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Firms' alliances in the European Neighboring Countries

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1. OBJECTIVES

This study aims at analysing various type of firms interactions in the European Neighbouring Countries (ENC) in order to explore the flows of knowledge between ENC and EU countries. More precisely we consider three means of connections among companies: Merger and Acquisition (M&A), Joint Venture (JV) and Strategic Alliances (SA). All these type of deals among firms located in different countries can be interpreted as a valuable proxy for the exchange of knowledge across countries and regions. In this first report we mainly focus on M&A deals.

Four main issues are addressed:

- How M&A deals - and other type of connections - represent a proxy for knowledge flows across the geographical areas where bidder and target companies are located ?
- How are the geographical and sectoral characteristics of M&A, JV and SA transactions in the ENC?
- How is the ENC M&As market evolving over time?
- To what extent ENC and EU exchange knowledge through M&A?

2. SCIENTIFIC METHOD

In this first study the approach is mainly descriptive while a more rigorous econometric analysis will be carried out in the second stage of the research.

We first discuss how the M&A transactions 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. In conclusion, 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 EU and ENC.

We describe the knowledge exchanges embedded in M&A, JV and SA deals involving the ENC by using data retrieved from Thomson Financial SDC database over the period 2000-2011.

3. MAIN RESULTS

We show that the situation of uncertainty and instability in countries like Libya, Syria, Egypt, Azerbaijan and Belarus increases the risk involved in M&A thus lowering the share of announced M&A transactions which are actually completed.

We 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. Looking at the geographical scope of M&A, JV and SA we confirm that cross-border transactions are influenced by the historical, cultural, institutional, and geographical proximity between EU and neighborhood countries.

Looking at the sectoral dimension of M&A we show that there are relevant differences across countries in M&As sectoral distribution induced by the production specialization profile, the endowments of natural resources and the liberalization pattern of the internal markets. Moreover, there are significant differences among industries in the process of diversification and cross-sector technology transfer implemented through M&A deals.

Firms achieve JV and SA agreements to pursue their strategic goals involving various business activities. In the ENC the most common agreement activity relates to manufacturing followed by marketing, but also the technological alliances and R&D agreements show a relevant share.

4. POLICY VALUE-ADDED

The various types of firms alliances (Merger and Acquisition, Joint Venture and Strategic Alliances) provide a valuable channel of interactions and knowledge flows among companies located in the ENC and in EU. The presence and development of these external connections strengthen the competitive conditions of the ENC markets and favor their economic growth.

At the same time the situation of uncertainty and instability in several neighbouring countries increases the risk involved in the international agreements; it decreases, as a result, the firms' propensity to carry out the deals and the share of completed transactions. Moreover cross-border transactions prove to be influenced by the historical, cultural, institutional, and geographical proximity between EU and neighborhood countries.

Overall, the ENP should try to support the accomplishment of agreements among firms in EU and ENC through the design of specific instruments devoted to decrease the risk connected to uncertainty and instability. More generally, the EU is required to continue and reinforce its policy aimed at supporting the neighborhood countries in their ongoing process towards more open and competitive internal markets and towards more democratic, efficient and transparent institutions.