EDITED BY SVETLA MARINOVA,
JORMA LARIMO AND
NIINA NUMMELA

VALUE CREATION IN INTERNATIONAL BUSINESS

Volume 1: An MNC Perspective

Value Creation in International Business

Svetla Marinova • Jorma Larimo • Niina Nummela
Editors

Value Creation in International Business

Volume 1: An MNC Perspective

palgrave
macmillan

Editors
Svetla Marinova
Department of Business and Management
Aalborg University
Aalborg, Denmark

Jorma Larimo
Department of Marketing
University of Vaasa
Vaasa, Finland

Niina Nummela
Turku School of Economics
University of Turku
Turun Yliopisto, Finland

ISBN 978-3-319-30802-9 ISBN 978-3-319-30803-6 (eBook)
DOI 10.1007/978-3-319-30803-6

Library of Congress Control Number: 2016956106

© The Editor(s) (If applicable) and the Author(s) 2017
This work is subject to copyright. All rights are solely and exclusively licensed by the Publisher, whether the whole or part of the material is concerned, specifically the rights of translation, reprinting, reuse of illustrations, recitation, broadcasting, reproduction on microfilms or in any other physical way, and transmission or information storage and retrieval, electronic adaptation, computer software, or by similar or dissimilar methodology now known or hereafter developed.
The use of general descriptive names, registered names, trademarks, service marks, etc. in this publication does not imply, even in the absence of a specific statement, that such names are exempt from the relevant protective laws and regulations and therefore free for general use.
The publisher, the authors and the editors are safe to assume that the advice and information in this book are believed to be true and accurate at the date of publication. Neither the publisher nor the authors or the editors give a warranty, express or implied, with respect to the material contained herein or for any errors or omissions that may have been made.

Printed on acid-free paper

This Palgrave Macmillan imprint is published by Springer Nature
The registered company is Springer International Publishing AG Switzerland

Contents

1 Meanings and Interpretations of Value and Value Creation 1
Svetla Marinova, Jorma Larimo, and Niina Nummela

2 Value Creation in International Joint Ventures: Impact of Inter-Partner Factors and Location 15
Tahir Ali, Jorma Larimo, and Huu Le Nguyen

3 Joint Venture Longevity in Southern and Eastern Mediterranean Countries 55
Dora Triki, Emna Moalla, and Ulrike Mayrhofer

4 Role, Motivation, and Performance of International Joint Ventures in Slovakia 75
Sonia Ferencikova and Tatiana Hluskova

5 **Cross-Border Mergers and Acquisitions from India: Motives and Integration Strategies of Indian Acquirers** 109
Melanie Hassett, Zsuzsanna Vincze, Uma Urs, Duncan Angwin, Niina Nummela, and Peter Zettinig

6 **The Value Creation of Mergers and Acquisitions in Mature and Emerging Markets: A Study of French Multinationals** 141
Ludivine Chalençon and Ulrike Mayrhofer

7 **Africa: An Emerging Context for Value Creation with Cross-Border Mergers and Acquisitions** 163
William Y. Degbey and Kimberly M. Ellis

8 **The Role of Trust in Value Creation: The Case of a Cross-Border Acquisition in Russia** 197
Elina Pelto

9 **Antecedents of Cross-Border Acquisition Performance: Implementation Issues** 237
Daojuan Wang, Hamid Moini, and John Kuada

10 **Russian Oil and Gas MNEs Investing in China: The Role of Government in Value Creation** 279
Andrei Panibratov

11 **When Is FDI Valuable to the Multinational Enterprise? The Role of Firm Capabilities and International Experience** 307
Piotr Trapczynski

12 **Mission Impossible: How to Create Value in Times of Crises** 341
Sonia Ferencikova

13 **Dragons with Horsepower: Learning about the Internationalization Process of Emerging Market Firms** 363
Anna Jonsson

14 **Talent Management and Global Value Creation: How Do Russian Companies Do This?** 383
Marina Latukha

Index 407

Notes on Contributors

Tahir Ali holds a PhD from the University of Vaasa, Finland, where he works as an assistant professor at the Department of Marketing. His research interests focus on international joint venture strategies, trust, and performance. He has presented papers at the Academy of International Business conferences and at the European International Business Academy conferences.

Duncan Angwin is Professor of Strategic Management and Head of the Centre for Strategy Practice Research at Lancaster University, UK. He is also an associate of the Saïd Business School—based at Oxford University and the University of Warwick. He researches strategic practices, particularly in the context of mergers and acquisitions (M&A) and was one of the first researchers in the area to publish M&A research using mixed methods. He is actively researching M&A communications practices and studying M&As to and from India. He has published eight books, over 50 articles in American and European management journals, many book chapters, and over 70 conference papers on strategy and M&A.

Ludivine Chalençon holds a PhD in business administration from IAE Lyon, Jean Moulin Lyon 3 University, where she is Assistant Professor of Finance. Her research focuses on location strategies and the value creation of mergers and acquisitions.

William Degbey is a doctoral candidate at the Department of Marketing and International Business at the Turku School of Economics, the University of Turku, Finland. His research interest is in mergers and acquisitions and their

effect on customer and supplier relationships, and industrial networks. His articles have been published in *Industrial Marketing Management*, *Management Research Review*, and the *Journal of Business and Industrial Marketing*. He serves as a reviewer for *Management Research Review* and *Industrial Marketing Management*.

Kimberly Ellis holds a PhD from Florida State University and is Associate Professor of Strategic Management at Florida Atlantic University. Her primary research examines the influence of contextual and process factors on acquisition outcomes. She also engages in research that investigates linkages among a firm's corporate social performance, corporate strategy, and financial performance. Her research has been published in the *Academy of Management Journal*, the *Strategic Management Journal*, and the *Journal of Business Ethics*. She is a founding member of the editorial review board of the *Africa Journal of Management* and serves as a reviewer for the *Journal of Management*, the *Journal of Management Studies*, and *Strategic Organization*, among others. She is an active member of the Strategic Management Society having recently been elected as a representative-at-large for the Strategy Process Interest Group.

Sonia Ferencikova is Professor of International Business and Management at the School of Management, Bratislava/Trencin, and holds degrees in economics and international business from the University of Economics, Bratislava. She teaches international business and management and international Human Resource Management (HRM) at the University of Economics and at the School of Management in Bratislava. In addition, she has lectured as a visiting professor at undergraduate, graduate and executive programs in many universities in the USA, Australia, France, Austria, Germany, Switzerland, Belgium, Finland, Hungary, Ukraine, Russia, and other European countries. Her research is focused on entry strategies for international markets, foreign direct investment, and doing business in Central and Eastern Europe. Her numerous publications include more than 60 journal articles, case studies, and research papers published in Europe and the USA as well as nine books and more than 20 co-authored books.

Melanie Hassett holds a PhD from the Turku School of Economics at the University of Turku in Finland. Melanie is a postdoctoral researcher in international business. Her research interests are in: mergers and acquisitions (M&As) and, more specifically, in value creation via joint ventures and acquisitions; motives in M&As to and from India. She explores strategic motives, value creation, and socio-cultural integration in cross-border acquisitions. She has writ-

ten a number of publications on M&As and has also co-edited the *Handbook on Longitudinal Research Methods in Organization and Business Studies*, published in 2013.

Tatiana Hluskova received her master's degree in international trade as well as her doctoral degree in world economy at the University of Economics in Bratislava. Her research is focused mainly on foreign direct investment, strategic alliances, and the oil industry. In her dissertation, she conducted the first detailed research on international joint ventures with Slovak partners. She works as an analyst at the Ministry of Economics in the Slovak Republic.

Anna Jonsson is an associate professor at the School of Economics and Management at Lund University, where she also gained a PhD in business administration. Previously she was a senior lecturer at the Centre for International Business Studies at the School of Business, Economics and Law at the University of Gothenburg. Her research focuses mainly on the consequences of globalization, digitalization, and the need for knowledge sharing within organizations. Recently, she was awarded research grants from Riksbankens Jubileumsfond and from the Jan Wallander and Tom Hedelius Stiftelse for studying the internationalization process from an emerging market perspective and the learning processes of dragon Multinational Enterprises (MNEs).

John Kuada is Professor of International Management at the Department of Business and Management, Aalborg University, Denmark. His research interests include enterprise development in Africa, management in Africa, export marketing, and inter-cultural management. Professor Kuada is author and co-author of 12 books and over 100 peer-reviewed articles and book chapters. In addition to teaching and research, he has been a consultant for businesses and international organizations in Europe and Africa. He serves on the editorial review boards of a number of marketing/management journals focusing on business and management in Africa and Asia.

Jorma Larimo is Professor of International Marketing at the Faculty of Business Studies, the University of Vaasa, Finland and is a part-time professor at the Faculty of Economics and Business Administration, the University of Tartu, Estonia. He is Vice Dean of the Faculty of Business Studies and Director of the Doctoral School at the University of Vaasa. His main research areas are the internationalization of Small and Medium-sized Enterprises (SMEs), acquisition and international joint venture strategies and performance, and entry and marketing strategies in Central and Eastern Europe (CEE) countries. He is an active member of several academic associations, and his research has been pub-

lished in a number of edited books and international journals, including the *Journal of Business Research*, the *Journal of International Business Studies*, the *Journal of International Marketing*, the *Journal of World Business*, *International Business Review*, *Management International Review*, and the *Journal of Global Marketing*.

Marina Latukha is an associate professor at the Graduate School of Management, St Petersburg State University, Russia. She has gained experience in a number of post-doctoral programmes at leading European and US business schools (Harvard Business School, HAAS School of Business, the University of California at Berkeley, London Business School, and HEC-Paris School of Business). She is the author of numerous case studies and academic papers. Her research focuses on human resource management, personal education and development, talent management, human resource evaluation, and the development of professional skills.

Svetla Marinova holds a PhD from the Copenhagen Business School in Denmark. She is Associate Professor of International Business at Aalborg University in Denmark. Her research interests include company internationalization and the role of institutions, the strategy of multinational firms from emerging economies, and the management of firms undergoing intensive internationalization processes. She has published more than 70 papers in scholarly journals, including *International Marketing Review*, *Management and Organization Review*, *Research in Marketing*, the *European Journal of Marketing*, *Thunderbird Business Review*, the *Journal of East-West Business*, among others. She has edited and co-edited seven books with Palgrave Macmillan, exploring institutions and internationalization, corporate foresight, and the internationalization of emerging economies and firms.

Ulrike Mayrhofer is Professor of Management at IAE Lyon, Jean Moulin Lyon 3 University. She is Director of the Magellan Research Centre, where she also heads the "International Management" research team, and is President of Atlas AFMI (Association Francophone de Management International—Francophone Association for International Management). She has published several books and case studies as well as many journal articles on the internationalization strategies of multinational companies.

Emna Moalla is Assistant Professor of International Business at ESCEM (Tours Campus). She holds a PhD from Jean Moulin Lyon 3 University (France). Her thesis analyzed the impact of national distance on the choice of market entry

modes. Her research concerns market entry modes, interfirm linkages, and the management of multinational companies.

Hamid Moini is Emeritus Professor at the University of Wisconsin-Whitewater and a resource person specializing in the globalization of small and medium-sized enterprises. Over the past 30 years, Dr Moini has focused on the development of global market entry strategies for smaller firms. His research includes studies on the globalization of small and medium-sized firms, international mergers and acquisitions, and management education in the contemporary global context. He has published two books and numerous refereed articles in the leading journals in finance and international business.

Huu Le Nguyen holds a PhD from the University of Vaasa in Finland. He works as an assistant professor at the Department of Marketing at the University of Vaasa and is a visiting lecturer at the Hanken School of Economics. His research interests are in international joint venture strategies, the psychological traits of entrepreneurs and their international strategies, and strategies and performance of firms in recession. He has published articles in the *Journal of General Management*, the *Baltic Journal of Management*, the *International Journal of Business and Management*, and *Transnational Management*, as well as book chapters. He has also served as an ad hoc reviewer for different international journals.

Niina Nummela is Professor of International Business at the Turku School of Economics at the University of Turku. Her areas of expertise include international entrepreneurship, cross-border acquisitions, and research methods. She has published widely in academic journals, including *International Business Review*, the *Journal of World Business*, *Management International Review*, the *European Journal of Marketing*, and the *International Small Business Journal*, among others. She has also contributed to several internationally published books and edited a book for Routledge entitled *International Growth of Small and Medium Enterprises* (2010).

Andrei Panibratov is Professor of Strategic and International Management at the Graduate School of Management at St Petersburg State University in Russia. He holds a PhD in economics from St Petersburg State University, an MBA degree from the University of Wales in the United Kingdom and a doctoral degree from the Moscow State University of Management. He is a visiting professor at the School of Business at Lappeenranta University of Technology, Finland. His research interests include the strategy of Western multinational firms in Russia, firm marketing decisions in the process of internationalization,

the internationalization of firms from emerging economies, and Russian outward foreign direct investment. He has authored and co-authored several monographs, case studies, and papers published in Russia and abroad.

Elina Pelto holds a PhD from the Turku School of Economics at the University of Turku in Finland, where she works as Lecturer in international business. Her research interests include cross-border acquisitions, foreign direct investment spillover effects, and network change, especially in the context of Russian business networks.

Piotr Trapczynski is an assistant professor at the Department of International Competitiveness, Poznan University of Economics in Poland. He has worked at the Berlin Campus of ESCP Europe, where he completed the European Doctoral Program in International Business, and at the Academy of Business and Economics (VWA) in Berlin. He gained business experience through his work in the IT industry, strategic management consulting, and brand management in the Fast Moving Consumer Goods (FMCG) sector. His research interests include internationalization into and from emerging and transition economies (with a focus on the Central and Eastern Europe (CEE)), Foreign Direct Investment (FDI) performance, firm competitiveness, as well as mixed-method research. He is author and co-author of related publications in international books published by Gabler, Palgrave Macmillan, and Edgar Elgar. He has published in journals such as the *European Management Journal*, the *Journal of Economics and Management*, *Oeconomia Copernicana*, and *Poznan University of Economics Review*, among others. He is a reviewer board member of the *European Management Journal* and the *Journal for Global Business and Community*.

Dora Triki is Assistant Professor of International Business at ESCE Paris (Ecole Supérieure de Commerce Extérieur). She received her doctorate in 2013 from Jean Moulin Lyon 3 University (France). Her thesis examined the determinants of the performance of international joint ventures in southern and eastern Mediterranean countries. Her current research work focuses on partnership strategies and performance.

Uma Urs received her PhD in organization strategy at Oxford Brookes University. Prior to this, she worked as an operations manager for Hewlett Packard in Singapore for over a decade, overseeing supply chain consolidations and post-acquisition integrations. She is engaged in cross-domain research that includes routines and capabilities, the practice view of strategy, change management, the supply chain, marketing, and operations strategy.

Zsuzsanna Vincze is an associate professor at Umeå School of Business and Economics and holds a docentship (international business) at the University of Turku, Turku School of Economics (TSE). She is involved in research projects on cluster transformation and is a member of the Centre for Inter-Organizational Innovation Research (www.ciir.se). She has published a number of articles in the *Journal of East-West Business*, the *Journal of Product and Brand Management*, *Competitiveness Review*, and *Thunderbird International Business Review*. She has also published chapters in books on industrial clusters, grounded theory, and longitudinal research.

Daojuan Wang is a PhD fellow in the Department of Business and Management, Aalborg University, Denmark. Her research interests are in cross-border mergers and acquisitions, corporate finance, and globalization.

Peter Zettinig is a university research fellow at the Turku School of Economics (International Business) at the University of Turku in Finland, where he obtained a PhD. A curiosity in change phenomena drives his main research interests which relate to different levels of organizational transformations in international business and strategy. He has published in the *European Management Journal*, *Organizational Dynamics*, the *International Journal of Cross-Cultural Management*, *Competitiveness Review*, and *Thunderbird International Business Review*, among others. His research examines the multinational corporation, global virtual teams and their development trajectories, international entrepreneurship, and cluster transformations.

