of the M&As are cross-border and this share increases to 59 per cent if we observe only the ENC-East group. Looking at the two sub-periods we notice a general trend of increasing the share of domestic deals (from 43% to 48%) signaling the strengthen of the local firms.

Interesting and in countertrend with respect to the other ENC, is the case of Jordan with a more than 77 per cent of domestic M&As. This important rate of domestic M&As together with the increasing number of deals after the 2005 reveals an economy that is transforming and modernizing with a natural process of national concentration. Moreover, this important percentage of domestic deals could explain why Jordan is characterized by one of the highest rate of completed M&As after the announcement (83% as target and 89% as acquirer) confirming the hypothesis that domestic deals have got a higher probability to be completed.

In general, profit opportunities in the destination market are seen as a driver for cross-border acquisitions (Focarelli & Pozzolo, 2005). While the level of GDP in the target country has been indicated in the literature as a proxy for profit opportunities (Buch, 2000), in emerging markets the prospect of future growth seems to be more important than their actual level of total output.

In Table 6, focusing on cross-border M&As, we give an overview of the top five acquirer nations for each ENC. We observe, as expected, that strong historical, cultural, political, economic and geographical links among EU and neighborhood regions explain the presence between the top acquirers of EU countries: France in Algeria, France and Spain in Morocco, United Kingdom in Azerbaijan. From the viewpoint of the EU a cross-border M&A represents an important opportunity to gain competitive advantage. The literature, in fact, has emphasized that while announcements of foreign acquisitions on average have insignificant (Kiymaz, 2004) or even negative effects (Waheed & Mathur, 1995) on the stock price of the bidder, cross-border mergers into developing countries create value. More specifically, Kiymaz & Mukherjee (2000) conclude that the diversification benefits, in conjunction with the advantages of lower competition in developing countries, outweigh the political risk associated with expansion in such economies.

In international diversification decisions, companies seem to attune their choices to the traits of the host economy, and characteristics related to cultural elements have frequently been claimed to influence the M&A firm's choice. The degree of similarity between countries based on their legal, economic, administrative, political, and cultural institutions (Kostova, 1999), and institutional relatedness, the "degree of informal embeddedness or interconnectedness with dominant institutions" (Peng et al., 2005; 623) are important considerations that affect M&A strategy. The underlying assumption in this school of thought is that firms can benefit from institution-based capitals (e.g., political connections, cultural familiarity, and financial standards) better when cross-national institutional distance is low between their home and host countries. For example, cultural distance between countries is expected to back greenfields because of the organizational risks of integrating foreign management into the parent organization.

Observing Table 6, we realize that consistent with the literature, the cultural proximity between the target and the bidder in cross-border M&As is really effective. In the international cross culture management literature, differences between national cultures have frequently been conceptualized in terms of “cultural distance” (Kogut & Singh, 1988; Morosini et al., 1998). The cultural distance hypothesis, in its most general form, suggests that the difficulties, costs and risks associated with cross-cultural contacts increase with growing cultural differences between two individuals, group or organizations. The cultural distance construct has been shown to be significantly related to the choice of foreign investment and M&As activities (Barkema et al. 1996). Cultural distance between countries has been measured in different ways. One of the most common methods is that proposed by Hofstede (1980). He argues that differences in national cultures vary substantially along four dimensions. These dimensions are labeled uncertainty avoidance, individuality, tolerance of power distance, and masculinity-femininity. A considerable body of theory and research on the role of culture distance in M&A suggests that cultural differences can create major obstacles to achieving integration benefits and are one of the key determinants for the success of M&As.

Consistent with this literature, we observe that the top acquirers in Israel are USA, UK and Germany; in Jordan these are Kuwait, Arab Emirates and Saudi Arabia, Turkey appears among the top acquirers only for the case of another Islamic country like Azerbaijan, in Belarus the top acquirer countries are Russia, Latvia and Ukraine and Russia is among the top acquirers in all countries which were former members of the Soviet Union.

According to network theory, interactions among agents create structural interdependencies, and agents are able to impact each other through these interdependencies (Granovetter, 2005). As noted by Turkina and Postnikov (2012), private actors are prone to emulate each other’s successful practices for profit maximization (Gataskiewicz and Wasserman, 1989), efficiency (DiMaggio and Powell, 1983) or legitimacy reasons (Han, 1994; Haveman, 1993). This logic can be extended to the case of cross-border M&A: if the density of interactions between firms from the EU and firms from ENC is high, neighborhood countries become exposed to the influence of EU-based firms that often have more advanced technical solutions and organizational practices.

Accordingly, we look at the structure of cross-border M&A between the EU and these countries to find if there are significant differences in the configuration of cross-border M&As with the ENC in terms of their propensity to integrate with the EU firms. In Egypt only the 14 per cent of M&A are from EU firms while less than 3 per cent in Jordan. In Israel 10 per cent of M&A are from EU firms. In Ukraine less than 8 per cent of M&A are from EU with 46 per cent internal M&A. Algeria and Morocco are a significant exception on this trend, in Algeria the 60 per cent of

M&A are from EU (with 20 per cent from France and 20 per cent from UK) and in Morocco the 36 per cent of M&A are from EU.

### *3.2 The sectoral dimension*

In this section we examine the sectoral distribution of M&A by looking at the primary sector of the target firm in the ENC countries. To give a general overview of the phenomenon we use a quite aggregate breakdown in 20 industries based on 2-digit NACE classification (see Appendix 1 for a detailed description of the sectors).

From Table 7 we can see that, on average in the ENC, the highest share of completed M&A is realized in the financial sector (38%), followed by communication (15%), while food (6.5%) and mining (5%) are the most relevant sectors among the industrial activities. Table 8 shows the three most important sectors involved in the completed M&A deals in each neighboring country. As it emerges from the table, the finance sector is the first sector involved in M&A activities for all countries except Algeria. The international financial sector has undergone tremendous change over the past decade and the banking concentration has increased in all important markets. Thus banks, especially those from countries that had already reached a high level of concentration started to look abroad and engaged in cross-border M&A activities. Another important trigger for the internationalization of the banking sector in the last decade was the breakdown of the Communist regimes in the Eastern European countries, which led to the opening of these markets and offered new opportunities to European banks. A number of Western European banks started to acquire banks in Central and Eastern European countries in order to gain attractive new business.

At the same time, there are relevant differences across areas and countries given by the production specialization profile, the endowments of natural resources, the liberalization pattern of the internal markets. Thus, for instance, in Algeria the first sector for number of deals is the mining one (25%); in Belarus the food sector shows a relatively high share of total deals (14.7%) and the same happens in Ukraine for agriculture (7.5%) and food (12.8%) while in a industrialized mature country like Israel a high number of M&As involve the machinery sector (10%).

Another interesting element worth analyzing is the sectoral relatedness of the transactions, since M&As sometimes give the opportunity to diversify in other industries. More specifically, we have explored if M&A activities of target and bidden firms are related by computing, per each NACE sector and ENC target country, the share of M&A where the bidder and target firms belong to the same sector. This is an important dimension because we know from the literature that, market and technological relatedness of merging firms have been found to play a fundamental role in the



technology transfer process and on the efficacy of M&As with innovation aims (Cassiman et al., 2005; Valentini & Di Guardo, 2012).