List of Figures

Fig. 2.1	Inter-partner factor determinants, location effect, and value creation in IJVs	34
Fig. 6.1	M&A activity in the USA, the UK, and France (2000–2013)	143
Fig. 6.2	Cumulated abnormal returns of M&As	154
Fig. 6.3	Average abnormal returns of international M&As	155
Fig. 6.4	Cumulated abnormal returns of M&As in mature and emerging markets	156
Fig. 6.5	Cumulated abnormal returns of M&As in mature and emerging markets	156
Fig. 6.6	Average abnormal returns of M&As in mature and emerging markets	157
Fig. 6.7	Average abnormal returns of M&As in mature and emerging markets	158
Fig. 7.1	African M&A trends 2009–2013	164
Fig. 7.2	Top industry sectors by year	173
Fig. 7.3	Relatedness type	178
Fig. 7.4	Consideration paid	181
Fig. 8.1	Model of trust dynamics in acquisitions	204
Fig. 8.2	Building trust among various stakeholder groups after an acquisition in Russia	224
Fig. 11.1	FDI-related added value: conceptual model of the study	315

List of Tables

Table 2.1 Summary of selected studies related to value creation in IJVs made during 1997–2014 18
Table 2.2 Mean values for IJVs located in developing and developed countries 36
Table 2.3 Means, standard deviations, and correlations 39
Table 2.4 Regression results: Determinants of value creation in IJVs 40
Table 3.1 Foreign partners of IJVs in the SEMED region 59
Table 3.2 Location of IJVs in the SEMED region 60
Table 3.3 Industry distribution of IJVs in the SEMED region 61
Table 3.4 Level of economic development of SEMED countries 65
Table 3.5 Descriptive statistics 66
Table 3.6 Correlation matrix 67
Table 3.7 Cox proportional hazard models 68
Table 4.1 Summary of the positive changes brought by the French-Slovak IJV 87
Table 4.2 Motives of Slovak partners for IJV creation in the 1990s and today 99
Table 4.3 Performance criteria of IJVs in the 1990s and today 100
Table 4.4 Partners' satisfaction with IJV performance in the 1990s and today 101
Table 4.5 Differences between Slovak–foreign IJVs in the 1990s and today 102

Table 4.6	The largest IJVs with Slovak participation	104
Table 5.1	Summary of M&A cases	131
Table 6.1	Percentage of cross-border M&As by country of acquirer (2000–2013)	144
Table 6.2	French acquiring companies (2010–2012)	147
Table 6.3	Target countries of French acquiring companies (2010–2012)	150
Table 6.4	The ten most important M&As in terms of value (2010–2012)	151
Table 6.5	Characteristics of M&As by location	152
Table 7.1	M&A activity based on the country headquarters of the acquirer and target firms (%)	169
Table 7.2	Top 20 acquirer and target nations	170
Table 7.3	Top 15 target industry sectors (%)	172
Table 7.4	Ownership type based on shares owned after focal deal	175
Table 7.5	Deal size categories	180
Table 9.1	Measurement of the multi-item composite variables	249
Table 9.2	Reliability analysis	257
Table 9.3	Factor analysis on each multi-item construct separately	259
Table 9.4	Factor analysis on all multi-item constructs together	261
Table 9.5	Non-response bias analysis of 42 early respondents and 33 late respondents	264
Table 9.6	Sample description	265
Table 9.7	Descriptive statistics and Pearson's correlations (n = 103)	267
Table 9.8	OLS regression analysis on implementation issues and weighted post-acquisition performance	268
Table 9.9	A summary of the hypotheses and regression findings	269
Table 10.1	Home government support of Russian oil and gas MNEs in China	294
Table 11.1	Sectoral structure of the sample (N = 100)	319
Table 11.2	Performance contribution depending on firm characteristics (N = 100)	320
Table 11.3	Performance contribution depending on affiliate characteristics (N = 100)	321

Table 11.4 Descriptive statistics and Pearson correlations 325
Table 11.5 Regression models for market-related added value ($N = 100$) 326
Table 11.6 Regression models for cost-related added value ($N = 100$) 327
Table 11.7 Regression models for strategic added value ($N = 100$) 328
Table 12.1 Growth of equity capital in the banking sector of the Slovak Republic (December 31, 1994) 344
Table 12.2 Growth of equity capital in the banking sector of the Slovak Republic (December 31, 1999) 345
Table 12.3 Growth of equity capital in the commercial banks and branch offices of foreign banks in the Slovak Republic (December 31, 2004) 348
Table 12.4 Growth of equity capital in the commercial banks and branch offices of foreign banks in the Slovak Republic (December 31, 2009) 351
Table 12.5 Major milestones of the deal 356
Table 12.6 Growth of equity capital in the commercial banks and branch offices of foreign banks in the Slovak Republic (December 31, 2014) 360

1

Meanings and Interpretations of Value and Value Creation

Svetla Marinova, Jorma Larimo, and Niina Nummela

What Is Value?

When discussing the role of value creation in international business, the meanings and interpretations of "value" are essential in understanding its contextual manifestations. Somehow, it seems we know what "value" means, but if we try to use it in different processes and contexts, in relation to diverse actors, we might be surprised by the various interpretations given to it. Some equate value with the monetary equivalence of what

S. Marinova (✉)
Department of Business and Management, Aalborg University, Fibigerstraede 4, DK 9220 Aalborg East, Denmark
e-mail: svetla@busines.aau.dk

J. Larimo
Unit of Marketing, Faculty of Business Studies, University of Vaasa, Wolffintie 34, 65200 Vaasa, Finland

N. Nummela
Department of Marketing and International Business, Turku School of Economics, Rehtoripellonkatu 3, 20500 Turku, Finland

© The Editor(s) (If applicable) and the Author(s) 2017

S. Marinova et al. (eds.), *Value Creation in International Business*,
DOI 10.1007/978-3-319-30803-6_1

people do or buy; others interpret it in a much broader sense as merit or worth, which can be either tangible or intangible, yet hard to define. Often, authors assume that either the reader knows what value is and discuss what affects it or how it is created, or simply explore it in a specific setting. Economics, accounting, strategic management, marketing, sociology, and various other academic disciplines have developed their specific interpretations and models of value that are embedded in the perceptions of the worth of the subject matter (for a review of conceptualizations of value in relevant disciplines see Ahen 2015: 83–86).

Generally, the concept of "value" is associated with the usefulness and merit of something, be it an activity or its output. Thus, value is about what is important, whether in life in general, in human action, or in the operations of an organization, and as such it can be associated with judgment. Consequently, value attains a universalist and a relativist meaning. The most common universal meaning of value is benefit or worth. Yet, benefit always suggests a perspective, a direction, a beneficiary—someone, be it an actor, a party, an individual, or a group of individuals of a certain sort—and as such value becomes relative, being dependent on the nature, resources and assets, bargaining power, interactions, and interdependencies of that actor with others. This makes value actor-dependent and context-specific.

In its narrow meaning, "value" is ordinarily related to a process in which it is either created or co-created. Most commonly, this is the process of the exchange of tangible and intangible goods and services, resulting in a view that value can be seen as synonymous to gain and profit. This interpretation of "value" is rooted in Adam Smith's *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776), in which he explored the importance of "exchange value" when he argued that the national wealth depends on the production and exchange (export) of surplus tangible products. In doing so, Smith used exchange value to provide a common sense universal measure of wealth and in that logic as a proxy for the overall benefit to a party, that is "the value-in-use" or "real value." Subsequently, economic thought developed on the foundations of this interpretation of value, and only later on attempted to recall "real value" by introducing the concept of utility (Say 1821). Nevertheless, "exchange value" has become institutionalized in economics, meaning that every

product or service has a utility and power to be voluntarily exchanged for other goods, services, or money.

The exchange process itself, though, brings the requirement that a party should perceive a product or service as worthy and beneficial to acquire, that is of value, meeting the needs, wants, and preferences of that party, generally a customer, who would be willing to enter into exchange for that benefit. This is the traditional production-consumption view of value where one actor produces it and another actor utilizes it.

More recently, it has been widely recognized that an actor, who finds a product or service valuable, may also participate in creating and enhancing its value and, consequently, co-creating value in a value-producing continuous and iterative process based on relational exchanges. Such a non-deterministic view of value is particularly prominent in partnerships with a long-term orientation and purpose that can be found in the business relationships of firms that are aimed at long-term exchanges or joint-production as in the case of international joint ventures (IJVs) and mergers and acquisitions (M&As).

Value Creation in Firms

When value is studied at the firm level, two major positions are evident. One looks at the value that is at the foundation, is the central pillar, of the business model of any company; and the other looks at the value embedded in products and services delivered to the customers, that is exchange value and value-in-use (Vargo et al. 2010).

Early studies on value creation focused on organizational resources in firms (Schumpeter 1934; Teece 1987). According to Schumpeter (1934), the combination of technology and resources leads to new products and production techniques that form the basis of value creation in firms. This viewpoint is embedded in the resource-based view in which interdependent bundles of organizational resources are viewed as a source of value creation and competitive advantage (Barney 1991). The same view was upheld by Penrose (1959), who stated that value creation is a result of the way in which an organization manages its resources in the production of goods and services. In understanding how organizational

resources transform into value, some researchers have found inspiration in the work of Kaplan and Norton (2004) by mapping the causal relationship between organizational resources and value creation.

Porter's (1985) value chain framework has influenced our understanding of value and the way in which different primary and secondary firm-level activities contribute to value creation. However, the globalization of markets and production has posed serious challenges to the application of this framework to globalized firms. This has called for greater attention to the firm-specific buyer–supplier relationships and to partners and networks which participate in value creation. Thus, the value configurations perspective (Christensen et al. 2009; Stabell and Fjeldstad 1998) has emerged, focusing on the way in which internal company activities are structured and organized to fit external relational attachments. For example, Stabell and Fjeldstads (1998) argue that Porter's value chain analysis may not apply to all firms and instead propose a network configuration of company value creation that may better describe such activities in diverse firms. Hall (1989) has added to this debate by arguing that the organizational resources critical to value creation in a firm are the asset value drivers, including intellectual and knowledge assets. Thus, value creation is not limited to shareholders but is also related to stakeholders due to the dynamic interaction of organizational human and physical assets that are interdependent (Roos and Roos 1997).

Value creation by firms is seen as an output and a process. The International Integrated Reporting Council (2013) suggests that value creation is a process that takes inputs of organizational resources and capital, combining and applying them to produce outputs that may have positive and negative effect on individuals, the organization, and the environment. As such, the value creation process enabling firms to outperform rivals takes place within a certain organizational context that is embedded in a wider environmental (regional, national, and international) setting and thus should be studied as value-in-context (Vargo et al. 2010).

The question that still remains is how a focal firm creates value. While the above studies on value creation in firms have focused entirely on organizational resources, other studies, as indicated above, have outlined the importance of strategic networks and relationships as essential (Katz and Shapiro 1985; Gulati et al. 2000). Strategic networks allow firms to gain access to tangible and intangible resources that they would not

have possessed without interaction with other firms. This allows firms to tap into the capabilities and information of their alliance partners, enabling access to technologies and markets. Value creation activities in networks include shortening time to market, enhanced transaction efficiency, reduced asymmetries of information, and improved coordination of firms in alliances (Gulati et al. 2000; Kogut 2000). Furthermore, supporting the above view of strategic networks as a source of value creation is the fact that firms create value through and in relationships. Following this perspective in buyer–supplier relationships, Kim and Choi (2015) argue that value creation can occur at two levels: the supplier and the collective level. At the supplier level, value is created when the buyer receives greater benefits from information on new technology, higher quality products, or cutting edge production (Benner and Tushman 2003) than it would have received from other rival suppliers. In the long run, such activities might result in synergies that enhance the benefit for both parties (Heide and John 1990; Schumpeter 1934). The latter may depend on the relational and structural dimensions of the relationship ties (Krackhardt 1992), that is on how firms interact and on the extent to which they are mutually trusting, supporting, and reciprocating (Hansen 1999). Similarly, Sainio et al. (2011) identify organizational relationships and interactions as value creating activities for a company that should also reflect novelty, complementarity, efficiency, and customer lock-in as primary drivers of value creation (Keupp and Gassmann 2009). Last, but not least, relationships allow firms to share resources and develop new ones by synergies (Hakansson and Snehota 1989) that are associated with diverse type of alliances, joint ventures, and M&As.

Value Creation in Internationalization

Relationships that span national borders can create value through cross-border resource combination (Autio 2005) and integration where two or more firms jointly participate in a continuous and iterative process based on relational exchanges in order to produce value. This can take place in the context of IJVs or international M&As, where resources are integrated and value is co-created. The process of value creation is driven by two or more parties, which are embedded in different socio-economic contexts

and which are key to understanding the process of value creation. Apart from the duality of actors and social structures, discussed by structuralism (see Giddens 1984; Bourdieu 1990; Sewell 1992), where societal rules and norms shape the thoughts and conduct of each party, in IJVs and M&As this duality is multiplied by the differences in national contexts, cultures, and practices. Such a complication poses challenges to resource integration and value creation, since the gap between the behavior of actors is expected to be bigger than in domestic joint ventures and M&As.

Shimizu et al. (2004) emphasize value creation as a key perspective in studying cross-border M&As. Seth (1990) sees the concept of value creation in M&As as synonymous to synergy as the value of the combined entity is expected to be much greater than the added value of the two combining firms. This effect is associated with knowledge transfer, resource integration, cost optimization, and new opportunities that open up to the combined entity (Colman and Lunnan 2011), depending on the motivations for the M&A that can either be aimed at resource diversification or resource consolidation.

The understanding of value-in-context in IJVs and M&As embraces the need for understanding the contextual diversity, which is associated with industry norms, practices and routines, national and regional values, beliefs, customs, and norms that are likely to present challenges to the process of value creation. Therefore, liabilities of outsidership, foreignness, origin, and newness demand an interpretation that goes beyond national traits and includes management skills, competences, and practices as well as the degree of autonomy in subsidiary decision-making and integration in knowledge exploration and exploitation. Moreover, the context itself requires an understanding of the value enhancing activities or otherwise of key institutional actors and thus an analysis of the role of governments and social actors.

The Current Volume

This volume is a concerted attempt by international business and management scholars to explore not only what kind of value multinational firms create when undertaking foreign direct investment (FDI) in the form of cross-border partnerships (i.e. IJVs, M&As, investment projects), but

also, and more so, to understand how value is created, what mechanisms and outputs have been identified in producing *exchange value*, *value-in-use*, and *value-in-context*.

Chapters 2, 3, 4, 5, 6, 7, 8 and 9 examine value creation in the cross-border activities of multinational companies (MNCs), that is IJVs, M&As, and a progression of these over time (an IJV transformed into an M&A). Chapter 10 examines the role of government in supporting and enabling value creation in cross-border firm-level FDI in big emerging markets; Chapter 11 focuses on firm capabilities and experience in value creation; Chapter 12 examines value creation in times of crises; Chapter 13 poses questions about the ways in which emerging market MNCs create value in IJVs and M&As; and Chapter 14 studies the role of organizational talent management as a tool for value creation.

Chapter 2 by Ali, Larimo, and Nguyen base their thoughts on the presumption that firms often form IJVs to gain benefit from their foreign partner's resources and assets, thus trying to create more value for each other. The study focuses on various internal factors that influence value creation in IJVs. It investigates the role of inter-partner resource complementarity, cultural differences, relational quality, as well as their control strategy in the joint venture and their impact on value creation. The mediating role of location, which influences the bearing of flexibility, communication quality, and national cultural distance on value creation, juxtaposes developing with developed countries in view of the relationship between inter-partner factors and value creation. The research is based on 89 IJVs established by Nordic multinational companies. It demonstrates that resource complementarity, relational quality, and social control have a positive influence on value creation, whereas national and organizational cultural differences between the partner firms have a negative impact.

Chapter 3 by Triki, Moalla, and Mayrhofer also explores factors affecting value creation in IJVs set up to secure growth, but this time in the context of Southern and Eastern Mediterranean (SEMED) countries, that is Algeria, Tunisia, Morocco, Israel, Egypt, Syria, Lebanon, and Turkey. The authors test the impact of country risk and the level of economic development on international joint venture longevity in 124 IJVs over a four year period. Results indicate that the level of economic development in the host country has a significant impact, whereas country risk does

not influence the longevity of the venture, hence it could be suggested that the first factor has a greater effect on the time in which the partners can create value for each other in the IJV.

Chapter 4 by Ferencikova and Hluskova brings into focus the value created by IJVs in Slovakia after the fall of the Iron Curtain and the establishment of the sovereign Slovak Republic. The authors find that many of the joint ventures created an initial value for the Slovak and foreign partners, but that the joint venture format has changed to that of a wholly owned subsidiary of the foreign partner and as such many of these subsidiaries have become some of the biggest and most important companies in Slovakia. These business entities, the authors argue, have had economic and social importance in the transformation of the Slovak economy from a centrally planned one to a market-led one.

Chapter 5 by Hassett, Vincze, Urs, Angwin, Nummela, and Zettinig explores another setting for value creation: the context of M&As from India. The prior literature argues that M&As from companies from emerging economies are special for many reasons, such as lack of M&A experience and institutional factors. The authors try to understand what drives Indian M&As, drawing on M&A research that focuses on India and using three case examples to illustrate the key characteristics of Indian M&As and their approaches to value creation.

Chapter 6 by Chalençon and Mayrhofer analyses value creation by French companies in their M&As in emerging and mature markets. The study shows how financial markets reacted before and after the announcement of M&As formed by companies on the French SBF 120 index list in the period 2010–2012. Findings suggest that the reaction of the markets before announcement is negative in emerging markets, but moderately positive for those in mature markets; their reaction after announcement is moderately positive for emerging markets and clearly positive for those in mature economies.

Chapter 7 by Degbey and Ellis explores Africa as an emerging context for value creation by employing M&A transactions that have been a means for achieving business growth. The study explores aspects of M&A trends, the main actors, and the nature of the transactions undertaken. It also raises key questions on how the heterogeneity of the context itself (i.e. the range of differences at the local, national, and regional levels)

might shape the nature and/or direction of M&A research on the continent in the years ahead.

Chapter 8 by Pelto investigates the role of trust in the outcome of a cross-border acquisition in the context of Russia, based on the experience of a Finnish investor. The chapter responds to the call for developing a more holistic understanding of acquisitions and their outcomes by focusing on both pre- and post-acquisition issues and discusses the importance of trust, not only in view of the value it creates for the acquirer and acquired company, but also in relation to the value delivered to other network relationships and stakeholders.

Chapter 9 by Wang, Moini, and Kuada studies the main implementation activities during the acquisition process with the aim of empirically investigating their relative importance and joint effect on the performance of 103 Nordic cross-border acquisitions. The results indicate that due diligence, integration extent, and retention of key employees are significant positive determinants of success, while premium has a significant negative impact. Temporal lag (that is, the time span between the closing of a deal and the start of the integration) has a significant positive impact on success, while acquisition experience, surprisingly, exerts a negative effect, and planning and coordination do not contribute to Cross-Border Acquisitions (CBA) performance at all.

Chapter 10 by Panibratov explores value creation at the interface of business and government by investigating the influence of the home government on the entry strategies of Russian companies in China and the role of the government in increasing the value of Russia's FDI in China. Using a case study approach, the author identifies successful combinations of entry strategy and government role for Russian MNEs that spur their success in China. The author suggests a model for the joint influence of entry strategy and government impact on value creation by Russian MNEs in the process of their expansion into China.

Chapter 11 by Trapczinski studies the relationships between the FDI motives and the contribution of the foreign affiliate to its parent firm's market-related, efficiency, and competitive performance, in the context of outward foreign direct investment (OFDI) by Polish firms. Its focus is the perceived value of specific FDI projects to the investing parent firm, with explicit consideration of the role played by the affiliate in

the parent portfolio. The main findings indicate that the contribution of FDI to Multinational Enterprise (MNE) performance differs for specific performance dimensions, depending on the motive for engaging in FDI. Intangible assets, as an expression of managerial and organizational capabilities, enhance the ability of MNEs to benefit from their foreign operations. Moreover, the relationship between affiliate and parent efficiency decreases with the scope and length of FDI.

Chapter 12 by Ferencikova follows the key changes in the structure and behavior of the banking sector in Slovakia over the past 20 years. It argues that privatization eventually led to the full acquisition of local banks by foreign banking institutions and created value for the Slovak banks by bringing know-how, new practices, and an improved quality of service, and making the banking system more flexible and competitive. The foreign banks managed to grow their customer base, gain experience, and transfer it to other Central and Eastern European countries, and improve their overall financial results.

Chapter 13 by Jonsson examines how local and national firms from emerging markets acquire large, well-established MNEs as a strategy for internationalization, but which face difficulties. The study argues that these firms make strategic choices that are different from those prescribed in traditional behavioral models of MNEs. It suggests that new categories of internationalized firms emerge that create a new dimension to the concepts of "liability of foreignness" and "liability of outsidership," which is associated with the way in which knowledge is shared between the new owner and the acquired firm through a dynamic learning process of acquiring an existing internationalized firm.

Chapter 14 by Latukha investigates talent management (TM) practices in Russian companies and identifies its role in organizational value creation. This research analyses seven cases that indicate the importance of TM and argues that specific TM practices help Russian companies to remain competitive in the global environment. Findings suggest that talent attraction, training, and development are the key practices that demonstrate a significant contribution to organizational growth and the value creation process, alongside the shift to a strategic rather than an operational role for TM.

The chapters form a coherent perspective on value creation by MNCs and offer compatible and complementary views on how MNCs create and co-create transaction value, value-in-use, and value-in-context in the internationalization process.

Acknowledgement The editors acknowledge the contribution of the project "Value Creation in International Growth: Focus on Acquisitions and Joint Ventures" (Project number: 250613), financed by the Academy of Finland.

References

Ahen, F.A. (2015). Strategic corporate responsibility orientation for sustainable global health governance: Pharmaceutical value co-protection in transitioning economies, Series A-5:2015, Turku School of Economics, Turku, Finland.

Autio, E. (2005). Creative tension: The significance of Ben Oviatt's and Patricia McDougall's article "Toward a Theory of International New Ventures". *Journal of International Business Studies, 36*, 9–19.

Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of Management, 17*(1), 99–120.

Benner, M. J., & Tushman, M. L. (2003). Exploitation, exploration, and process management: The productivity dilemma revisited. *Academy of Management Review, 28*(2), 238–256.

Bourdieu, P. (1990). *The logic of practice*. Stanford: Stanford University Press.

Christensen, C. M., Grossman, J. H., & Hwang, J. (2009). *The innovator's prescription: A disruptive solution for healthcare*. New York: McGraw-Hill.

Colman, H. L., & Lunnan, R. (2011). Organizational identification and serendipitous value creation in post-acquisition integration. *Journal of Management, 37*, 839–860.

Giddens, A. (1984). *The constitution of society: Outline of the theory of structuration*. Oxford: Polity Press.

Gulati, R., Nohria, N., & Zaheer, A. (2000). Strategic networks. *Strategic Management Journal, 21*(3), 203–215.

Hakansson, H., & Snehota, I. (1989). No business is an island: The network concept of business strategy. *Scandinavian Journal of Management, 5*(3), 187–200.

Hall, E. T. (1989). *Beyond culture*. New York: Anchor Books.

Hansen, M. T. (1999). The search-transfer problem: The role of weak ties in sharing knowledge across organization subunits. *Administrative Science Quarterly, 44*, 82–111.

Heide, J. B., & John, G. (1990). Alliances in industrial purchasing: The determinants of joint action in buyer-supplier relationships. *Journal of Marketing Research, 27*(1), 24–36.

Integrated Reporting Council (IIRC) (2013). *The international IR framework*. http://integratedreporting.org/wp-content/uploads/2013/12/13-12-08-THE-INTERNATIONAL-IR-FRAMEWORK-2-1.pdf. Accessed 26 Dec 2015.

Kaplan, R. S., & Norton, D. P. (2004). *Strategy maps: Converting intangible assets into tangible outcomes*. Boston: Harvard Business School Press.

Katz, M. L., & Shapiro, C. (1985). Network externalities, competition, and compatibility. *The American Economic Review, 75*(3), 424–440.

Keupp, M. M., & Gassmann, O. (2009). Innovation and internationalisation: Why do transnational approaches to international innovation fail? *Research in International Business and Finance, 23*(2), 206–222.

Kim, Y., & Choi, T. (2015). Deep, sticky, transient, and gracious: An expanded buyer-supplier relationship typology. *Journal of Supply Chain Management, 51*(3), 61–86.

Kogut, B. (2000). The network as knowledge: Generative rules and the emergence of structure. *Strategic Management Journal, 21*, 405–425.

Krackhardt, D. (1992). The strength of strong ties: The importance of philos in organizations. In N. Nohria & R. Eccles (Eds.), *Networks and organizations: Structure, form,and action* (pp. 216–239). Boston: Harvard Business School Press.

Penrose, E. (1959). *The theory of the growth of the firm*. New York: Wiley.

Porter, M. E. (1985). *The competitive advantage: Creating and sustaining superior performance*. New York: Free Press.

Roos, G., & Roos, J. (1997). Measuring your company's intellectual performance. *Long Range Planning, 30*(3), 413–426.

Sainio, L. M., Saarenketo, S., Nummela, N., & Eriksson, T. (2011). Value creation of an internationalizing entrepreneurial firm: The business model perspective. *Journal of Small Business and Enterprise Development, 18*(3), 556–570.

Say, J.B. (1821). Letters to Mr. Malthus on several subjects of political economy and on the cause of stagnation of commerce. Reprint by Kelly, A.M. New York.

Schumpeter, J.A. (1934/2008). *The theory of economic development*: *An inquiry into profits*, *capital*, *credit*, *interest and the business cycle* Translated from German by Redvers Opie. New Brunswick/London: Transaction Publishers.

Seth, A. (1990). Value creation in acquisitions: A re-examination of performance issues. *Strategic Management Journal, 11*(2), 99–115.

Sewell, W. H. (1992). A theory of structure: Duality, agency, and transformation. *American Journal of Sociology, 98*(1), 1–29.

Shimizu, K., Hitt, M. A., Vaidyanath, D., & Pisano, V. (2004). Theoretical foundations of cross-border mergers and acquisitions: A review of current research and recommendations for the future. *Journal of International Management, 10*(3), 307–353.

Smith, A. (1776). *An inquiry into the nature and causes of the wealth of nations*. London: W. Strahan and T. Cadell.

Stabell, C. B., & Fjeldstad, Ø. D. (1998). Configuring value for competitive advantage: On chains, shops, and networks. *Strategic Management Journal, 19*(5), 413–437.

Teece, D. J. (1987). Profiting from technological innovation: Implications for integration, collaboration, licensing, and public policy. In D. J. Teece (Ed.), *The competitive challenge* (pp. 185–219). Cambridge, MA: Ballinger Publishing Co..

Vargo, S. L., Lusch, R. F., Akaka, M., & He, Y. (2010). Service dominant logic: A review and assessment. *Review of Marketing Research, 6*, 125–167.

2

Value Creation in International Joint Ventures: Impact of Inter-Partner Factors and Location

Tahir Ali, Jorma Larimo, and Huu Le Nguyen

Introduction

One key goal when establishing international joint ventures (IJVs) is to create value in different ways for the partnering firms. The value creation can be via new innovations, more effective production processes, taking benefit of the synergy effects in various functions, and so on (see e.g. Deeds and Hill 1996; Barringer and Harrison 2000). The literature on IJV research shows that internal partner factors (Brouthers and Bamossy 2006) and the interaction between partners often significantly influence the cooperation. In addition, the effect of location factors on the operations of firms has been emphasized in international business research (Miller and Eden 2006). However, the current literature related to value creation in strategic alliances and IJVs provides relatively limited empirical

T. Ali (✉) • J. Larimo • H. Le Nguyen
Unit of Marketing, Faculty of Business Studies, University of Vaasa, Wolffintie 34, 65200 Vaasa, Finland
e-mail: Tahir.Ali@uva.fi

© The Editor(s) (If applicable) and the Author(s) 2017

S. Marinova et al. (eds.), *Value Creation in International Business*,
DOI 10.1007/978-3-319-30803-6_2

results about these influences. Lee et al. (2013) found that value creation differs between alliances located in developing and developed countries. Furthermore, prior research suggests that resource complementarity between partners enhances the value creation potential in IJVs (Kumar 2008). Previous studies (e.g. Pothukuchi et al. 2002) suggest that both national and organizational cultural differences also play a crucial role in the operation and effectiveness of IJVs. Some studies (e.g. Hennart and Zheng 2002; Pothukuchi et al. 2002) have found that cultural differences have a negative impact on IJV operations, and some others (e.g. Li et al. 2001) have found a positive influence. Besides, interactions between partners, such as inter-partner flexibility, communication, trust, and control mechanisms, seem to be important factors that impact upon IJV operations (Vaidya 2000). On the one hand, several IJVs do not reach the value creation goals set for them and the units are therefore subsequently terminated (Christoffersen 2013); on the other hand, the earlier results of the value creation effects of several variables are mixed. Therefore it is important to investigate more fully the impact of various inter-partner and location related variables on value creation in IJVs.

In this study the main goal is to analyze the relationship between selected inter-partner factors and value creation in IJVs. An additional goal is to investigate whether the influence of these inter-partner factors varies, depending on the location of the established IJVs. From the inter-partner factors, we will focus on the resource complementarity, control strategy, relational quality, trust, and national and organizational cultural differences between partner firms. Concerning the location effects, our focus will be on the possible differences in the value creation between units established in developed (OECD) vs developing (non-OECD) countries.

The study arguments are based on social exchange theory (SET). We use this theory for our study for number of reasons. First, SET has become a popular theory that characterizes IJV relationships and explains important determinants of governance structure as well as the management of joint ventures (JVs). Secondly, SET can help us to understand important features of alliances which may have significant roles in the value creation process, such as the cooperation and quality of relationship (Arino et al. 2001), lower transaction costs (Zaheer et al. 1998; Dyer and Chu 2003), reduction of conflicts (Zaheer et al. 1998), support for

learning, innovation (Nielsen and Nielsen 2009), and improvement in IJV performance (Silva et al. 2012).

Value creation in IJVs can be evaluated in several different ways. One commonly used way is to use the stock price reactions as the basis (see e.g. Merchant and Schendel 2000). Researchers have also suggested that there are several other measures that can be used, such as the financial performance of firms (Madhok and Tallman 1998) and managerial assessment (Kale et al. 2001). Although there are differences in the value creation results, the findings in some studies like Chan et al. (1997) indicate that the results related to value creation, evaluated by stock market reactions and by operating performance measurement, were very similar. In this study we will measure value creation using a combination of several dimensions (with Kumar 2008; Lavie 2007; Merchant 2014), such as the level of goal achievement and total performance (managerial assessment), and market share and profitability (financial performance), in order to have a more comprehensive view of value creation.

As discussed briefly above and in more detail later, there have been earlier studies analyzing the inter-partner relationships and their effects on the value creation in IJVs, but the results have been rather mixed. Furthermore, there has been relatively limited analysis of the inter-partner influences between different locations of IJVs. Thus this study should clearly contribute to the present stock of knowledge related to these important IJV value creation issues, providing new insights both for scholars in the field as well as for managers planning and managing IJVs.

We organize our study as follows. First, we review the literature related to value creation in IJVs and develop our hypotheses. Then we discuss our methodology, the operationalization of the variables, and the empirical data. This is followed by a presentation of the results and a discussion of them compared to earlier findings; we conclude with both theoretical and managerial implications, and suggestions for further studies.