The results reported in Table 9 are quite interesting: the 48 per cent of total deals are realised in the same sector and there are not large differences between ENC-east (44.4%) and ENC-south (50.9%). At the same time, we can observe important sector-specific effects. The most “closed” sector is the financial one where, on average, 85 per cent of total transactions are completed by firms operating within the same sector signalling a strong process of horizontal mergers and market concentration. On the other hand there are sectors, like mining and food, where the incidence of intra-industry deals is much lower, around 48 per cent and this indicates that a process of diversification was operating.

#### **4. The ENC as acquirer**

Some considerations developed in the above section could be extended to this section where we examine in details the M&A activities of ENC when they act as acquirer.

Table 10 and Figure 5 show the overall distribution of deals by year and highlights the rapid growth occurred in the M&A market in the ENC. As observed in the case of ENC target, the M&A international waves for acquirers are perfectly represented for Israel, but do not match the data for all ENC-East countries in general and Ukraine in particular. It is interesting to notice that while the pattern of the eastern countries is essentially driven by Ukraine, in the case of southern nations in addition to Israel there are other countries very active in the market as acquirers. This is the case of Jordan which shows in the years 2008-2011 a surprising high number of deals (277) as acquirer and most of them, as we will see in the next section, are performed in the domestic market.

Table 11 shows the status of the ENC acquirers confirming that the largest component is given by the private companies (48%); it is relevant also the role of the subsidiaries which account for 26 per cent of total deals.

##### *4.1 The geographical dimension*

In this section we examine the spatial direction of M&A activity performed by ENC firms as acquirers. Overall (see Table 12) the great majority of acquisition by ENC companies are performed in the domestic market (70%) and this propensity is higher in the eastern countries (87%) than in the southern (61%); again the value for the two macro-areas is heavily driven by the two leading countries Ukraine (88% of total deals are intra-national) and Israel (only 52%). It is worth

remarking the high propensity to operate acquisition in the international markets shown by Lybia and Lebanon.

The motives for engaging in M&A are manifold and complex. Despite the huge body of literature on the topic, there is no unanimous – not even dominant – consensus, and no single approach can render a full account. Nevertheless we can speculate that in this case at least two factors can explain the increase of internal deals for the majority of ENC. First, it is a measure of industry consolidation and modernization of these areas. Second, acquisitions may be chosen when the bidder firm requires new inputs that can be more cheaply acquired bundled in a going company than disembodied in the market.

An important component of these inputs is product-specific knowledge; thus, we would expect that international acquisitions are often motivated by the desire to gain access to new knowledge (Björkman et al., 2007; Bresman et al., 1999; Empson, 2001; Ranft & Lord, 2002). A large body of literature has demonstrated the fundamental role played by innovation and technological capabilities in fostering long-term growth performance (Fagerberg, 1994; Fagerberg & Godinho, 2005). In order to catch up, emerging countries need to develop an endogenous capability allowing them to absorb the knowledge and technology developed elsewhere (Cohen & Levinthal, 1990). A number of studies have examined knowledge transfer in the acquisition context. Researchers have suggested that knowledge transfer is an important motive for acquisitions. Hitt et al. (1990) argued that gaining knowledge through an acquisition may enable the firm to expand its product lines without the risk involved in internal innovation. Teece et al. (1997) pointed to the role of acquisitions in decreasing transaction costs related to protecting knowledge, and Karim & Mitchell (2000) described acquisitions as vehicles to access and transfer tacit knowledge. Other scholars have examined the effects of knowledge transfer on the post-acquisition performance. For example, the empirical studies of Capron (1999) and Capron & Pistre (2002) showed that knowledge transfer was connected to abnormal returns in acquisitions. In addition, the multiple-case study of Ranft & Lord (2002) highlighted the importance of knowledge transfer for value creation in acquisitions in general. The intensity of interaction among the EU-based firms and the ENC-based firms is crucial given that the more actors interact with one another, the greater the tendency for copying will be (DiMaggio & Powell, 1983).

We now focus on the international acquisition completed by ENC companies and investigate into the specific geographical destination of cross-borders M&As. Table 13 gives an overview of the top five target nation for each ENC. Again, these findings are consistent with the cultural distance literature. For example, Italy is the first target nation for Libya. Israeli firms make the

highest number of deals in the USA. Morocco in France and in the African neighboring countries. Deals across former country members of the ex Soviet Union are quite high.

#### *4.2 The sectoral dimension*

The sectoral composition of acquisitions made by ENC is reported in Tab 14 and it shows that the most relevant sector is Communication (with 23% of total acquisitions) followed by Financial services (19.8%), Food ( 7.3%) and Chemicals (6.9%). Thus the sectoral composition of acquisition is different from the one seen for the case of ENC as target countries.

Also in this case there are relevant differences among countries as we can see from Table 15 where the top three primary sectors are reported for each ENC country. For instance among the ENC-East the Financial sector is the most important for all countries except Moldova and Armenia where the highest number of acquisitions are, respectively, in the Communication and Transport sectors. On the other hand, the southern ENC have been mainly involved in the acquisition of firms in the Communication sector especially due to a high number of transactions completed by Israel.

### **5. Concluding remarks**

M&A transactions represent a potential channel of knowledge exchanges between bidder and target firms generated along the variety of activities carried out before, during and after the deal. Potential knowledge transfer is indeed embedded in several actions like the exchanges of information in the due diligence phase and among managers, the access to new technologies and organizational competencies, the integration of task and human resources, the interaction of different organizational cultures, the transfers of capabilities and resource sharing. Such exchanges among companies imply, as a consequence, a transfer of knowledge across the geographical areas where firms are located. Therefore M&A transactions may be used as a valuable proxy of knowledge flows between the European Union and its neighboring countries. Even though over the last decades the economic literature has devoted an increasing interest in M&As, a deep analysis of their characteristics in ENC countries still constitutes a challenge for research.

This paper offers the opportunity to investigate into the ENC M&A market thus offering new insights on the geographical and sectoral scope of the knowledge exchanges embedded in the deals involving the neighboring countries. Our analysis is based on M&As retrieved from the SDC Platinum database considering the deals for which the target or acquirer company is located in the ENC over the period 2000-2011. Our final sample includes 6299 announced transactions in which

the target company is based in one of the ENC, and 3871 announced transactions with the acquirer located in the ENC.

Overall, our analysis provide new insights on the trends taken by M&A market in the ENC. The ENC M&A market seems to be still immature in terms of numbers of deals in the observed period, with a significant share of transactions announced but not completed. We also observed a lot of differences between countries that could be a signal of a maturing path in some ENC M&A market. More specifically, the most active M&A markets turn out to be Ukraine in the East and Israel in the South. Ukraine, sharing the borders to both the EU and Russia, is characterized by a strong co-operation willingness and it represents one of the most important target country attracting relevant external investments. The case of Israel is obviously different since, despite its geographical collocation, it is characterized by GDP and technology levels comparable with those of the richest EU countries and it is fully integrated with the West economy.

Although M&As offer the fastest means of building a presence in a new market they are subject to relevant risks which, in the case of ENC markets, may be also connected to political instability and cultural differences. We have thus examined the share of announced M&A transactions which are actually completed. It turns out that there exist significant differences among countries in the completion rate. More specifically, we found that Libya, Syria, Egypt, Azerbaijan and Belarus have relatively low share of completed transactions(50-60%). This may signal a situation of uncertainty in these countries linked to the political situation, high corruption and low indexes in easiness of doing business which makes more difficult the completion of the acquisitions, especially for the international deals. In some countries there is a resistance to international integration due to political and institutional factors and also for the fear of giving too much control to foreign multinationals.