Literature Review

We identified studies related to value creation in IJVs using both the EBSCO and the ABI/INFORM databases using the keywords "international alliances," "international joint ventures," "value creation,"

Table 2.1 Summary of selected studies related to value creation in IJVs made during 1997–2014

Study	Focus	Sample size; location of IJVs	Variables	Findings
Chan et al. (1997) *Journal of Finance Economics*	Value creation at the formation of strategic alliances	345 strategic alliances formed during 1983–1992; location not specified	Size of parent firms Non-technical vs technical alliances	Both average stock price responses and operating performance are positive for both horizontal and non-horizontal alliances
Borde et al. (1998) *Journal of Multinational Financial Management*	Factors which influence wealth effects in IJVs	100 ventures announced between 1979 and 1994; home country: not specified; host countries: both developing and developed countries	Location of IJVs, host country development and risk level, strength of US dollar, type of partner, type of operations, financial strength of parent firm	Market reaction is more favorable when US firms establish joint venture in Asia, and less favorable when IJVs established in low risk developing countries, and when IJVs are manufacturing ventures

Kale et al. (2001) *European Management Journal*	The role of alliancing skills and role of alliance structure and management on value creation	3015 alliances; host country: USA; home countries: not specified	Alliance experience, alliance structure, alliance management know-how	Alliance management systems and alliance structure are important for success and value creation in IJVs. There was positive correlation between managerial assessments and average abnormal gains from stock reaction as measures of IJV success and value creation
Meschi and Cheng (2002) *Journal of World Business*	The impact of JV formation on value creation for European partners	68 IJVs; host country: China; home countries: European countries	IJV formation announcement, location and size of investment	Location—coastal city, European ownership (vs Chinese ownership) and smaller size of investment positively influence value creation

(*continued*)

Table 2.1 (continued)

Study	Focus	Sample size; location of IJVs	Variables	Findings
Porrini (2004) *Journal of High Technology Management Research*	The role of experience in the alliance of acquirers and targets on value creation in high and low tech acquisition	398 acquisitions between 1988 and 1998; host country: USA; home countries: not specified	Acquirers' alliance experience, targets' alliance experience	Acquirers' alliance experience has a positive effect on value creation, whereas targets' alliance experience has a negative effect on value creation. The results are different for high and low tech
Meschi (2004) *International Business Review*	The relationship between different types of experiences and value creation	67 IJVs; host country: China; home countries: France	Alliance experience, geographical experience (Asia experience)	International alliance experience has positive influence on value creation, while there is no relation between country experience and value creation

Hanvanich et al. (2005) *International Business Review*	The influence of technology mediated by national culture and task relatedness on shareholder value creation	489 IJVs; host country: USA; home countries: not specified	High vs low tech, national cultural differences, task relatedness	The positive effect on shareholder value of a JV with task relatedness will become even greater for parent firms in high tech and less for those in low tech industries. National culture differences have negative effect for parent firms in high tech industries
Kumar (2008) *Advances in Mergers and Acquisitions*	The role of resources and capabilities of parent firms on value creation in JVs	344 JVs established from 1985 to 2003; host country: USA; home countries: not specified	Private vs common benefit, value of resources	Value creation in JVs increases as the value of resources in the dyad increases, and decreases with the differential in the value of resources between partners. *Excessive control has negative impact on value creation*

(*continued*)

Table 2.1 (continued)

Study	Focus	Sample size; location of IJVs	Variables	Findings
Morresi and Pezzi (2011) *Research in International Business and Finance*	Value creation of IJVs established between 1986 and 2006	140 M&As and IJVs; host countries: both developed and developing countries; home country: Italy	High vs low equity entry mode, location of IJVs, size of IJVs, parent firm age, R&D intensity, country risk	Market reaction positive to high equity entry mode carried out in advanced economies, but not to low equity entry mode in emerging economies. Size of IJVs and low risk country have positive impact on value creation
Lee et al. (2013) *Journal of Empirical Finance*	The impact of strategic alliances on the incrementing of the value of firms	297 IJVs; home country: Korea; host countries: developing countries	Type of alliances (tech vs non-techn), parent firm size, growth	Strategic alliances in Korea increase firm value. Non-technological marketing alliances contribute to increasing firm value more than technological alliances do. Value creation in IJVs has negative relation with parent firm size but no relationship with firm growth

Merchant (2014) *Global Strategy Journal*	The effects of IJV governance structure and IJV competitive advantage on the value creation of IJVs	200 manufacturing IJVs; home country: USA; host countries: not specified	Share control vs dominant control, cost leadership vs differentiation vs hybrid	Both control structure and competitive strategy in IJVs play important roles for their value creation

"performance," and "effectiveness." We reviewed these studies and identified the most relevant ones according to whether they were: (1) empirical studies; (2) based on surveys, not on single or multiple cases; (3) included information about value creation/performance in the reviewed alliances/IJVs. Table 2.1 summarizes the key features and results from the selected studies. As can be seen, the sample sizes varied from 67 to over 3000 IJVs/alliances and, in several cases, the home or host countries were the USA and China. In general, we found that there are different internal and external factors that influence value creation in IJVs, and in most of these studies the value creation measurement is based on stock creation to the IJV establishment announcement. In addition, most studies have explored IJVs located in either the USA or China.

To create value from resources, a firm needs the ability to achieve integration, cooperation, and coordination between partners (Teece 2014). Ainuddin et al. (2007) investigated the relationship between resource attributes and performance of IJVs, showing that the capabilities of partners, such as technical expertise, local business networking, and marketing skills, are important for creating value and enhancing performance, which parent firms can help IJVs to achieve by cooperating with the right partners who have suitable attributes and exercise the right control modes in the IJV. Based on a sample of 103 alliances in the software industry, Gao and Lyer (2009) found that firms generated greater value when forming alliances within the same industry compared to cases where alliances were made across industries. Based on 100 IJVs established by US firms between 1974 and 1994, Borde et al. (1998) found that firms created more value when they established IJVs in Asia rather than in other locations, and in the service sector rather than in the manufacturing sector. Amici et al. (2013) found that IJVs created more value for parent firms when they were established strategic alliances with non-banking financial partners abroad, while alliances with other banking partners tended to destroy the value of parent firms. This finding challenges the previous results by Gao and Lyer (2009) and Chan et al. (1997), indicating that IJVs and alliances established with partners from related business sectors created more value.

Dauber (2012) has pointed out that the level of integration of units and parent firms as well as both national and organizational cultures are

important indicators for the operation and performance of the units. Lee et al. (2013) found that value creation depends also on the type of IJVs: non-technology IJVs created more value than technology IJVs. Hanvanich et al. (2005) found that task relatedness between IJVs and parent firms had a positive effect on the level of technology and on the level of value creation. Porrini (2004) found that an alliance experience of partner firms had a strong positive influence on value creation. However, the influence was different in low tech and high tech sectors. Management systems and strategies by parent firms on IJVs have also been found to play an important role in value creation (Kale et al. 2001). More specifically, Morresi and Pezzi (2011) found that parent firms' entry strategies did influence value creation in IJVs. Furthermore, Merchant (2014) found that both control and competitive strategies have a strong impact on how IJVs operate and how much value they create.

Hypotheses Development

In this section we develop our hypotheses related to the internal factors of partnership and value creation in IJVs. The inter-partner factors (Reus and Ritchie 2004) were selected based on their influence on IJV operation and value creation. They include parent firms' resource complementarity, the role of parent control, the level of integration between IJVs into parent firms, the flexible behaviors of parent firms toward IJV operation, the quality of communication, and also the role of cultural differences between parent firms. Furthermore, as previous studies often ignore the role of location on the effect of IJV operation (Merchant 2014), we further our discussion on how such location (in developed vs developing countries) has mediated the role of the factors of international parent firms on value creation for IJVs.

Resource Complementarity

The complementarity of partners has been recognized as an important prerequisite for the success of IJVs (Barringer and Harrison 2000).

According to SET, resource complementarity results in mutual restraint from opportunism (e.g. Aulakh and Madhok 2002). Therefore, when resource complementarity is high, partners trust each other more, leading to more committed and cooperative behavior. Blanchot and Mayrhofer (1998) argue that resource complementarity is seen as important for the success of value creation in IJVs, because complementary resources allow for the achievement of synergies (Park and Russo 1996; Parkhe 1991). Fang and Zou (2009) have argued that IJVs will terminate if the managers of one side start to view the other side's resources as no longer complementary with their own. According to Harbison and Pekar (1998), engaging in inter-firm relationships can help to create value through new technology development which otherwise could not be developed by an individual firm. Later on, Gao and Lyer (2009) observed that most prominent and successful IT companies established alliances with partners who were complementary to their core business. They also observed that complementary resources such as networks are a source of value creation in alliances established in the software industry.

When IJVs are located in developed countries, there is sometimes a better availability of higher quality partners with resources that IJVs may need for their operations in cases when these resources cannot be supplied from their parent firms. On the other hand, in developing countries, if the resources of parent firms are not complementary there may be many more difficulties in acquiring those missing necessary inputs for IJV operations, and therefore the IJV may have many more problems. As a result, the role of resource complementarity of parent firms for value creation in IJVs located in developing countries is more important than that for IJVs located in developed countries. Based on the above discussion, we proposed that:

Hypothesis 1a

Resource complementarity between parent firms has positive influence on IJV value creation.

Hypothesis 1b
Resource complementarity between parent firms has stronger influence on value creation in IJVs located in developing rather than developed countries.

Control Strategy

The right cooperative strategy will encourage partners to commit more to the relationship and to contribute important resources/capabilities to the IJV, thus creating more value related to the IJV. Parental control has been found to play a crucial role in IJV success (Child et al. 2005) and value creation (Merchant 2014). Control mechanisms in IJVs consist of formal and social control (Geringer and Hebert 1989). Through formal means, parent firms directly aim to protect the assets of parent firms (Fryxell et al. 2002), whereas social control is based on personal relations, information exchange, training, mentoring, and development of a common organizational culture that fosters shared values and norms (Das and Teng 2001; Fryxell et al. 2002).

SET suggests that social control helps to promote expectations and mutual commitment to the IJV as it allows managers to learn to share common attitudes and knowledge of the organization (Nonaka and Takeuchi 1995). Child and Yan (2003) have argued that social control increases the effectiveness of the IJV as it promotes coordination of activities and exchange of resources. Furthermore, through social exchange programs such as training and social activities, foreign parent firms establish their social control over the IJV. When foreign parent firms contribute trained personnel to the IJV, they do not need to carry out extensive control over the unit and neither do they need a high level of integration between their IJVs and their organization. This is because trained personnel are those who spread the foreign parent firm's concepts and ensure the IJV runs smoothly, as well as assuring IJV product quality (Baughn et al. 1997). Moreover, Barringer and Harrison (2000)

argue that managers of the joint units should not be constrained by heavy control systems because they will act as a constraint on the ability of executives to learn to manage effectively. Therefore, IJVs may require less control from their parent firms and thus it is better for their operation to have a lower level of integration between them and their parent firms. In addition, a high level of integration can cause more disruption (Dauber 2012) and is also perceived as a source of failure (Slangen and Hennart 2008).

When IJVs are located in developing countries where the laws and legislation are not so well developed and are frequently changed (Beamish 1985), social control, which is based more on social activities, training programs, and personal relationships (Geringer and Hebert 1989), can help to increase the effectiveness of the IJV. In developing countries, firms face more frequent changes than in developed countries, and this is why IJVs need more room to react quickly to the changes in the environment. In addition, because the law and legislation in developing countries are not as well-established as in developed countries, partners need to rely more on trust in their relationship with other partners. SET suggests that, when partners have high confidence in each other, they work better together. On the other hand, in developed countries, where the legislation is established, firms often respect the law and honor the contract, thus they are able to work together without spending much time on social exchange activities. Based on the above discussion, we suggest that:

Hypothesis 2a
Social control by parent firms has positive influence on IJV value creation.

Hypothesis 2b
Social control by parent firms has stronger influence on value creation in IJVs located in developing rather than in developed countries.

Hypothesis 3a
The level of integration between an IJV and the parent firms has negative influence on IJV value creation.

Hypothesis 3b
The level of integration between an IJV and the parent firms has stronger influence on value creation in IJVs located in developing rather than in developed countries.

"Relational quality" is based on initial conditions and how partners interact toward each other. Two key aspects are the *flexibility* and *communication* in the relationship (Arino et al. 2001). SET suggests that, in IJVs and alliances, partners need to be flexible to make the relationship work. According to Chan et al. (1997), partner flexibility can help IJV operations to run more smoothly and can therefore help to create more value in the unit. Partner flexibility also allows small conflicts to exist, because this may stimulate innovation in the organization (Robbins 2005). Thuy and Quang (2005) consider that flexibility creates a base for social exchange in IJVs, such as conditions for an informal, friendly, and cooperative working environment. Furthermore, partner flexibility may enable the IJV to experiment with new technology or new marketing strategies (Mody 1993). Moreover, flexibility permits partner firms to learn more from the strengths of the other partner (Lyles and Salk 1996), thereby creating more value for their IJV. Flexibility may be expected to be even more important for IJV operations located in developing countries, where the institutions (i.e. foreign policy, business procedures, and legislation) are weaker and change more frequently than in developed countries (Miller et al. 1997; Cuervo-Cazurra and Genc 2008). Thus IJVs located in developing countries may need more flexibility from their parent firms to make their operations more effective. Besides, in developing countries, local government or government owned firms may act as the local partner in IJVs (Beamish 1985) as well as being major players in the industry and the market, more often than is the case in developed countries (Luo et al. 2001). Thus, foreign partners may need to be more flexible toward a local partner or partners as it is to their benefit to have a good relationship.

Based on our discussion above, we propose that:

Hypothesis 4a
Flexibility in the behavior of parent firms in the IJV relationship has positive influence on IJV value creation.

Hypothesis 4b
Flexibility in the behavior of parent firms in the IJV relationship has stronger influence on value creation in IJVs located in developing rather than developed countries.

According to SET, "communication" refers to the information exchanged between partners in an IJV relationship and can be defined as "formal as well as informal sharing of meaningful and timely information between partners" (Anderson and Narus 1990: 44). SET suggests that communication is an important determinant of cooperative behavior between IJV partners (Parkhe 1998) because it aligns their perceptions and expectations, reduces misunderstandings, facilitates close ties, and enables them to cope better with internal processes and external market conditions (Aulakh et al. 1996; Silva et al. 2012). Therefore, IJV partners having good communication with each other are more likely to work better together to achieve a common goal (Barringer and Harrison 2000).

The quality of communication is particularly important for IJVs located in developing countries, as partners from these countries are more sensitive in their relationships with partners from developed countries than from other developing ones (Beamish 1985). In the former case the relationship may be more easily regarded as an unequal relationship. This is because the partner located in the developed country often has more negotiating power than the local partner as they are often bigger in terms of size (Miller et al. 1997) and have financial, technological, and management advantages over the local partner firms (Beamish 1985). However, local partners are in a weaker negotiating position in the IJV relationship since they often provide less important input to the IJV (Beamish 1985; Miller et al. 1997) which can be relatively easily purchased in the markets. Furthermore, in IJVs located in developed countries, where partners often have the same level of technological and management skills, they can more easily understand each other. In contrast, in IJVs located in developing countries, foreign partners and local partners may need much more time and effort in their communication to understand each other in both technical and management terms. As a result, we propose that:

Hypothesis 5a
The quality of communication between parent firms has positive influence on IJV value creation.

Hypothesis 5b
The quality of communication between parent firms has stronger influence on value creation in IJVs located in developing rather than developed countries.

Trust Between Parent Firms

According to SET, trust between exchange partners is an important governance device, increasing the level of knowledge transfer from the foreign parent to the IJV and leading to better success in the operation. Madhok (1995) is one of the first authors who borrowed this stance of SET and transferred it to IJV settings. The focal logic in his argumentation is that trust affects value creation in a partnership by increasing the quality of inter-partner relationships, because trust fosters inter-partner cooperation and coordination, broadens the band of tolerance for temporary periods of inequity, reduces conflicts and perceptions of relational risk, and heightens the flexibility within the IJV relationship (Madhok 1995; Nooteboom et al. 1997). Consequently, trust helps reduce the perception of uncertainty in the relationship, improves efficiency in resource use, and makes the relationship more valued (Sarkar et al. 1998). The majority of earlier empirical studies have also found support for the positive impact of trust on IJV value creation (performance) (Christoffersen 2013).

Related to the location of IJVs, previous research shows that trust is often regarded in developing countries like China and India as "in-group" trust at the personal level (Fukuyama 1995), whereas trust in Western culture is "system trust" built up at the organizational level (impersonal). Purchase and Kriz (2000) suggest that Chinese trust is interpersonal as opposed to the inter-organizational frameworks in Western business culture. In developing countries, people first learn to know each other, to build up dependency and trust, and then to do business (Waters 1991). In developed countries, the legal systems are established and information systems are available so firms are able to do business together without investing excessive amounts of time and money in building up personal trust with their business partners. As a result of the above discussion, we posit that:

Hypothesis 6a
Trust between parent firms has positive influence on IJV value creation.

Hypothesis 6b
Trust between parent firms has stronger influence on value creation in IJVs located in developing rather than developed countries.

National Cultural Differences

IJVs are formed between companies that may be quite different in their background characteristics. Two such characteristics are the national and corporate cultures of partner firms (e.g. Pothukuchi et al. 2002). National cultural differences often causes difficulties, costs, and risks for two individuals, groups, or organizations (Hofstede 2001). Furthermore cultural differences create major obstacles to the successful integration of the IJV because they can be a source of confusion and distrust between partners. Therefore, according to SET, when partner firms are from two different cultures, they may have different norms, values, and beliefs which are major potential obstacles for their daily communication and social exchange in cooperation in the IJV, leading to reduced value creation in operations. In addition, cultural differences can be a barrier in IJVs (Brouthers and Bamossy 2006) since they reduce the ability to learn from partner firms and also decrease the effectiveness of communication between them. Thus, national cultural differences can be expected to have a negative impact on the value creation in IJVs. It seems that the study by Beamish and Kachra (2004) is the only one where the authors have hypothesized that there may be a positive relationship between national cultural distance and IJV performance, based on the assumption that dissimilar cultures may also give rise to complementarities and thus synergies and innovation in IJVs.

Concerning the location of IJVs, when units are located in developing countries, the situation can be even more problematic than in developed ones, because in the former people work together more on the basis of trust rather than on written contracts. Therefore, in developing countries,

when partners are from very different cultures, they may have problems in trusting each other or it may take a long time to build a trusting relationship. Thus, this may reduce the effectiveness and efficiency of the joint work of partner firms. On the other hand, in developed countries, people place more trust in institutions such as law and legislation. This is why people are more confident in working together as, once an agreement between them is signed, they themselves would keep to it and would expect their partners to do the same, although they may not trust each other much (Beamish 2013: 14, 120).

Although the earlier studies have been unanimous in expecting a negative influence from national cultural distance, the empirical results about the influence of national cultural distance on IJV performance and value creation have been very mixed, indicating support for negative, non-significant, and also positive influence on IJV performance (see Christoffersen 2013). We, however, rely on the views based on SET and propose that:

Hypothesis 7a
National cultural difference between parent firms has negative influence on IJV value creation.

Hypothesis 7b
National cultural difference between parent firms has stronger influence on value creation in IJVs located in developing rather than developed countries.

Organizational Cultural Differences

Another aspect of cultural difference pertains to organizational cultural difference. This means that partners may have different expectations, ways of operating, and handling of daily business functions (see e.g. Kim and Parkhe 2009). SET theory suggests that organizational cultural differences between IJV partners may result in conflicting behavior, leading to misunderstandings and interaction problems. Partners with dissimilar corporate cultures expend time and energy to establish mutually agreeable managerial practices and routines to facilitate interaction; they also

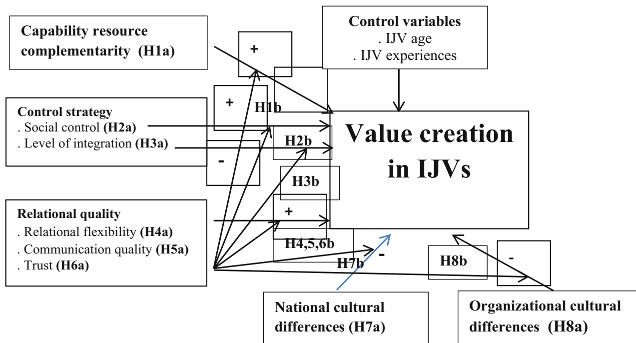

Fig. 2.1 Inter-partner factor determinants, location effect, and value creation in IJVs

incur higher costs and more mistrust than partners with similar corporate cultures (Bener and Glaister 2010; Parkhe 1998), and thereby organizational cultural differences contribute negatively to value creation in IJVs (Young-Ybarra and Wiersema 1999). Empirical support for the negative relationship between organizational cultural differences and value creation is found by Mohr and Puck (2005) and Bener and Glaister (2010).

We expect that organizational cultural difference between parent firms will have a lesser influence on value creation on IJVs located in developing as compared to developed countries. This is because foreign firms, while forming IJVs with partners from developing countries, try to understand and bridge the organizational cultural differences and therefore develop trust (Ng et al. 2007). Therefore we expect a lesser impact of organizational cultural difference on value creation on IJVs located in developing as compared to developed countries (Fig. 2.1).

Hypothesis 8a
Organizational cultural difference between parent firms has negative influence on IJV value creation.

Hypothesis 8b
Organizational cultural difference between parent firms has lesser influence on value creation in IJVs located in developing rather than developed countries.

Methodology

Data Collection

This study consists of IJVs established by Nordic (Denmark, Finland, Sweden, and Norway) firms in Asia, Europe, and America. We created a sample of 464 equity IJVs made between 2000 and 2011 based on an extensive FDI dataset created by one of the authors during a 25 year period. The dataset was established from an intensive review of press releases, annual reports, and website information of the Nordic firms as well as Thompson One banker investment information. Dillman (2000) posits that a web survey is more useful than a mail survey, because it allows the researchers to access large dispersed respondents easily, faster, cheaply, and it displays the data in numerical form in real time. A web-based survey was administered in Spring 2012. The respondents included regional directors, country specific directors, product specific directors, vice presidents, and managing directors. The first round was followed by a second email to non-respondents three weeks later. In total, 928 respondents were contacted in those 464 identified IJVs. A total of 89 responses related to 89 IJVs were received, thus making a response rate of 19.1%.

We assessed the non-response bias by grouping respondents as suggested by Weiss and Heide (1993). The early respondents (n = 48) and late respondents (n = 41) were compared in terms of firm size and industry of Nordic parents. The results of the independent samples t-test indicated no significant differences between the early and late respondents in terms of firm size (p = .708) and industry (p = .548). Thus, non-response bias was not an issue. Further we conducted Harman's single-factor test (Podsakoff and Organ 1986) to examine whether a significant amount of common method variance exists in the data. The results of this test confirmed that the measures did not load on one factor and that the largest factor only accounts for 37.42% of the variance in the data. Therefore, common method bias is not an issue in the dataset.

The Sample Characteristics

The sample characteristics indicate that from the 89 IJVs, 49 (55.1%) were operating in Asia, 27 (30.3%) in Europe, and 13 (14.6%) in America. The time period of IJV formation ranged between 2000 and 2011, with 24 (27.0%) of the IJVs formed in 2000–2003, 40 (44.9%) in 2004–2007, and 25 (28.1%) in 2008–2011. Of the 89 IJVs, 24 (27.0%) had Nordic firms holding a minority ownership, 19 (21.4%) had equal ownership, and 46 (51.7%) had the Nordic firm in dominant ownership.

In 13 (14.6%) cases, the Nordic parent firms had fewer than 500 employees, in 23 (25.8%) cases from 500 to 5000 employees, and in 53 (59.5%) cases over 5000 employees.

All IJVs were formed between one Nordic and one local firm. There were somewhat more minority owned IJVs in developing countries and somewhat more equally owned IJVs in developed countries. In both groups, majority owned units represented over half of the subsamples. The information in Table 2.2 reveals that, concerning the level of integration

Table 2.2 Mean values for IJVs located in developing and developed countries

Variables	IJVs established in developing countries (*n* = 56)	IJVs established in developed countries	t-value
	(*n* = 56)	(*n* = 33)	
Resource complementarity	3.68	3.73	–.22
Social control	3.59	3.79	–1.10
Level of integration	3.38	3.03	1.72*
Flexibility	2.75	2.82	–.29
Communication quality	3.48	3.64	–.69
Trust	3.77	3.70	.28
National cultural distance	4.54	3.85	2.87***
Organizational cultural distance	4.14	3.58	2.01**
Value creation	3.52	3.73	–1.10
Age of the IJV	2.55	2.94	–1.22
IJV experience	3.48	3.55	–.18

$^{***}p \le 0.01$; $^{**}p \le 0.05$; $^{*}p \le 0.1$

of the IJVs, units in developing countries were on average less integrated than units located in developed countries, whereas the national cultural and organizational differences were higher in IJVs located in the developing country than in the developed country. Related to the other variables, the differences were not statistically significant. Noteworthy is that there did not exist any statistically significant difference in the mean value creation between IJVs located in developed vs developing countries.

Measures

The operationalization of the study variables is presented in Appendix A. We operationalized IJV value creation using four measures (alpha .887) taken from prior empirical research (e.g. Geringer and Hebert 1991; Krishnan et al. 2006; Lane et al. 2001). Resource complementarity was captured on a two-item scale (alpha .907) used by Donnell (2005). We operationalized social control using two items (alpha .716) taken from the work of Fryxell et al. (2002). Integration was measured by a single item taken from Sarala (2008). Flexibility was measured by a single item taken from Voss et al. (2006). Communication was measured on the basis of a single item scale drawn from Young-Ybarra and Wiersema (1999) and Silva et al. (2012). Trust was measured by a single item taken from Lane et al. (2001). Finally, single item constructs of national cultural distance and organizational cultural distance were based on the work of Dong and Glaister (2007).

Related to control variables, consistent with Krishnan et al. (2006), IJV age was measured using the number of years since it was set up. We developed the following five categories to measure the IJV age: (1) equal to or less than two years; (2) three to four years; (3) five to six years; (4) seven to eight years; (5) equal to or more than nine years. In order to measure the IJV experience of the firm, respondents were asked to indicate the number of IJVs in which their firm was involved before the formation of the current IJV (Mohr and Puck 2005). We developed the following five categories to measure the IJV experience: (1) none; (2) one IJV; (3) two to four IJVs; (4) five to nine IJVs; (5) ten or more IJVs.

Test Methodology and Results

Correlations were run between all variables in order to test for individual relationships (see Table 2.3). The correlations between independent variables were relatively low, thus indicating no multicollinearity problems.

We used multiple regression analysis to determine the impact of independent variables on the dependent variable of IJV value creation (see Table 2.4). Model 1 is significant at the $p < 0.01$ level ($F = 5.91$, $R^2 = 0.431$). Consistent with Hypothesis 1a, the results indicate that there is a positive relationship between resource complementarity and IJV value creation ($\beta = 0.205$; $p < 0.05$). In line with the expectation, a positive relationship was found between social control and IJV value creation ($\beta = 0.186$; $p < 0.05$). Thus also Hypothesis 2a was supported. Contrary to expectation, the level of integration is not significantly related to the IJV value creation ($\beta = -0.055$; $p > .1$). Thus Hypothesis 3a is not supported. Flexibility has a positive effect on IJV value creation ($\beta = 0.138$; $p < 0.1$), supporting Hypothesis 4a. Communication quality has a strong positive effect on IJV value creation ($\beta = 0.226$; $p < 0.01$), supporting Hypothesis 5a. The results further indicate that trust has a positive effect on IJV value creation ($\beta = .241$; $p < 0.01$), thus supporting Hypothesis 6a.

In relation to Hypothesis 7a, the results supported our contention that national cultural distance ($\beta = -0.162$; $p < 0.1$) reduces IJV value creation potential. Finally, organizational cultural distance has the expected negative sign and has statistically significant impact on value creation ($\beta = -0.272$; $p < 0.01$). Thus Hypothesis 8a is also supported.

Related to the control variables, the age of the IJV is not significantly related to IJV value creation, whereas IJV experience is positively related to IJV value creation in the pooled sample. Thus experience seems to improve planning and management of the IJVs and thus also lead to higher value creation, supporting the earlier results by Meschi (2004) and others.

Models 2 and 3 show the effects of the independent variables on value creation in the two sub-samples of IJVs. Model 2 is significant at the $p < 0.01$ level ($F = 3.93$, $R^2 = 0.391$) and model 3 is significant at the $p < 0.01$ level ($F = 4.99$, $R^2 = 0.598$). As can be seen from models 2 and 3, the influence of resource complementarity on value creation is positive aaand

Table 2.3 Means, standard deviations, and correlations

Variables	Mean	s.d.	1	2	3	4	5	6	7	8	9	10	11
1. Resource complementarity	3.70	0.99	1										
2. Social control	3.66	0.83	0.39	1									
3. Level of integration	3.25	0.92	0.06	0.05	1								
4. Flexibility	2.78	1.05	0.17	0.23	−0.14	1							
5. Communication quality	3.54	1.01	0.42	0.37	0.21	0.33	1						
6. Trust	3.74	1.16	0.47	0.39	0.18	0.31	0.43	1					
7. National cultural distance	4.28	1.01	−0.28	0.01	−0.03	−0.29	−0.47	−0.37	1				
8. Organizational cultural distance	3.93	1.23	−0.36	−0.15	0.00	−0.20	−0.52	−0.37	0.59	1			
9. Value creation	3.60	0.86	0.47	0.38	−0.04	0.26	0.45	0.48	−0.18	−0.42	1		
10. Age of the IJV	2.70	1.41	−0.08	0.18	−0.08	−0.04	−0.01	0.02	0.05	0.01	0.00	1	
11. IJV experience	3.51	1.52	0.00	−0.01	−0.06	0.09	0.13	0.02	0.02	0.00	0.16	0.02	1

Table 2.4 Regression results: Determinants of value creation in IJVs

	Model 1 Pooled sample	Model 2 IJVs established in developing countries	Model 3 IJVs established in developed countries
Resource complementarity	.205** (.039)	.182** (.048)	.212*** (.009)
Social control	.186** (.048)	.184** (.046)	.133* (.097)
Level of integration	–.055 (.672)	–.089 (.654)	.042 (.867)
Flexibility	.138* (.085)	.143* (.085)	.072(.647)
Communication quality	.226*** (.009)	.069 (.735)	.216*** (.008)
Trust	.241*** (.006)	.234*** (.006)	.193** (.044)
National cultural distance	–.162* (.072)	–.121 (.181)	–.153* (.064)
Organizational cultural distance	–.272*** (.004)	–.211** (.032)	–.343*** (.001)
Control variables			
IJV age	.092 (.271)	.065 (.364)	.048 (.595)
IJV experience	.133* (.089)	.048(.463)	.094 (.286)
R^2	.431	.391	.598
R^2 adjusted	.389	.318	.446
F	5.91*** (.000)	3.93*** (.000)	4.99*** (.000)
N	89	56	33

***$p \leq 0.01$, **$p \leq 0.05$, *$p \leq 0.1$

statistically significant for IJVs located in both developing (β = 0.182; p < 0.05) and developed (β = 0.212; p < 0.01) countries. However, contrary to Hypothesis 1b, the significance level is lower for IJVs located in developing rather than developed countries. Therefore Hypothesis 1b is not supported. In line with expectations, a higher positive influence of social control on IJV value creation is found in IJVs located in developing (β = 0.184; p < 0.05) rather than developed (β = 0.133; p < 0.1) countries. Thus Hypothesis 2b receives support. Contrary to Hypothesis 3b, the influence of integration on value creation is non-significant both for IJVs located in developing (β = –0.089; p > 0.1) and developed (β = 0.042; p > 0.1) countries. Therefore Hypothesis 3b is not supported.