Another interesting result which has emerged from our analysis is that the ENC show a relatively low level of domestic deals (47%) compared to the USA or the EU and this signals the weakness of the internal production structure, although we have observed over the period considered an increasing trend in the share of domestic deals.

Focusing on the international M&As we observe, as expected, that cross-border transactions are affected by the historical, cultural, political, economic and geographical links among EU and neighborhood countries. In general, firms entering in markets characterized by cultural and political differences come across an increase in the costs and risks associated with the M&A deals. Our initial descriptive analysis confirms that the degree of cultural and institutional similarity between bidder and target firms (and countries) are indeed important factors that affect international M&A strategy. Relevant examples of the effectiveness of geographical, cultural and institutional

proximity in driving international M&As are the high number of transactions by France in Algeria; by France and Spain in Morocco; by USA, UK and Germany in Israel; by Kuwait, Arab Emirates and Saudi Arabia in Jordan; by Turkey in another Islamic country like Azerbaijan; by Ukraine in Belarus; by Russia in all countries which were previous members of the Soviet Union.

Moreover, our results show that ENC propensity to integrate with EU through international M&A deals are highly differentiated indicating that there are opportunities for improving the cross-border relationships.

Considering the sectoral dimension, the finance and banking industry shows the largest share of completed M&A deals in almost all countries. At the same time, there are relevant differences across countries in the sectoral distribution induced by the production specialization profile, the endowments of natural resources and the liberalization pattern of the internal markets. Sometimes M&As represent means to diversify in other industries and thus we have examined the sectoral relatedness of the transactions by computing the share of deals where the bidder and target firms belong to the same sector. On average, it results that half of total deals are realized within the same sector even though important sector-specific differences emerge. The most “closed” sector is the financial one (on average 85% of total transactions are completed by firms operating within the same sector) which signals a strong process of horizontal mergers and market concentration. On the other hand there are sectors, like mining and food, where the incidence of inter-industry deals is much higher (52%) and this indicates that a process of diversification and cross-sector technology transfer is operating.

The main purpose of the present analysis was to build the database on M&A transactions and to provide a first descriptive analysis of the general dimension of the phenomenon while exploring also its geographical and sectoral dimensions. Future work has to be devoted to a more rigorous analysis, based on econometric methods, to assess the origin and destination determinants of M&A spatial flows and also on the inter-sectoral technological transactions in order to provide relevant indications for the implementation of the European Neighboring Policy.

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### Appendix 1. Sectoral classification (based on NACE 2 digit)

Sectors	NACE label division
S1 Agr	Agriculture, Forestry, Fishing
S2 Min	Mining and Quarrying
S3 Food	Manufacture of food products, beverages, tobacco
S4 Text	Manufacture of textiles, wearing apparel, leather
S5 Wood	Manufacture of wood, furniture
S6 Paper	Manufacture of paper. Printing and reproduction of recorded media
S7 Chem	Manufacture of coke, refined petroleum products, Chemicals, Pharmaceuticals, Rubber, plastic products
S8 Nm min	Manufacture of other non-metallic mineral products
S9 Metal	Manufacture of basic metals, fabricated metal products
S10 Mach	Manufacture of computer, electronic, optical products; Electrical equipment
S11 Vehic	Manufacture of motor vehicles; other transport equipment
S12 O man	Other manufacturing
S13 Electr	Electricity, gas, steam. Water supply. Sewerage, waste management
S14 Constr	Construction
S15 Trade	Wholesale and retail trade; repair of motor vehicles and motorcycles
S16 Transp	Transportation and storage
S17 Accom	Accommodation and food service activities
S18 Comm	Information and communication. Real estate. Professional, scientific and technical activities
S19 Financ	Financial and insurance activities
S20 O serv	Administrative activities. Public administration and defence. Education. Health. Arts, entertainment

**Tab 1 - M&A per status and countries 2000-2011.**

Country		Target			Acquiror		
		Total	Completed	% compl.	Total	Completed	% compl.
AM	Armenia	91	63	69.2	16	9	56.3
AZ	Azerbaijan	122	57	46.7	23	20	87.0
BY	Belarus	209	95	45.5	24	17	70.8
GE	Georgia	129	91	70.5	40	33	82.5
MD	Moldova	107	72	67.3	19	17	89.5
UA	Ukraine	2425	1658	68.4	1093	858	78.5
<i>Total ENC- East</i>		3083	2036	66.0	1215	954	78.5
DZ	Algeria	64	44	68.8	19	12	63.2
EG	Egypt	666	352	52.9	394	232	58.9
IL	Israel	1588	944	59.4	1559	987	63.3
JO	Jordan	458	384	83.8	367	323	88.0
LB	Lebanon	86	64	74.4	92	76	82.6
LY	Libya	28	14	50.0	26	16	61.5
MA	Morocco	205	166	81.0	112	93	83.0
SY	Syria	20	11	55.0	5	1	20.0
TN	Tunisia	101	70	69.3	27	24	88.9
<i>Total ENC-South</i>		3216	2049	63.7	2601	1764	67.8
<i>Total ENC</i>		6299	4085	64.9	3816	2718	71.2

Tab. 2 - M&A completed per target nation and year, 2000-2011

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
AM	3	4	9	9	3	3	5	10	5	4	2	6	63
AZ	3	2	5	12	2	3	2	6	10	6	5	1	57
BY	5	7	2	4	5	3	4	14	11	3	19	18	95
GE	3	2	2	6	1	13	20	11	10	4	11	8	91
MD	6	4	3	11	3	8	7	9	13	1	1	6	72
UA	102	48	31	56	38	46	90	133	261	359	315	179	1658
<i>Total/ENC- East</i>	122	67	52	98	52	76	128	183	310	377	353	218	2036
DZ	7	5	0	2	5	3	7	4	7	3	1	0	44
EG	37	23	11	13	10	20	33	34	52	34	42	43	352
IL	153	61	40	69	76	105	111	84	82	52	49	62	944
JO	7	3	5	5	3	10	13	16	36	97	137	52	384
LB	12	15	4	2	1	3	2	1	6	1	8	9	64
LY	0	0	0	0	0	2	1	2	2	3	1	3	14
MA	18	9	5	6	8	27	8	17	14	25	17	12	166
SY	1	0	1	1	1	2	0	0	0	2	3	0	11
TN	13	4	5	0	3	5	5	7	9	10	6	3	70
<i>Total/ENC-South</i>	248	120	71	98	107	177	180	165	208	227	264	184	2049
<i>Total/ENC</i>	370	187	123	196	159	253	308	348	518	604	617	402	4085

**Tab. 3 - Completed M&A in ENC target nation per type of acquiror , 2000-2011**

Target Country		Corporate	Financial buyer	Individual	Total
AM	Armenia	62	0	1	63
AZ	Azerbaijan	55	2	0	57
BY	Belarus	90	5	0	95
GE	Georgia	86	5	0	91
MD	Moldova	69	3	0	72
UA	Ukraine	1559	97	2	1658
<i>Total ENC- East</i>		1921	112	3	2036
DZ	Algeria	42	2	0	44
EG	Egypt	300	52	0	352
IL	Israel	831	109	4	944
JO	Jordan	347	37	0	384
LB	Lebanon	57	6	1	64
LY	Libya	13	1	0	14
MA	Morocco	155	11	0	166
SY	Syria	11	0	0	11
TN	Tunisia	64	6	0	70
<i>Total ENC-South</i>		1820	224	5	2049
<i>Total ENC</i>		3741	336	8	4085