In line with expectation, a higher influence of flexibility on IJV value creation is found in IJVs located in developing (β = 0.143; p < 0.1) rather than developed (β = 0.072; p > 0.1) countries. Contrary to Hypothesis 5b,

the influence of communication on value creation is non-significant for IJVs located in developing countries ($\beta = 0.069$; $p > 0.1$), whereas for IJVs located in developed countries a highly significant influence ($\beta = 0.216$; $p < 0.01$) is found. Therefore Hypothesis 5b is not supported. The results further indicate that trust has a stronger influence on IJV value creation in those located in developing ($\beta = 0.234$; $p < 0.01$) rather than developed ($\beta = 0.193$; $p < 0.05$) countries, and this supports Hypothesis 6b.

Related to the influence of national cultural distance, the results show a negative but non-significant influence in developing countries, whereas in developed countries the negative influence is also statistically significant, although only at the 0.1 level. Thus the results do not give support to Hypothesis 7b.

The results concerning organizational cultural differences on IJV value creation indicate negative influence both in developed and developing countries and, according to expectations, the negative influence was clearly stronger in IJVs located in developed ($\beta = -0.343$; $p < 0.01$) rather than in developing ($\beta = -0.211$; $p < 0.05$) countries. Thus, Hypothesis 8b is supported.

Summary and Conclusions

In this study we have sought to contribute to the knowledge of value creation in the context of IJVs. Our focus was on eight inter-partner variables and on the influence of location of the IJVs. The hypotheses developed were tested on a sample of 89 IJVs established by Nordic MNCs, partly in developed and partly in developing countries. We measured value creation using a combination of several dimensions, such as the level of research and development, market share, profitability, and total performance.

The results show that from the analysed eight independent variables, only one—level of integration—did not have a statistically significant impact on value creation. All the other seven variables had the expected signs and thus supported our hypotheses, indicating the strongest positive influence by communication quality and trust between partners, whereas differences in organizational cultures had a very strong negative impact on value creation.

We analyzed whether the resource complementarity, social control, and relational quality between partners increase value creation. Related to the role of cultural differences between parent firms, the results of our study are opposite to those found by Fey and Beamish (2001), who argue that there is no clear relationship between cultural differences and IJV operation and performance. Our results, however, are consistent with previous studies by for example Pothukuchi et al. (2002), indicating that the cultural differences have a negative impact on the operation of IJVs and thus offset the gains from the IJV (Borde et al. 1998). The results of the study also showed that organizational cultural differences between partner firms have a negative impact on value creation in IJVs.

Concerning resources contributed by partner firms, our results extend the study by Kumar (2008) which found that value creation in IJVs decreases with the differences in resources contributed by partners. Our results show that although resources contributed by partners firms can be different, if they are complementary they have a positive influence on value creation in IJVs. This is in contrast with the finding of Hill and Hellriegel (1994) that partner resource complementarity has a negative impact on IJV operation.

Our study showed that parent control plays an important role in value creation for IJVs. This finding is in line with Merchant (2014). Furthermore, the results of our study are consistent with Das and Teng (2001), indicating that social control is very important in IJV operation. Our study extends earlier ones by specifying that social control is important because it helps to enhance value creation for IJVs. Related to the role of relational quality between partner firms, our results are consistent with Arino et al. (2001) and Thuy and Quang (2005), indicating that they are important factors in increasing IJV performance. Furthermore, our results of the positive relationship between good communication and IJV performance are consistent with results by Gong et al. (2005). Related to the negative impact of level of integration between parent firms and value creation in IJVs, our results did not support our hypotheses. This can be explained because the level of integration may not limit the ability of IJVs to be flexible, innovate and create value if they have a high level of structural integration and more autonomy in their decision making in daily operations.

Our results are consistent with the findings by Meschi (2004) that experience positively influences value creation in IJVs, although only mildly. Most of our results are similar to Meschi and Cheng (2002) and Lee et al. (2013), showing that value creation in IJVs can vary depending on where the IJV is located. According to the results of this study, the influence of the flexibility, communication quality, and national cultural distance on value creation is different between IJVs located in developed countries and those in developing countries. In particular, flexibility has a significantly positive influence on value creation in IJVs located in developing countries, while this relationship is not significant in those located in developed countries. This can be explained because, in developing countries, the operating environment changes much faster than in developed countries. Thus, partner firms who have IJVs in developing countries need to be more flexible so that IJVs can react quickly to changes of environment. On the other hand, good communication has a significantly positive influence on value creation in developed countries, while this relationship is not significant in developing countries. Similarly, national cultural distance between parent firms has a negative influence on value creation in developed countries, while it has no impact in developing countries. This could be explained by local partner behavior.

According to Cuervo-Cazurra and Genc (2008), developing countries' MNEs have more competence to cope with uncertain environments, including the uncertainties created by national cultural distance between partners. Therefore, when IJVs are located in developing countries, the national cultural distance will not have much negative effect on IJV operations as local partners know how to deal with it. Similarly, the same explanation could be used for the non-support of our Hypothesis 5b. This means that when IJVs are located in developing countries, local partners know how to deal better with their foreign partners even if they have problems with communications, thus reducing the negative impact on value creation in their IJVs. In the case of non-supported Hypothesis 1b, a possible reason is that as MNCs located in developing countries often lack resources, so they often have to innovate themselves to provide solutions to cope with any problems. Therefore, in IJVs with foreign firms, although resource complementarity helps them to create value, it is

not that important for them to be located in developed countries, as local partners may have alternative solutions from their local markets.

Our study has important implications for managers who are planning to establish IJVs or are managing them in foreign countries. As referred to above, seven of the analyzed eight inter-partner variables had a significant influence on value creation in IJVs. First of all, our study suggests that resource complementarity contributed by partner firms helps to enhance value creation in IJVs. This implication is important for partner selection in the planning phase of the IJV establishment. Another conclusion for the planning phase is that, if there are more potential IJV partners, firms should avoid selecting partners who are too different from them, based on their national and organizational cultures. Additionally, both social control and relational quality (flexibility and communication) help to enhance value creation in IJVs. Furthermore, it is important to note the very significant positive influence of resource complementarity and communication quality on IJVs located in developed countries, and to trust in those located in developing countries, as well as the very significant negative influence of organizational cultural differences on value creation especially in units located in developed countries.

Finally, our results show that the age of the IJV does not seem to have any significant impact on value creation. This means for managers that if the partnerships do not enhance value creation for their IJVs at the formation stage or at the beginning of IJV development, these partnerships may not enhance value creation in the later stage either. This is a crucial implication as it helps managers to make better decisions for the future actions of their existing IJVs. For example, if partner firms enter into partnership in order to enhance value creation for their IJVs, but this does not transpire at the formation stage or at least after the establishment stage, the managers may consider the option of divesting their IJVs rather than trying to keep feeding them and hoping that someday in the future things will get better. Or if the problems arise because of

the differences in organizational cultures impacting on the management of the IJV, one solution for the foreign firm is to consider converting the IJV to a wholly owned subsidiary to resolve them.

Limitations and Future Research Avenues

We acknowledge that there are some limitations to our study. We have used only the SET framework as arguments. Other theories, such as transaction cost theory and resource based view, could also be used for the analysis of value creation in IJVs. We included only selected partner related variables. We excluded for example general FDI experience, R&D intensity of partner firms or the intensity of the field of industry of the IJV, and the level of commitment between partner firms. Future studies could examine the impact of these factors on value creation in IJVs. In addition, we focused on internal factors of partner firms. However, several external factors, such as target market economic growth, political and economic policies, competition, and the degree of business infrastructure development and the availability of a skilled labor force, may also influence value creation in IJVs. An analysis of the role of all these variables on value creation in IJVs could also be of interest. Furthermore, we did not analyze in detail the potential influence of the level of ownership by the foreign firm or the role of IJVs in the parent strategies. Thus, analyzing in more detail the potential influence of these variables on value creation could be of interest. The more detailed analysis of these two variables could also provide more explanation as to why the level of integration between IJVs and their parent firms did not significantly influence value creation. Apart from location effects, we analyzed only the direct effects of the single variables on value creation, not the indirect effects. Thus analysis of interaction and moderating effects would offer several interesting possibilities for future research.

Appendix A

Constructs Used in the Study

Constructs	Questions	Item source(s)
Resource complementarity	Resource complementarity (very low 1–5 very high) Extent to which resources and competencies brought by each partner to IJV are different Extent to which resources and competencies brought by each partner to IJV are complementary for accomplishing the IJV goals	Donnell (2005)
Social control	Extent to which following activities were conducted by IJV parents to manage IJV relationships (not at all 1–5 to a great extent) Educating both firms' managers about each other's organizational and national cultural contexts Encouraging both firms' managers to spend non-business hours with each other to understand fully the culture	Fryxell et al. (2002)
Level of integration	To what extent is the "management and control structure" of the IJV integrated in your firm: (keeping separate 1–5 complete integration)?	Sarala (2008)
Flexibility	Flexibility (strongly disagree 1–5 strongly agree). Our firm makes deliberate efforts to understand and adjust to the ways our partner does things	Johnston et al. (1996); Voss et al.(2006)
Communication quality	Regarding communication between you and your IJV partner, please indicate your level of agreement with the following statement: (strongly disagree 1–5 strongly agree) Over all, quality of communication between the IJV partners is extremely good	Young-Ybarra and Wiersema (1999); Silva et al. (2012)

(*continued*)

Constructs	Questions	Item source(s)
Trust	Trust (strongly disagree 1–5 strongly agree). The relationship with partner firm is characterized by high levels of trust	Lane et al. (2001)
National cultural distance	National culture (strongly disagree 1–5 strongly agree) The national culture (tradition, values) of partner greatly differs from yours	Dong and Glaister (2007)
Organizational cultural distance	Organizational culture (strongly disagree 1–5 strongly agree) (a) The organizational culture (management style, business ethics, and conducting business) of partner firm greatly differs from your firm	Dong and Glaister (2007)
IJV value creation	How satisfied is your firm with the value creation of the IJV in terms of (very unsatisfied 1–5 very satisfied) (a) overall performance, (b) profitability, (c) market share, (d) achieving the goals set for IJV?	Items (a–c): Geringer and Hebert (1991) and Lane et al. (2001) Item (d): Krishnan et al. (2006)

References

Ainuddin, R. A., Beamish, P. W., Hulland, J. S., & Rouse, M. J. (2007). Resource attributes and firm performance in international joint ventures. *Journal of World Business, 42*(1), 47–60.

Amici, A., Fiordelisi, F., Masala, F., Ricci, O., & Sist, F. (2013). Value creation in banking through strategic alliances and joint ventures. *Journal of Banking and Finance, 37*(5), 1386–1396.

Anderson, J. C., & Narus, J. A. (1990). A model of distributor firm and manufacturer firm working partnerships. *Journal of Marketing, 54*(1), 42–58.

Arino, A., de la Torre, J., & Ring, P. (2001). Relational quality: Managing trust in corporate alliances. *California Management Review, 44*(1), 109–131.

Aulakh, P. S., & Madhok, A. (2002). Co-operation and performance in international alliances: The critical role of flexibility. In F. J. Contractor & P. Lorange (Eds.), *Co-operative strategies and alliances* (pp. 25–48). Oxford: Elsevier.

Aulakh, P. S., Kotabe, M., & Sahay, A. (1996). Trust and performance in cross-border marketing partnerships: A behaviour approach. *Journal of International Business Studies, 27*(5), 1005–1032.

Barringer, B. R., & Harrison, J. S. (2000). Walking a tightrope: Creating value through inter-organizational relationships. *Journal of Management, 26*(3), 367–403.

Baughn, C. C., Denekamp, J. G., Stevens, J. H., & Osborn, R. N. (1997). Protecting intellectual capital in international alliances. *Journal of World Business, 32*(2), 103–117.

Beamish, P. W. (1985). The characteristics of joint ventures in developed and developing countries. *Columbia Journal of World Business, 20*(3), 13–19.

Beamish, P. (2013), Multinational Joint ventures in Developing Countries. London and New York: Routledge (Taylor and Francis Group).

Beamish, P. W., & Kachra, A. (2004). Number of partners and JV performance. *Journal of World Business, 39*, 107–120.

Bener, M., & Glaister, K. W. (2010). Determinants of performance in international joint ventures. *Journal of Strategy and Management, 3*(3), 188–214.

Blanchot, F., & Mayrhofer, U. (1998). *Empirical literature on joint venture success. A review of performance measures and of factors affecting longevity, Cahier du Cesag*. Strasbourg: IECS, Université Robert Schuman.

Borde, S. F., Whyte, A. M., Wiant, K. J., & Hoffman, L. L. (1998). New evidence on factors that influence wealth effects on international joint ventures. *Journal of Multinational Financial Management, 8*, 63–77.

Brouthers, K. D., & Bamossy, G. J. (2006). Post-formation processes in Eastern and Western European joint ventures. *Journal of Management Studies, 43*(2), 203–229.

Chan, H. S., Kensinger, J. W., Keown, A. J., & Martin, J. D. (1997). Do strategic alliances create value? *Journal of Financial Economics, 46*, 199–221.

Child, J., & Yan, Y. (2003). Predicting the performance of international joint ventures: An investigation in China. *Journal of Management Studies, 40*(2), 283–320.

Child, J., Faulkner, D., & Tallman, P. B. (2005). *Cooperative strategy*. Oxford: Oxford University Press.

Christoffersen, J. (2013). A review of antecedents of international strategic alliance performance: Synthesized evidence and new directions for core constructs. *International Journal of Management Reviews, 15*, 66–85.

Cuervo-Cazurra, A., & Genc, M. (2008). Transforming disadvantages into advantages: Developing country MNEs in the least developed countries. *Journal of International Business Studies, 39*, 957–959.

Das, T. K., & Teng, B. S. (2001). Trust, control and risk in strategic alliances: An integrated framework. *Organization Studies, 22*(2), 251–283.

Dauber, D. (2012). Opposing positions in M & A research: Culture, integration and performance. *Cross Culture Management, 19*(3), 375–398.

Deeds, D. L., & Hill, C. W. L. (1996). Strategic alliances and rate of new product development: An empirical study of entrepreneurial biotechnology firms. *Journal of Business Venturing, 11*, 41–55.

Dillman, D. A. (2000). *Mail and Internet surveys: The tailored design method* (2nd ed.). New York: Wiley.

Dong, L., & Glaister, K. W. (2007). National and corporate culture differences in international strategic alliances: Perceptions of Chinese partners. *Asia Pacific Journal of Management, 24*, 191–205.

Donnell, E. (2005). *A united framework for industrial buyer-seller relationships*. Doctoral dissertation, Graduate School of Management, Kent State University, UMI Press, Ann Arbor.

Dyer, J. H., & Chu, W. (2003). The role of trustworthiness in reducing transaction costs and improving performance: Empirical evidence from United States, Japan, and Korea. *Organization Science, 14*(1), 57–68.

Fang, E., & Zou, S. (2009). Antecedents and consequences of marketing dynamic capabilities in international joint ventures. *Journal of International Business Studies, 40*(5), 742–761.

Fey, C. F., & Beamish, P. W. (2001). Organizational climate similarity and performance: International joint ventures in Russia. *Organization Studies, 22*(5), 853–882.

Fryxell, G. E., Dooley, R. S., & Vryza, M. (2002). After the ink dries: The interaction of trust and control in US-based international joint ventures. *Journal of Management Studies, 39*(6), 865–886.

Fukuyama, F. (1995). *Trust: Social virtues and the creation of prosperity*. New York: Free Press.

Gao, L. S., & Lyer, B. (2009). Value creation using alliances within the software industry. *Electronic Commerce Research and Applications, 8*, 280–290.