**Tab. 4 - Completed M&A in ENC target nation per acquiror public status, 2000-2011**

Target Country		Gov.nt owned	Investor	Joint Venture	Private	Public	Subsidiary	Total
AM	Armenia	3	37	8	294	464	138	944
AZ	Azerbaijan	1	1	3	27	27	4	63
BY	Belarus	1	2	2	47	24	19	95
GE	Georgia	6	4	0	48	23	10	91
MD	Moldova	2	2	0	41	11	16	72
UA	Ukraine	17	49	15	1105	201	271	1658
<i>Total ENC- East</i>		30	95	28	1562	750	458	2923
DZ	Algeria	0	0	1	12	23	8	44
EG	Egypt	11	9	5	135	130	62	352
IL	Israel	3	37	8	294	464	138	944
JO	Jordan	7	59	2	169	121	26	384
LB	Lebanon	1	3	0	26	19	15	64
LY	Libya	0	0	0	5	6	3	14
MA	Morocco	4	0	3	68	56	35	166
SY	Syria	0	0	0	4	5	2	11
TN	Tunisia	2	2	0	22	25	19	70
<i>Total ENC-South</i>		28	110	19	735	849	308	2049
<i>Total ENC</i>		58	205	47	2297	1599	766	4972

Some deals may be included in more than one categories

**Tab. 5 - Completed M&A in ENC target nation per transaction type, 2000-2011**

Target Country		2000-2005			2006-2011			2000-2011		
		intra national	inter national	% intra.	intra national	inter national	% intra.	intra national	inter national	% intra.
AM	Armenia	4	27	12.9	2	30	6.3	6	57	9.5
AZ	Azerbaijan	4	23	14.8	9	21	30.0	13	44	22.8
BY	Belarus	0	26	0.0	9	60	13.0	9	86	9.5
GE	Georgia	5	22	18.5	23	41	35.9	28	63	30.8
MD	Moldova	8	27	22.9	6	31	16.2	14	58	19.4
UA	Ukraine	135	186	42.1	627	710	46.9	762	896	46.0
<i>Total ENC- East</i>		156	311	33.4	676	893	43.1	832	1204	40.9
DZ	Algeria	3	19	13.6	1	21	4.5	4	40	9.1
EG	Egypt	45	69	39.5	115	123	48.3	160	192	45.5
IL	Israel	291	213	57.7	225	215	51.1	516	428	54.7
JO	Jordan	12	21	36.4	272	79	77.5	284	100	74.0
LB	Lebanon	18	19	48.6	14	13	51.9	32	32	50.0
LY	Libya	0	2	0.0	0	12	0.0	0	14	0.0
MA	Morocco	35	38	47.9	43	50	46.2	78	88	47.0
SY	Syria	0	6	0.0	0	5	0.0	0	11	0.0
TN	Tunisia	5	25	16.7	11	29	27.5	16	54	22.9
<i>Total ENC-South</i>		409	412	49.8	681	547	55.5	1090	959	53.2
<i>Total ENC</i>		565	723	43.9	1357	1440	48.5	1922	2163	47.1

Tab. 6 - Completed international M&A in ENC target nation per top five acquiror nation, 2000-2011

Target Country	Top 5 acquiror nations and number of deals										Concentration ratios				
	1°	n.	2°	n.	3°	n.	4°	n.	5°	n.	CR1	CR5			
AM Armenia	Russia	26	UK	6	Canada	4	Germany	3	4 countries	2	45.6	71.9			
AZ Azerbaijan	UK	8	Turkey	6	USA	5	China	4	Netherlands	4	18.2	61.4			
BY Belarus	Russia	32	Latvia	5	Ukraine	5	Austria	4	Finland	4	37.2	58.1			
GE Georgia	USA	9	UK	8	Russia	6	Ukraine	6	Kazakhstan	5	14.3	54.0			
MD Moldova	Russia	17	UK	5	France	4	Austria	3	Ukraine	3	29.3	55.2			
UA Ukraine	Cyprus	276	Russia	141	USA	59	UK	54	Austria	33	30.8	62.8			
Total/ENC- East		342		165		79		71		49	29.8	61.6			
DZ Algeria	France	9	UK	9	Spain	4	USA	3	3 countries	2	22.5	67.5			
EG Egypt	Arab Em.	26	USA	25	France	16	S. Arabia	16	UK	12	13.5	49.5			
IL Israel	USA	253	UK	36	Germany	19	Canada	17	France	15	59.1	79.4			
JO Jordan	Kuwait	17	Arab Em.	14	S. Arabia	8	USA	7	Bahrain	6	17.0	52.0			
LB Lebanon	France	5	USA	5	Kuwait	4	S. Arabia	3	Egypt	2	15.6	59.4			
LY Libya	Austria	2	France	2	UK	2	8 countries	1	-	-	14.3	50.0			
MA Morocco	France	38	Spain	7	UK	6	USA	5	Australia	3	43.2	67.0			
SY Syria	Egypt	2	India	2	Lebanon	2	5 countries	1	-	-	18.2	63.6			
TN Tunisia	France	11	Spain	5	USA	5	Kuwait	4	3 countries	3	20.4	51.9			
Total/ENC-South		354		96		62		54		41	38.5	66.1			
Total/ENC		696		261		141		125		90	33.7	63.6			

Tab. 7 - Completed M&A in ENC target nation per primary sector, 2000-2011

Country	S1 Agr	S2 Min	S3 Food	S4 Text	S5 Wood	S6 Paper	S7 Chem	S8 Im min	S9 Metal	S10 Mach	S11 Vehic	S12 Electr	S13 Constr	S14 Trade	S15 Transp	S16 Accom	S17 Comm	S18 Financ	S19 O serv	S20 O serv	Total
AM Armenia	0	11	1	0	0	0	0	0	4	0	0	1	4	1	2	1	0	7	28	3	63
AZ Azerbaijan	0	9	2	0	1	0	1	0	0	1	0	0	5	1	0	0	0	5	25	7	57
BY Belarus	0	6	14	2	0	2	2	0	3	4	2	1	0	1	7	3	0	6	37	5	95
GE Georgia	0	9	3	0	0	0	5	3	0	0	0	0	4	0	3	8	0	11	43	2	91
MD Moldova	0	1	5	2	0	3	0	0	0	0	2	1	7	2	5	1	0	10	27	6	72
UA Ukraine	64	46	110	4	0	20	40	17	65	40	34	6	33	11	56	30	12	81	183	6	858
Total ENC- East	64	82	135	8	1	25	48	20	72	45	38	9	53	16	73	43	12	120	343	29	1236
DZ Algeria	0	11	9	0	0	0	5	3	3	1	0	0	0	0	1	0	1	1	9	0	44
EG Egypt	4	32	19	2	0	5	18	18	3	5	1	1	12	3	7	7	9	37	157	12	352
IL Israel	4	15	22	3	1	53	43	2	4	95	11	42	4	4	35	9	4	240	345	8	944
JO Jordan	1	2	7	2	0	1	9	4	4	1	0	0	8	3	8	8	6	62	249	9	384
LB Lebanon	0	0	5	0	0	0	1	0	0	0	0	0	0	0	7	0	0	7	42	2	64
LY Libya	0	2	0	0	0	0	0	2	0	0	0	0	1	1	0	0	0	1	7	0	14
MA Morocco	0	7	14	1	0	2	4	1	0	3	9	0	5	0	7	3	3	22	82	3	166
SY Syria	0	4	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	5	0	11
TN Tunisia	0	14	3	0	2	1	2	7	0	0	1	0	2	0	6	2	0	9	21	0	70
Total ENC-South	9	87	80	8	3	62	82	37	14	105	22	43	32	11	71	29	23	380	917	34	2049
Total ENC	73	169	215	16	4	87	130	57	86	150	60	52	85	27	144	72	35	500	1260	63	3285

The detailed list of sectors is reported in Appendix 1.