Geringer, J. M., & Hebert, L. (1989). Control and performance of international joint ventures. *Journal of International Business Studies, 19*(2), 235–254.

Geringer, J. M., & Hebert, L. (1991). Measuring performance of international joint ventures. *Journal of International Business Studies, 22*(2), 249–263.

Gong, Y., Shenkar, O., Luo, Y., & Nyaw, M. K. (2005). Human resources and international joint venture performance: A system perspective. *Journal of International Business Studies, 36*(5), 505–518.

Hanvanich, S., Richards, M., Miller, S. R., & Cavusgil, T. S. (2005). Technology and the effects of cultural differences and task relatedness: A study of shareholder value creation in domestic and international joint ventures. *International Business Review, 14*, 397–414.

Harbison, J. R., & Pekar, P. (1998). *Smart alliances*. San Francisco: Jossey-Bass Publishers.

Hennart, J. F., & Zheng, M. (2002). Cross cultural differences and joint venture longevity. *Journal of International Business Studies, 33*(4), 699–761.

Hill, R. C., & Hellriegel, D. (1994). Critical contingencies in joint venture management: Some lessons from managers. *Organization Science, 5*, 594–607.

Hofstede, G. (2001). *Culture's consequences: comparing values, behaviors, institutions, and organizations across nations*. Thousand Oaks: Sage.

Johnston, J. L., Cullen, J. B., Sakano, T., & Takenouchi, H. (1996). Setting the stage for trust and strategic integration in Japanese-US cooperative alliances. *Journal of International Business Studies, 27*(5), 981–1004.

Kale, P., Dyer, J., & Singh, H. (2001). Value creation and success in strategic alliances: Alliancing skills and the role of alliance structure and systems. *European Management Journal, 19*(5), 463–471.

Kim, J., & Parkhe, A. (2009). Competing and cooperating similarity in global strategic alliances: An exploratory examination. *British Journal of Management, 20*, 363–376.

Krishnan, R., Martin, X., & Noorderhaven, N. G. (2006). When does trust matter to alliance performance? *Academy of Management Journal, 49*(5), 894–917.

Kumar, M. V. S. (2008). Value creation in joint venture dyads. *Advances in Merges and Acquisitions, 7*, 29–50.

Lane, P., Salk, J. E., & Lyles, M. A. (2001). Absorptive capacity, learning and performance in international joint ventures. *Strategic Management Journal, 22*(12), 1139–1161.

Lavie, D. (2007). Alliance portfolios and firm performance: A study of value creation and appropriation in the US software industry. *Strategic Management Journal, 28*(12), 1187–1212.

Lee, H., Cho, E., Cheong, C., & Kim, J. (2013). Do strategic alliances in a developing country create firm value? Evidence from Korean firms. *Journal of Empirical Finance, 20*, 30–41.

Li, J., Lam, K., & Qian, G. (2001). Does culture affect behavior and performance of firms? The case of joint ventures in China. *Journal of International Business Studies, 32*(1), 115–131.

Luo, Y., Shenkar, O., & Nyaw, M. K. (2001). A dual parent perspective on control and performance in international joint ventures: Lessons from a developing economy. *Journal of International Business Studies, 32*(1), 41–58.

Lyles, M. A., & Salk, J. E. (1996). Knowledge acquisition from foreign parents in international joint ventures. *Journal of International Business Studies, 27*(5), 877–904.

Madhok, A. (1995). Revisiting multinational firms' tolerance for joint ventures: A trust-based approach. *Journal of International Business Studies, 26*(1), 117–137.

Madhok, A., & Tallman, S. B. (1998). Resources, transactions and rents: Managing value through interfirm collaborative relationships. *Organization Science, 9*(3), 326–339.

Merchant, H. (2014). Configurations of governance structure, generic strategy, and firm size: Opening the black box of value creation in international joint ventures. *Global Strategy Journal, 4*(4), 292–309.

Merchant, H., & Schendel, D. (2000). How do international joint ventures create shareholder value? *Strategic Management Journal, 21*(7), 723–737.

Meschi, P.-X. (2004). Valuation effect of international joint ventures: Does experience matter? *International Business Review, 13*, 595–612.

Meschi, P. X., & Cheng, L. T. W. (2002). Stock price reactions to Sino-European joint ventures. *Journal of World Business, 37*(2), 119–126.

Miller, S., & Eden, L. (2006). Local density and foreign subsidiary performance. *Academy of Management Journal, 49*(2), 341–355.

Miller, R., Glen, J., Jaspersen, F., & Karmokolias, Y. (1997). International joint ventures in developing countries. *Finance & Development, 34*(1), 26–30.

Mody, A. (1993). Learning through alliances. *Journal of Economics Behavior and Organization, 20*, 151–170.

Mohr, A. T., & Puck, J. F. (2005). Managing functional diversity to improve the performance of international joint ventures. *Long Range Planning, 38*(2), 163–182.

Morresi, O., & Pezzi, A. (2011). 21 years of international M & As and joint ventures by Italian medium-sized listed firms: Value creation or value destruction? *Research in International Business and Finance, 25*, 75–87.

Ng, P. W. K., Lau, C. M., & Nyaw, M. K. (2007). The effects of trust on international joint venture performance in China. *Journal of International Management, 13*(4), 430–448.

Nielsen, B. B., & Nielsen, S. (2009). Learning and innovation in international strategic alliances: An empirical test of the role of trust and tacitness. *Journal of Management Studies., 46*(6), 1031–1056.
Nonaka, I., & Takeuchi, H. (1995). *The knowledge creating company*. New York: Oxford University Press.
Nooteboom, B., Berger, H., & Noorderhaven, N. G. (1997). Effects of trust and governance on relational risk. *Academy of Management Journal, 40*(2), 308–338.
Park, S. H., & Russo, M. V. (1996). When competition eclipses cooperation: An event history analysis of joint venture failure. *Management Science, 42*(6), 875–890.
Parkhe, A. (1991). Interfirm diversity, organizational learning, and longevity in global strategic alliances. *Journal of International Business Studies, 22*(4), 579–601.
Parkhe, A. (1998). Building trust in international alliances. *Journal of World Business, 33*(4), 417–437.
Podsakoff, P. M., & Organ, D. W. (1986). Self-reports in organizational research: Problems and prospects. *Journal of Management, 12*(4), 531–544.
Porrini, P. (2004). Alliance experience and value creation in high-tech and low-tech acquisitions. *Journal of High Technology Management Research, 15*, 267–292.
Pothukuchi, V., Damanpour, F., Choi, J., Chen, C. C., & Park, S. H. (2002). National and organizational culture differences and international joint venture performance. *Journal of International Business Studies, 33*(2), 243–265.
Purchase, S. and Kriz, A. (2000). *Towards a universal model of business networks*. Academy of Marketing Science Conference, Hong Kong.
Reus, T. H., & Ritchie, W. J. I. I. I. (2004). Inter-partner, parent, and environmental factors influencing the operation of international joint ventures: 15 years of research. *Management International Review, 44*(4), 369–395.
Robbins, S. (2005). *Organizational behavior*. Upper Saddle River: Prentice Hall.
Sarala, R. (2008). *The impact of cultural factors on post-acquisition integration: Domestic and foreign acquisitions of Finnish companies in 1993–2004*. Doctoral dissertation, Swedish School of Economics and Business Administration, Helsinki.
Sarkar, M. B., Aulakh, P. S., & Cavusgil, S. T. (1998). The strategic role of relational bonding in interorganizational collaborations: An empirical study of the global construction industry. *Journal of International Management, 4*(2), 85–107.

Silva, S. C., Bradley, F., & Sousa, C. M. P. (2012). Empirical test of the trust-performance link in an international alliances context. *International Business Review, 21*(2), 293–306.

Slangen, A. H. L., & Hennart, J. F. (2008). Do foreign greenfields outperform foreign acquisitions or vice versa? An institutional perspective. *Journal of Management Studies, 45*(7), 1302–1328.

Teece, D. J. (2014). A dynamic capabilities-based entrepreneurial theory of the multinational enterprise. *Journal of International Business Studies, 45*(1), 8–37.

Thuy, L. X., & Quang, T. (2005). Relational capital and performance of international joint ventures in Vietnam. *Asia Pacific Business Review, 11*(3), 389–410.

Vaidya, S.P. (2000). *Factor affecting learning effectiveness in international joint ventures*: *An empirical analysis of Indian Ijvs*. Ph. D. dissertation, The University of Texas-Pan America, Texas.

Voss, K. E., Johnson, J. L., Cullen, J. B., Sakano, T., & Takenouchi, H. (2006). Relational exchange in US-Japanese marketing strategic alliances. *International Marketing Review, 23*(6), 610–635.

Waters, D. (1991). *21st century management: Keeping ahead of the Japanese and Chinese*. New York: Prentice Hall.

Weiss, A. M., & Heide, J. B. (1993). The nature of organizational search in high technology markets. *Journal of Marketing Research*, 220–233.

Young-Ybarra, C., & Wiersema, M. (1999). Strategic flexibility in information technology alliances: The influence of transaction cost economics and social exchange theory. *Organization Science, 10*(4), 439–459.

Zaheer, A., McEvily, B., & Perrone, V. (1998). Does trust matter? Exploring the effects of interorganizational and interpersonal trust on performance. *Organization Sciences, 9*(2), 141–159.

3

Joint Venture Longevity in Southern and Eastern Mediterranean Countries

Dora Triki, Emna Moalla, and Ulrike Mayrhofer

Introduction

Companies from mature economies have considerably developed their investments in emerging markets during the recent period (Hadjikhani et al. 2012; Mayrhofer 2013; UNCTAD 2014). These investments frequently take the form of international joint ventures (IJVs) signed with local partners. IJVs are defined as organizational entities managed jointly

D. Triki (✉)
ESCE, International Business School, 10 rue Sextius Michel,
75015 Paris, France
e-mail: dora.triki@esce.fr

E. Moalla
ESCEM, Tours Campus, COMUE Centre Val de Loire,
1 Rue Léo Delibes, 37200 Tours, France

U. Mayrhofer
IAE Lyon, Magellan Research Center, Jean Moulin Lyon 3 University,
6 cours Albert Thomas, 69008 Lyon, France

© The Editor(s) (If applicable) and the Author(s) 2017

S. Marinova et al. (eds.), *Value Creation in International Business*,
DOI 10.1007/978-3-319-30803-6_3

by two or more independent parents from different countries, who invest in a company's capital to obtain strategic objectives (Shenkar and Zeira 1987). They can be created from scratch (greenfield IJVs) or through a partial acquisition of equity in an existing firm (Hennart et al. 1998; Hennart 2009). According to Meschi (2009), four main reasons explain the proliferation of international joint ventures: (1) achieving economies of scale and critical size; (2) learning and transferring competence and knowledge; (3) refocusing and restructuring a business portfolio; and (4) entering new risky markets. Despite their numerous advantages, joint ventures are often characterized by a high degree of instability (Park and Ungson 2001) and poor performance (Killing 1983; Geringer 1986). Empirical studies on IJV survival in emerging countries show that between 30% and 50% are sold off, bought out, or dissolved by the partners during the first five years of existence (Meschi 2005; Meschi and Riccio 2008; Prange and Mayrhofer 2014). Recent studies have been conducted in Hungary (Steensma et al. 2008), Brazil (Meschi and Riccio 2008), China (Duan and Juma 2007; Puck et al. 2009; Ott et al. 2014), and Russia (Prévot and Guallino 2012).

Several authors have attempted to identify the determinants of IJV longevity which refer to: the cooperative relationship (Beamish 1994; Makino and Delios 1996; Park and Ungson 1997), the characteristics of parent companies (Mjoen and Tallman 1997; Hennart and Zeng 2002), and the environmental aspects. In this study, we focus our attention on environmental variables, which are considered to be key determinants of IJV stability and performance. In the context of emerging markets, the external environment is highly uncertain, which could destabilize the relationship and its survival (Nguyen and Larimo 2010; Meschi and Riccio 2008; Cui and Kumar 2011).

The objective of this chapter is to investigate the impact of country risk and the level of economic development of the host country on IJV longevity. Previous studies have already measured the impact of these variables, but with controversial results. According to existing contributions, the effect of these variables is either negative (Meschi 2005), positive (Lowen and Pope 2008), or not significant (Barkema and Vermeulen 1997; Duan and Juma 2007; Meschi and Riccio 2008). This study extends the research on IJVs to a new geographic region.

Our empirical investigation is based on a sample of 124 IJVs located in Southern and Eastern Mediterranean (SEMED) countries (Algeria, Tunisia, Morocco, Israel, Egypt, Syria, Lebanon, and Turkey), where foreign investors often establish joint ventures to develop their growth strategies. The observation period extends from 1996 to 2010. We will first present the characteristics of IJVs established in SEMED countries before analyzing the impact of country risk and economic development on IJV longevity.

Characteristics of IJVs Located in SEMED Countries

We will first explain the data collection process and then highlight some key characteristics of IJVs established in the SEMED region.

Data Collection

In existing studies on joint ventures, SEMED countries have received less attention than other emerging markets like BRIC (Brazil, Russia, India, China) countries, which can be explained by the difficulty of accessing reliable data (Mellahi et al. 2011; Triki 2013). Yet, companies from mature economies often form IJVs to enter these markets (Yan 1998; Meschi and Riccio 2008), mainly for regulatory reasons. In fact, the possibilities of establishing wholly owned subsidiaries remain limited in this region (e.g. Mellahi et al. 2011).

As stated above, the empirical study is based on a sample of 124 IJVs located in the SEMED region from 1996 to 2010. Information was gathered on IJVs formed between 1996 and 2003, and their duration was followed until 2010. The period of study can be explained by the Barcelona process, also called the Euro-Mediterranean Partnership, which was launched in November 1995 and whose aim is to create a free trade area between the European Union and SEMED countries. Moreover, most IJV dissolutions occur after five or six years of their establishment (Kogut 1988; Hennart and Zeng 2002).

We chose to use secondary data sources, and information was mainly collected through the Factiva database, which provides access to sources such as journals and newspapers from several countries. The collected data was completed by different sources of information: annual reports, institutional websites, and the economic press.

In line with previous research on joint venture longevity (Franko 1971; Hennart and Zeng 2002; Meschi 2005), we consider that joint ventures can be terminated in three ways: they can be sold to one of the partner companies (27 cases in our database), they can be sold to a third party (11 cases), or they can be liquidated (7 cases). By 2010, 36.29% of the joint ventures in our sample were terminated. Their average life span was 8.89 years.

Geographic and Industry Distribution

Table 3.1 indicates the geographic origin of foreign partners who established joint ventures in SEMED countries. We can observe that a large majority of IJVs are formed by companies from mature economies, mainly European companies. Three countries appear to be particularly active in the Mediterranean region: France (19.37%), the United States (17.82%), and Germany (13.95%). The importance of France can be explained by its strong colonial ties with Tunisia, Algeria, and Morocco, which facilitate business relationships (Beddi and Mayrhofer 2013). As shown by Dow and Karunaratna (2006) and Ghemawat (2007), previous colonial ties between countries influence the intensity of trade in a positive way.

The rest of our sample concerns foreign partners from the Middle East (Saudi Arabia and the United Arab Emirates), Asia (South Korea and Japan), and other emerging countries (India and Russia). In recent years, Gulf investors have been highly active in the Mediterranean region, especially in the areas of tourism, telecommunications, and real estate. Companies from these countries are seeking new geographic markets and have increased their investments in the SEMED region, as shown by Anima, a multi-country platform supporting the economic development of the Mediterranean region. Investments from Asia and other

Table 3.1 Foreign partners of IJVs in the SEMED region

Country of foreign partners	IJVs	%
Australia	2	1.55
Austria	1	0.77
Belgium	4	3.10
Chile	1	0.77
Cyprus	1	0.77
Denmark	3	2.32
Finland	1	0.77
France	25	19.37
Germany	18	13.95
Greece	2	1.55
India	2	1.55
Ireland	1	0.77
Italy	10	7.75
Japan	1	0.77
Libya	1	0.77
North Korea	4	3.10
Norway	2	1.55
Netherlands	2	1.55
Russia	2	1.55
Saudi Arabia	1	0.77
Spain	5	3.87
Sweden	2	1.55
Switzerland	4	3.10
United Arab Emirates	1	0.77
United Kingdom	10	7.75
United States	23	17.82
Total	129[a]	100

[a]12 IJVs in our sample include more than two foreign or local partners, which explains the total value of 129 in this table

emerging countries in Mediterranean markets are still limited, but they are expected to increase in the coming years and are orientated towards projects in heavy industries and the energy sector.