**Tab. 8 - Completed M&A in ENC target nation per top three primary sectors, 2000-2011**

Target Country	Top 3 sectors and number of deals						Concentration ratios	
	1°	n.	2°	n.	3°	n.	CR1	CR3
AM Armenia	Financ	28	Min	11	Metal	4	44.4	68.3
AZ Azerbaijan	Financ	25	Min	9	O serv	7	43.9	71.9
BY Belarus	Financ	37	Food	14	Trade	7	38.9	61.1
GE Georgia	Financ	43	Comm	11	Min	9	47.3	69.2
MD Moldova	Financ	27	Comm	10	Electr	7	37.5	61.1
UA Ukraine	Financ	183	Food	110	Comm	81	21.3	43.6
Total ENC- East	Financ	343	Food	135	Comm	120	27.8	48.4
DZ Algeria	Min	11	Financ	9	Food	9	25.0	65.9
EG Egypt	Financ	157	Comm	37	Min	32	44.6	64.2
IL Israel	Financ	345	Comm	240	Mach	95	36.5	72.0
JO Jordan	Financ	249	Comm	62	Chem	9	64.8	83.3
LB Lebanon	Financ	42	Comm	7	Trade	7	65.6	87.5
LY Libya	Financ	7	Min	2	Nm min	2	50.0	78.6
MA Morocco	Financ	82	Comm	22	Food	14	49.4	71.1
SY Syria	Financ	5	Min	4	Food	1	45.5	90.9
TN Tunisia	Financ	21	Min	14	Comm	9	30.0	62.9
Total ENC-South	Financ	917	Comm	380	Mach	105	44.8	68.4
Total ENC	Financ	1260	Comm	500	Food	215	38.4	60.1

The detailed list of sectors is reported in Appendix 1.

**Tab 9 - Completed M&A where the acquirer firm is in the same sector of the target ENC firm (% over total M&A in the sector)**

Country	S1	S2	S3	S4	S5	S6	S7	S8	S9	S10	S11	S12	S13	S14	S15	S16	S17	S18	S19	S20	Total
	Agr	Min	Food	Text	Wood	Paper	Chem	Nm min	Metal	Mach	Vehic	O man	Electr	Constr	Trade	Transp	Accom	Comm	Financ	O serv	
AM Armenia	-	66.7	0.0	-	0.0	0.0	0.0	-	66.7	0.0	-	100.0	44.4	-	0.0	33.3	-	100.0	80.0	-	58.7
AZ Azerbaijan	0.0	31.3	40.0	-	-	-	100.0	0.0	-	-	-	-	100.0	0.0	0.0	0.0	-	57.1	81.0	-	52.6
BY Belarus	-	-	85.7	50.0	0.0	100.0	33.3	-	50.0	33.3	20.0	100.0	0.0	-	60.0	50.0	-	55.6	81.3	-	63.2
GE Georgia	-	42.9	50.0	-	-	-	66.7	75.0	0.0	-	0.0	-	50.0	0.0	25.0	16.7	0.0	50.0	100.0	25.0	51.6
MD Moldova	-	25.0	38.5	50.0	-	50.0	0.0	0.0	0.0	-	-	-	57.1	100.0	0.0	0.0	-	64.3	89.5	0.0	54.2
UA Ukraine	23.2	31.2	36.7	33.3	-	34.8	25.6	38.1	33.7	17.6	16.9	23.1	25.6	8.7	30.4	24.1	13.3	37.9	87.3	27.3	41.7
<i>Total/ENC- East</i>	23.0	34.8	40.4	41.7	0.0	37.3	26.2	39.6	33.6	18.5	16.7	33.3	30.8	11.1	31.7	23.0	12.5	43.1	86.8	25.0	44.4
DZ Algeria	-	100.0	88.9	-	-	0.0	50.0	100.0	50.0	0.0	-	-	-	-	0.0	-	-	20.0	100.0	-	68.2
EG Egypt	0.0	60.0	64.0	12.5	0.0	23.1	35.5	50.0	25.0	0.0	-	-	77.8	0.0	27.3	50.0	50.0	60.5	83.6	14.3	52.0
IL Israel	66.7	61.5	63.6	18.2	-	32.1	42.6	40.0	13.3	58.7	0.0	55.6	23.1	0.0	34.0	33.3	28.6	51.8	78.5	15.0	49.5
JO Jordan	0.0	16.7	35.7	7.7	0.0	14.3	31.6	30.8	42.9	0.0	0.0	-	50.0	0.0	16.7	17.1	0.0	23.3	79.8	25.0	38.0
LB Lebanon	-	-	50.0	-	-	0.0	100.0	-	-	-	-	-	-	-	50.0	-	0.0	63.6	93.9	0.0	71.9
LY Libya	-	40.0	0.0	-	-	-	-	100.0	-	-	-	-	-	100.0	-	-	-	100.0	100.0	-	71.4
MA Morocco	-	87.5	81.3	100.0	-	66.7	27.3	100.0	0.0	0.0	80.0	-	40.0	0.0	28.6	33.3	66.7	52.8	97.4	0.0	62.7
SY Syria	-	66.7	100.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	100.0	100.0	-	81.8
TN Tunisia	-	87.5	60.0	-	100.0	20.0	33.3	75.0	-	-	100.0	-	50.0	-	50.0	66.7	0.0	63.6	88.9	0.0	67.1
<i>Total/ENC-South</i>	25.0	67.0	63.9	13.0	33.3	28.7	38.8	52.4	25.6	53.0	36.0	55.6	45.5	4.3	30.8	29.1	30.6	48.6	83.9	14.7	50.9
<i>Total/ENC</i>	23.3	48.1	47.9	19.0	20.0	31.9	33.3	46.8	31.5	36.0	22.0	50.7	35.1	8.0	31.3	26.3	25.0	47.0	85.5	18.0	47.7

The detailed list of sectors is reported in Appendix 1.



Tab. 10 - M&A completed per acquiror nation and year, 2000-2011

Target Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
AM	3	0	2	2	0	0	0	0	0	1	0	1	9
AZ	1	0	1	3	0	1	1	0	4	4	2	3	20
BY	0	0	0	0	3	0	2	2	1	0	3	6	17
GE	1	0	0	0	0	5	9	2	1	1	7	7	33
MD	1	0	0	2	0	5	3	1	3	0	0	2	17
UA	60	27	13	24	16	21	29	59	140	184	187	98	858
<i>Total/ENC- East</i>	66	27	16	31	19	32	44	64	149	190	199	117	954
DZ	1	1	1	0	1	1	2	1	2	0	1	1	12
EG	26	14	5	5	4	12	18	28	39	22	32	27	232
IL	141	66	44	78	78	105	104	110	83	61	56	61	987
JO	5	1	5	1	3	11	10	10	30	81	123	43	323
LB	1	0	0	0	0	1	0	0	0	0	0	0	2
LY	0	1	2	2	1	1	0	2	1	2	4	0	16
MA	12	4	0	2	1	20	8	10	8	13	12	3	93
SY	0	0	0	0	0	0	0	0	0	0	0	1	1
TN	3	1	2	0	1	0	1	2	1	7	2	4	24
<i>Total/ENC-South</i>	189	88	59	88	89	151	143	163	164	186	230	140	1690
<i>Total/ENC</i>	255	115	75	119	108	183	187	227	313	376	429	257	2644

**Tab. 11 - Completed M&A in ENC acquirer nation per acquiror public status, 2000-2011**

Target Country		Gov.nt owned	Joint Venture	Private	Public	Subsidiary	Total
AM	Armenia	3	0	4	0	2	9
AZ	Azerbaijan	3	3	8	0	6	20
BY	Belarus	0	1	11	0	5	17
GE	Georgia	2	0	18	0	13	33
MD	Moldova	1	0	8	0	8	17
UA	Ukraine	43	3	525	66	221	858
<i>Total ENC- East</i>		52	7	574	66	255	954
DZ	Algeria	0	0	4	3	5	12
EG	Egypt	10	6	102	60	54	232
IL	Israel	6	24	466	168	323	987
JO	Jordan	3	5	72	217	26	323
LB	Lebanon	0	0	41	18	17	76
LY	Libya	3	1	5	6	1	16
MA	Morocco	7	2	23	31	30	93
SY	Syria	0	0	1	0	0	1
TN	Tunisia	2	0	14	4	4	24
<i>Total ENC-South</i>		31	38	728	507	460	1764
<i>Total ENC</i>		83	45	1302	573	715	2718

Some deals may be included in more than one categories

**Tab 12 - Completed M&A in ENC acquiror nation per transaction type, 2000-2011**

Target Country		2000-2005			2006-2011			2000-2011		
		intra national	inter national	% intra.	intra national	inter national	% intra.	intra national	inter national	% intra.
AM	Armenia	1	3	25.0	0	0	0.0	1	3	25.0
AZ	Azerbaijan	4	2	66.7	9	5	64.3	13	7	65.0
BY	Belarus	0	3	0.0	9	5	64.3	9	8	52.9
GE	Georgia	5	1	83.3	23	4	85.2	28	5	84.8
MD	Moldova	8	0	100.0	6	3	66.7	14	3	82.4
UA	Ukraine	135	26	83.9	627	70	90.0	762	96	88.8
<i>Total ENC- East</i>		153	35	81.4	674	87	88.6	827	122	87.1
DZ	Algeria	3	2	60.0	1	6	14.3	4	8	33.3
EG	Egypt	45	21	68.2	115	51	69.3	160	72	69.0
IL	Israel	291	221	56.8	225	250	47.4	516	471	52.3
JO	Jordan	12	14	46.2	272	25	91.6	284	39	87.9
LB	Lebanon	18	12	60.0	14	32	30.4	32	44	42.1
LY	Libya	0	7	0.0	0	9	0.0	0	16	0.0
MA	Morocco	35	4	89.7	43	11	79.6	78	15	83.9
SY	Syria	0	0	0.0	0	1	0.0	0	1	0.0
TN	Tunisia	5	2	71.4	11	6	64.7	16	8	66.7
<i>Total ENC-South</i>		409	283	59.1	681	391	63.5	1090	674	61.8
<i>Total ENC</i>		562	318	63.9	1355	478	73.9	1917	796	70.7

**Tab. 13 - Completed international M&A in ENC acquirer nation per top five target nation, 2000-2011**

Acquirer Country	Top 5 acquiror nations and number of deals					Concentration ratios		
	1° n.	2° n.	3° n.	4° n.	5° n.	CR1	CR5	
AM Armenia	Belarus 1	Russia 1	Ukraine 1	-	-	33.3	100.0	
AZ Azerbaijan	Turkey 3	Lithuania 1	Romania 1	Ukraine 1	Vietnam 1	42.9	100.0	
BY Belarus	Belgium 5	France 1	Ukraine 1	USA 1	-	62.5	100.0	
GE Georgia	USA 2	Ukraine 1	Belarus 1	Moldova 1	-	40.0	100.0	
MD Moldova	Romania 1	Russia 1	Ukraine 1	-	-	33.3	100.0	
UA Ukraine	Russia 33	Cyprus 6	Georgia 6	Belarus 5	Canada 5	34.4	57.3	
<i>Total ENC- East</i>	45	11	11	8	6	36.9	66.4	
DZ Algeria	Spain 2	6 countries 1				25.0	37.5	
EG Egypt	Pakistan 5	Arab Em. 5	5 countries 4			6.9	19.4	
IL Israel	USA 185	UK 35	Germany 33	France 21	Canada 18	39.3	62.0	
JO Jordan	Arab Em. 11	S. Arabia 5	5 countries 2			28.2	46.2	
LB Lebanon	Australia 5	Egypt 5	UK 5	France 4	Cyprus 3	11.4	50.0	
LY Libya	Italy 3	Uganda 3	Bahrain 2	8 countries 1		18.8	56.3	
MA Morocco	France 2	Gabon 2	Mali 2	Mauritania 2	Senegal 2	13.3	66.7	
SY Syria	Russia 1	-	-	-	-	100.0	100.0	
TN Tunisia	France 2	Morocco 2	4 countries 1			25.0	62.5	
<i>Total ENC-South</i>	216	58	49	28	23	32.0	55.5	
<i>Total ENC</i>	261	69	60	36	29	32.8	57.2	

Tab 14 - Completed M&A in ENC acquirer nation per primary sector, 2000-2011

Target Country	S1	S2	S3	S4	S5	S6	S7	S8	S9	S10	S11	S12	S13	S14	S15	S16	S17	S18	S19	S20	Total
	Agr	Min	Food	Text	Wood	Paper	Chem	Im min	Metal	Mach	Vehic	Oman	Electr	Constr	Trade	Transp	Accom	Comm	Financ	Other	
AM Armenia	0	0	1	0	0	1	0	1	0	0	0	0	0	1	0	2	1	0	0	2	9
AZ Azerbaijan	0	9	2	0	1	0	1	0	0	1	0	0	5	1	0	0	0	5	25	7	57
BY Belarus	0	0	0	1	1	0	3	0	0	1	1	0	0	1	2	0	0	3	4	0	17
GE Georgia	0	9	3	0	0	0	5	3	0	0	0	0	4	0	3	8	0	11	43	2	91
MD Moldova	0	0	3	1	0	0	1	0	0	0	1	0	0	1	0	0	0	5	3	2	17
UA Ukraine	64	46	110	4	0	20	40	17	65	40	34	6	33	11	56	30	12	81	183	6	858
Total/ENC- East	64	64	119	6	2	21	50	21	65	42	36	6	42	15	61	40	13	105	258	19	1049
DZ Algeria	0	6	0	0	0	0	3	0	0	0	0	0	2	1	0	0	0	0	0	0	12
EG Egypt	5	15	13	6	0	10	19	18	4	2	3	1	2	8	10	7	11	46	43	8	231
IL Israel	3	15	47	16	0	46	90	5	13	69	13	41	12	6	75	24	14	382	96	20	987
JO Jordan	0	2	14	24	0	6	21	12	4	3	3	0	6	1	21	37	9	73	85	2	323
LB Lebanon	0	4	3	1	0	2	2	1	0	0	0	0	0	0	2	0	3	14	40	4	76
LY Libya	0	3	0	1	0	0	1	0	0	0	0	0	0	1	1	1	2	2	2	2	16
MA Morocco	0	3	9	0	0	2	6	1	0	0	1	0	5	1	8	4	2	19	32	0	93
SY Syria	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	1
TN Tunisia	0	2	1	1	0	4	1	4	0	0	1	0	0	0	3	0	0	6	1	0	24
Total/ENC-South	8	50	87	49	0	70	143	41	21	74	21	42	27	18	120	73	41	542	300	36	1763
Total/ENC	72	114	206	55	2	91	193	62	86	116	57	48	69	33	181	113	54	647	558	55	2812

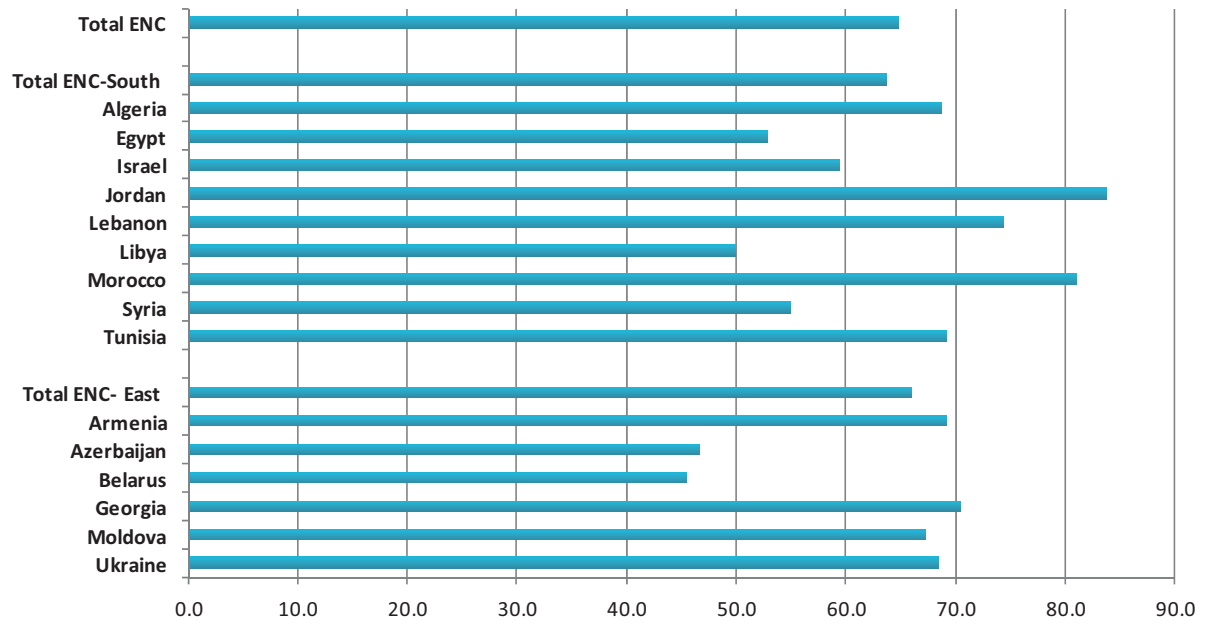
The detailed list of sectors is reported in Appendix 1.

**Tab. 15 - Completed M&A in ENC acquiror nation per top three primary sectors, 2000-2011**

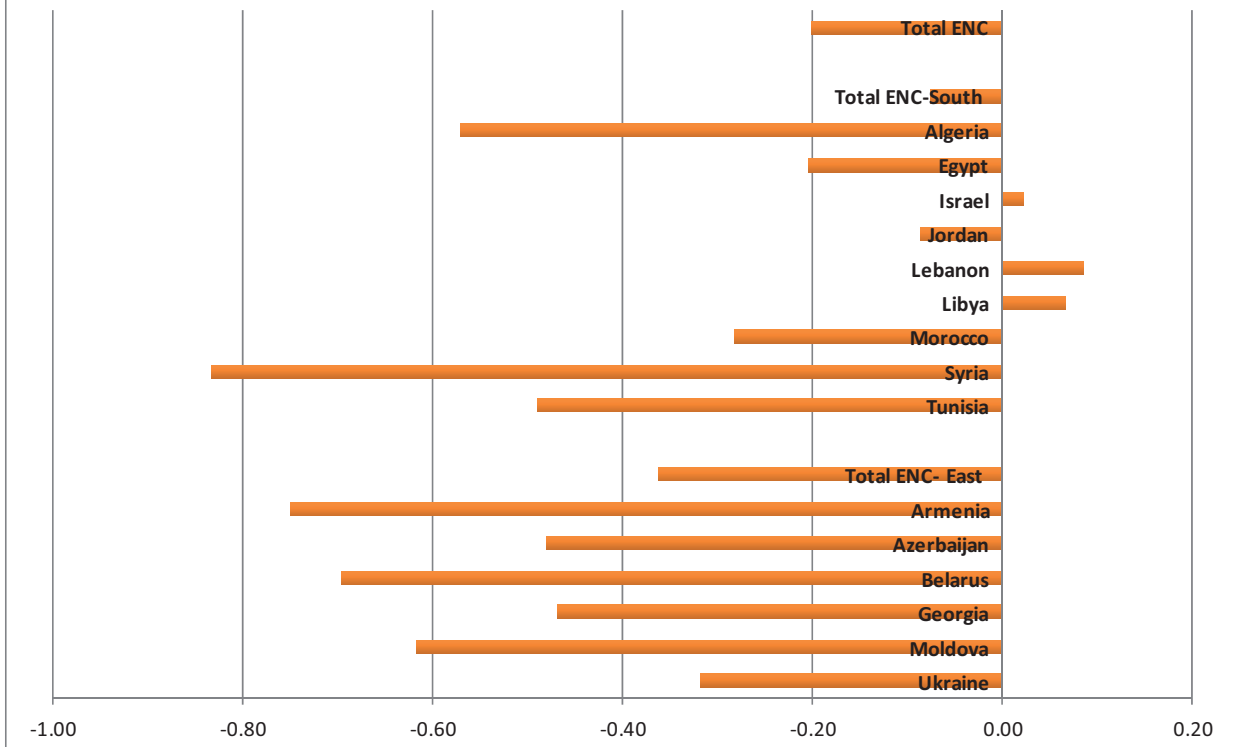
Acquirer Country	Top 3 sectors and number of deals						Concentration ratios		
	1°	n.	2°	n.	3°	n.	CR1	CR3	
AM	Armenia	Transp	2	0 serv	2	Food	1	22.2	55.6
AZ	Azerbaijan	Financ	25	Min	9	0 serv	7	43.9	71.9
BY	Belarus	Financ	4	Comm	3	Chem	3	23.5	58.8
GE	Georgia	Financ	43	Comm	11	Min	9	47.3	69.2
MD	Moldova	Comm	5	Food	3	Financ	3	29.4	64.7
UA	Ukraine	Financ	183	Food	110	Comm	81	21.3	43.6
Total/ENC- East		Financ	258	Food	119	Comm	105	24.6	45.9
DZ	Algeria	Min	6	Chem	3	Electr	2	50.0	91.7
EG	Egypt	Comm	46	Financ	43	Chem	19	19.9	46.8
IL	Israel	Comm	382	Financ	96	Chem	90	38.7	57.5
JO	Jordan	Financ	85	Comm	73	Transp	37	26.3	60.4
LB	Lebanon	Financ	40	Comm	14	Min	4	52.6	76.3
LY	Libya	Min	3	Accom	2	Comm	2	18.8	43.8
MA	Morocco	Financ	32	Comm	19	Food	9	34.4	64.5
SY	Syria	Financ	1	-	-	-	-	100.0	100.0
TN	Tunisia	Comm	6	Paper	4	Nm min	4	25.0	58.3
Total/ENC-South		Comm	542	Financ	300	Chem	143	30.7	55.9
Total/ENC		Comm	647	Financ	558	Food	206	23.0	50.2



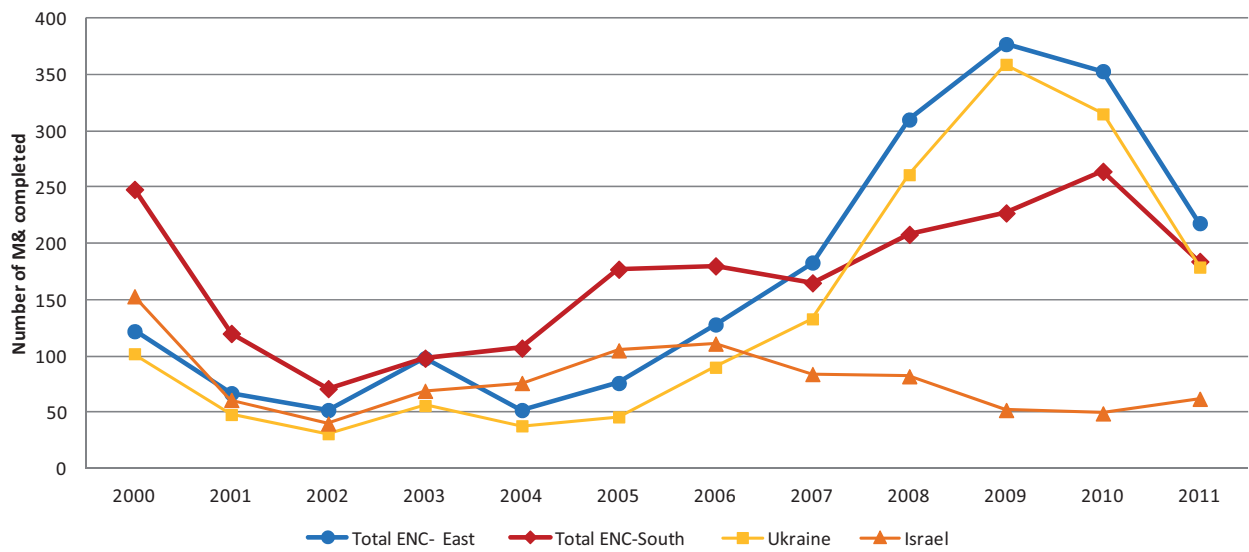
**Fig. 1 - M&A per ENC target , % of deals completed over total. 2000-2011**



**Fig. 2 - Completed M&A net acquirer rate**



**Fig. 3 - Completed M&A , Time flows per ENC target nations, 2000-2011**



**Fig 4. - Intranational deals per ENC target nation (% over total)**

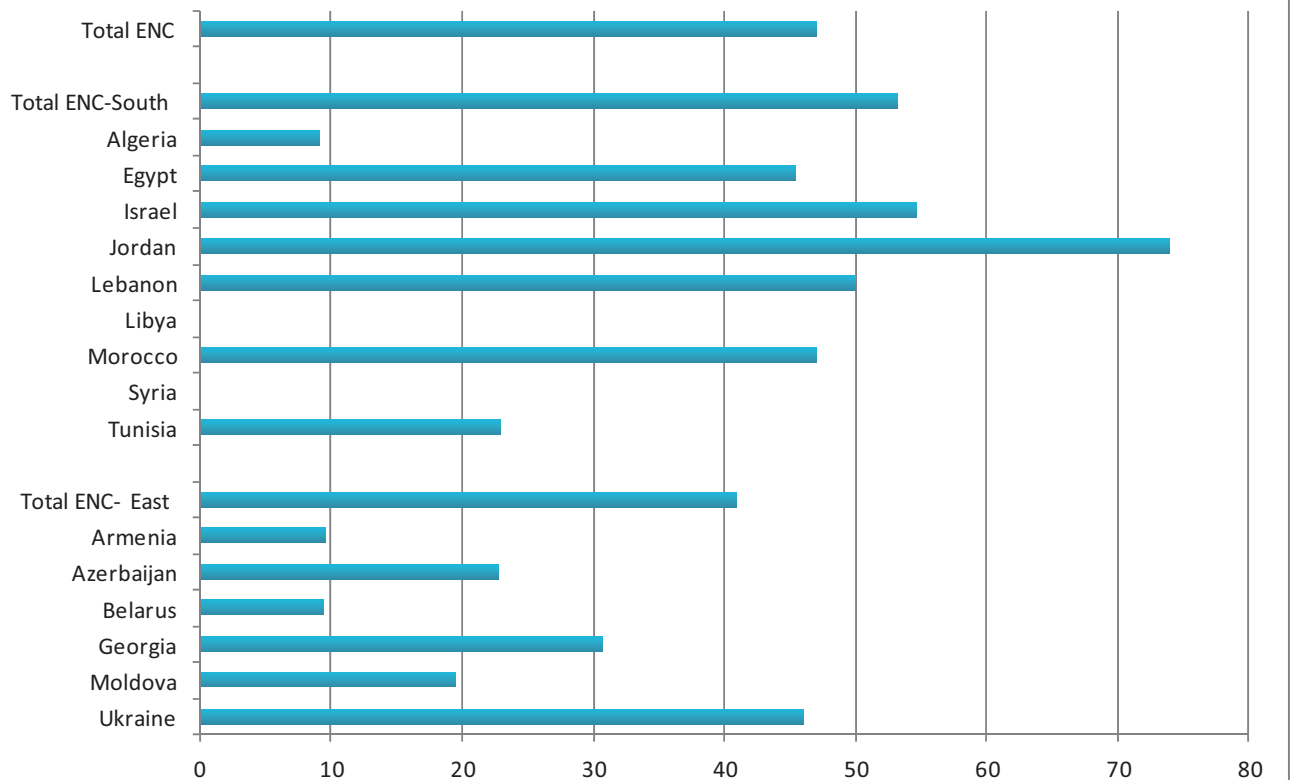


Fig. 5 Completed M&A, Time flows per ENC acquiror nations, 2000-2011