Table 3.2 shows the country of location of the joint ventures. Turkey is the country which receives the largest proportion of IJVs (32.3%), followed by Egypt (23.4%), Algeria (13.7%), Morocco (12.1%), and Israel (8.1%). The breakdown of the country location of joint ventures can be explained by several reasons. Turkey has opened up its markets through economic reforms since the 1980s. It has made profound changes; for instance it has become a member of the United Nations

Table 3.2 Location of IJVs in the SEMED region

Country of local partner	IJVs	%
Algeria	17	13.7
Egypt	29	23.4
Israel	10	8.1
Lebanon	2	1.6
Morocco	15	12.1
Syria	3	2.4
Tunisia	8	6.5
Turkey	40	32.3
Total	124	100

(UN), the World Trade Organization (WTO), the Organisation for Economic Co-operation and Development (OECD), and is currently negotiating with the European Union. Thus, Turkey has become more attractive to foreign investors (Cavusgil et al. 2003). The country has an important automotive industry and is one of the largest producers of consumer electronics. Egypt has also created a favorable business climate for investment. FDI increased notably in this market due to economic liberalization and privatization measures taken by the government (Doing Business 2008[1]). Egypt's economy depends on agriculture, petroleum imports, and tourism. Algeria has one of the largest reserves of natural gas: this sector accounts for 95% of its exports. Sonatrach, the national oil company, is the largest company in Africa and is involved in joint ventures with several foreign companies. In recent years, Algeria has decided to invest in traditional sectors such as agriculture and tourism. Morocco has one of the most developed infrastructures in the SEMED region. The country is home to low-wage, high-quality labor for manufacturing and assembly operations. These advantages explain its attractiveness to foreign investors. Its economy largely depends on tourism, textiles, and agriculture. Finally, Israel has a competitive industrial structure dominated by cutting-edge technologies in the fields of medicine and IT, for example.

Table 3.3 shows that the most frequent industries concerned with IJVs are oil and gas extraction (15.3%), chemical and allied products (13.7%),

[1] http://www.doingbusiness.org/~/media/fpdkm/doing%20business/documents/subnational-reports/db08-sub-egypt.pdf.

Table 3.3 Industry distribution of IJVs in the SEMED region

Industry	IJVs	%
Administration of environmental quality and housing programs	2	1.6
Paper and allied products	2	1.6
Communications	2	1.6
Motor freight transportation and warehousing	2	1.6
Measuring analyzing and controlling instruments; photographic, medical, and optical goods; watches and clocks	3	2.4
Depository institutions	4	3.2
Electronic and other electrical equipment and components (except computer equipment)	4	3.2
Mining and quarrying of non-metallic minerals (except fuels)	4	3.2
Primary metal industries	4	3.2
Insurance agents; brokers and service	5	4.0
Food and kindred products	8	6.5
Transportation equipment	9	7.3
Stone, clay, glass, and concrete products	11	8.9
Business services	11	8.9
General merchandise stores	16	12.9
Chemicals and allied products	17	13.7
Oil and gas extraction	19	15.3
Others	1	0.8
Total	124	100

and general merchandise stores (12.9%), which are important industries in SEMED countries.

Country Risk, Level of Economic Development, and IJV Longevity

The literature shows that two environmental factors are likely to influence IJV longevity: country risk and the level of economic development. These variables seem to be of particular importance in emerging markets which are often characterized by political and economic instability. As observed by Yan (1998: 773), "for IJVs formed in developing or transforming economies, the turbulent political and economic environments together with the intercultural and inter-organizational dynamics have made managing IJVs particularly challenging." During the recent period, most SEMED countries have been characterized by high political and economic instability.

Country Risk and IJV Longevity

Existing studies highlight the importance of country risk for IJV performance (Meschi and Riccio 2008). According to Lowen and Pope (2008: 69), country risk can lead to two contrasting situations: "relationships in unstable environments discourage firms from expecting and nurturing long-term relationships and thus shorten life-spans, and unstable environments discourage foreign firms from investing and thus encourage development and maintenance of IJVs as a means of mitigating risks." Empirical research on the relationship between country risk and IJV performance shows inconclusive results.

Barkema and Vermeulen (1997) demonstrate that country risk does not influence IJV performance. Conversely, Lowen and Pope's (2008) study of IJVs in growing economies finds that the stability of both home and host countries plays an important role for IJV survival.

A study of 210 IJVs formed by European companies with partners from emerging countries conducted by Meschi (2005) shows that those located in countries characterized by high economic risk tend to survive longer than those established in countries with lower economic risk. This result is in line with organizational ecology that underlines the negative relationship between environmental uncertainty and the survival of organizations (Hannan and Freeman 1977). In other research, Meschi and Riccio (2008) hypothesize that the survival of IJVs located in Brazil is influenced by the deterioration of country risk. Their results indicate that the country risk variable has a significant impact at the IJV creation stage.

Thus, the following hypothesis can be formulated:

Hypothesis 1
Country risk has a negative impact on IJV longevity in SEMED countries.

Level of Development and IJV Longevity

Several studies show that, in the context of developing countries, IJV stability is correlated to country-level variables. Beamish (1994)

explains that problems faced by multinational companies when they decide to implement IJVs are related to political instability, especially in less developed countries. He concludes that instability rates of joint ventures in less developed countries are significantly higher. Dhanaraj and Beamish (2004) measured the level of development of the host country by membership of the OECD, as the member states of this organization tend to be economically developed. The stability of IJVs located in these countries tends to be higher than if they were based in developing countries. The results of this research show a significant and positive impact of the level of economic development on the survival of IJVs.

Thus, low-income countries do not often offer the right conditions to maintain cooperative arrangements. Foreign partners have to deal with the complexity of this unstable and threatening environment.

Hypothesis 2
The level of economic development in the host country has a negative impact on IJV longevity in SEMED countries.

IJV Longevity in SEMED Countries

IJV performance has been extensively studied in the international business literature (Larimo 2007, 2010; Moalla and Triki 2013). Franko (1971) was the first author to determine the impact of parent control on IJV performance. Since this seminal work, many authors have studied the topic without reaching a consensus (Reus and Ritchie 2004; Nguyen and Larimo 2010). Performance can be assessed by two criteria: objective measures (longevity, survival, stability, profitability, and sales) and subjective measures (partner satisfaction, knowledge transfer, and goal achievement). Several studies show a strong correlation between these criteria (Chandler and Hanks 1993). It is therefore possible to use longevity as a measure of performance (Malik and Zhao 2013; Meschi and Riccio 2008).

We will first present the research methodology before analyzing and discussing the obtained results.

Research Methodology: Event History Analysis and Variables Measurement

IJV survival is the dependent variable in our model. This variable is coded 0 when the IJV still exists during our observation period (1996–2010), and 1 when it has been terminated before the end of the period at risk (December 2010). Following Valdès-Llaneza and Garcia-Canal (2006) and Hennart et al. (1998), we used a survival regression analysis based on the Cox model (Cox 1972) to estimate a hazard rate, that is the likelihood that the termination of IJVs in SEMED countries will take place at a moment t. The survival model estimates the positive or negative effects of the independent variables on the hazard ratio. This technique assumes that the hazard ratio $h(t)$ is proportional to a baseline hazard function ($h_0(t)$), which does not need to be specified (Allison 1984). The model can be formulated as follows:

$$H(t) \text{ or hazard function} = H_0(t)\exp(X'\beta)$$

where X is a vector of covariates (independent and control variables) at the time interval t within the period at risk, and β is the vector of regression coefficients. We used the 11.0 version of STATA.

The two independent variables are "country risk" and "level of economic development." To measure country risk, we used Euromoney's country risk rating. The country risk corresponds to a weighted average of six categories of variables: political risk (30% weighting), economic performance (30%), structural assessment (10%), debt indicators (10%), credit ratings (10%), and access to bank finance/capital markets (10%). This measurement has been widely used in the international business literature (Barkema and Vermeulen 1997; Meschi 2005; Oetzel et al. 2001). The variable was not entered as a time-varying construct since several studies show that annual variations of country risk do not affect IJV survival (Barkema and Vermeulen 1997). Concerning the level of economic development, we used the World Bank's classification which differentiates high income, upper-middle income, lower-middle income, and low income economies (see http://data.worldbank.org/about/

Table 3.4 Level of economic development of SEMED countries

High income economies	Upper-middle income economies	Lower-middle income economies
Israel	Algeria	Egypt
	Lebanon	Morocco
	Tunisia	Syria
	Turkey	

country-classifications). The main criterion for classifying economies is gross national income per capita. We coded them 1 to 3, no country of our sample being considered a low income economy (see Table 3.4).

Several control variables identified as determinants of IJV longevity are also included in the model: number of partners, establishment mode, equity sharing, industry, and local partner ownership.

The number of partners is considered as a key construct in the study of IJV performance (Valdès-Llanes and Garcia-Canal 2006). It is recognized that multi-party partnerships are efficient because transaction costs and probability of opportunism are reduced in such a context. Nevertheless, Gong et al. (2007) demonstrate that these partnerships are "conflict prone," difficult to manage, and more likely to have greater diversity and higher communication costs. From a resource-based view, joint ventures with more than two parent firms imply that more resources can be pooled into the partnership, thus causing coordination difficulties and conflicts.

The establishment mode is also likely to influence IJV longevity (Steensma et al. 2008). According to Hennart (2009), IJVs can be formed by establishing a new legal entity with local partners (greenfield IJVs) or by acquiring an equity stake of an existing firm. IJVs established as greenfield operations are considered to be more costly compared to IJVs following a partial acquisition. The establishment mode is a dummy variable equal to 1 for acquisition and 0 otherwise.

Several studies highlight the necessity of examining the relationship between equity ownership and performance (Dhanaraj and Beamish 2004). According to Mjoen and Tallman (1997: 259), "equity position often determines the composition of the board of directors, and the board usually appoints high-level executives, the partner with a dominant equity position has the ability to exercise more control." Some studies

show that foreign partners with majority ownership achieve poor performance (Beamish 1994), while others indicate that shared control makes IJVs more stable (Blodgett 1992). We coded 0 for unequal ownership and 1 for 50/50 ownership.

The industry is also likely to affect IJV longevity. According to the SIC code classification, we transformed this variable into a dummy one, taking the value 1 for IJVs in manufacturing industries and the value 0 for those in service industries.

Finally, we also considered the ownership of the local partner: we indicate which IJVs have partial government ownership (Lu and Xu 2006; Xu and Lu 2007; Steensma et al. 2008). In the context of Mediterranean countries, local partners are often state-owned. For example, Sonatrach, the largest Algerian and African company in the oil and gas industry, is state-owned. This is a dummy variable (1 = local government partner; 0 = private company partner).

Table 3.5 Descriptive statistics

Variables	Characteristics	
Longevity (years)	Mean = 8.89	Min = 8.27
	SD = 0.31	Max = 9.51
Number of partners	Mean = 2.12	Min = 2
	SD = 0.39	Max = 4
Country risk	Mean = 52.86	Min = 29.45
	SD = 9.76	Max = 76.43
Level of economic development		
High income economies	10	8.06%
Upper-middle income economies	68	54.84%
Lower-middle income economies	46	37.10%
Industry		
Manufacturing	99	79.84%
Services	25	20.16%
Equity sharing		
Equal distribution	61	49.19%
Unequal distribution	63	50.81%
Establishment mode		
Acquisition	25	20.16%
Greenfield	99	79.84%
Ownership of local partner		
State-owned	27	21.77%
Not state-owned	97	78.23%

Table 3.5 shows the statistical distribution of variables used in the regression analysis. Several trends can be identified. IJVs in SEMED countries have an average lifespan within the period of risk of 8.89 years and generally involve two partners (90.3% of our sample). They mainly concern countries with upper-middle income (54.84%) and are predominantly established in manufacturing industries (79.84%). Most of them are formed through greenfield investments (79.84%) with private companies (78.23%).

Results of Statistical Analysis

After the presentation of the correlation matrix, we will analyze the Cox regression models. The correlation matrix is presented in Table 3.6. For variables showing some correlation, we calculated the indicators for the variance inflation factor (VIF) and tolerance. In all the estimates, collinearity does not seem to bias the model: the VIF scores are between 1.17 and 1.48, and the tolerance test resulted in high coefficients.

The results of the three Cox regression models are shown in Table 3.7. Model 1 corresponds to a regression model reduced to control variables. Model 2 was built using country risk and control variables. Model 3 tests the impact of the level of economic development of the host country and control variables. These different models are presented to show the

Table 3.6 Correlation matrix

	1	2	3	4	5	6	7
1. Establishment mode	1						
2. Ownership of local partner	−0.119	1					
3. Number of partners	−0.154	0.235	1				
4. Country risk	0.080	−0.363	0.006	1			
5. Equity sharing	−0.092	0.206	−0.056	0.254	1		
6. Industry	0.052	0.070	−0.049	−0.120	−0.028	1	
7. Level of economic development	−0.041	0.101	0.326	−0.271	0.007	−0.057	1

Table 3.7 Cox proportional hazard models

	Model 1	Model 2	Model 3
Number of partners	−0.296	−0.320	−0.011
	(0.512)	(0.514)	(0.525)
Establishment mode	0.666	0.633	0.634
	(0.332)**	(0.335)*	(0.334)*
Equity sharing	−0.363	−0.379	−0.360
	(0.307)	(0.307)	(0.307)
Industry	−0.434	−0.415	−0.440
	(0.353)	0.354	(0.353)
Ownership of local partner	−0.681	−0.579	−0.653
	(0.460)	(0.481)	(0.464)
Country risk		0.011	
		(0.017)	
Level of economic development			−0.519
			(0.267)*
Log-likelihood	−195.671	−195.440	−193.797
Model chi-square	10.40*	10.86*	14.15**

*$p<0.1$; **$p<0.05$; ***$p<0.01$; standard deviations in brackets

robustness of our results. We included the coefficient of the different variables, their standard deviation, and their significance level.

According to model 1, the establishment mode (greenfield investment vs partial acquisition of local firm) has a significant influence on IJV longevity ($p<0.05$). The other control variables have no significant effect on the hazard rate.

Hypothesis 1 predicted a negative relationship between country risk and IJV longevity in SEMED countries. Model 2 does not show a good fit ($p<0.1$) and the analysis indicates that country risk has no significant influence on IJV longevity. Hypothesis 1 can therefore be rejected. Country risk does not appear to be considered as a threat for foreign parents, even though IJVs are often used as a means to overcome higher risk associated with emerging markets. This finding is consistent with empirical studies conducted in other geographic contexts (Barkema and Vermeulen 1997; Meschi and Riccio 2008). According to Meschi and Riccio (2008: 264), in Brazil "economic and political uncertainty is decisive only at the time when the IJV is formed, because it is one of the main factors influencing the foreign partner's choice of entry mode into Brazil (acquisition, wholly owned subsidiary or IJV)." In our model, only the coefficient for the establishment mode is significant at the $p<0.1$ level.

According to Hypothesis 2, the level of economic development of the host country has a negative impact on IJV longevity in SEMED countries. Model 3 offers a good fit ($p<0.05$) and shows a negative and weakly significant relationship ($p<0.1$) between the level of economic development and IJV longevity, thus supporting Hypothesis 2. As indicated in model 3 and the way we have coded this variable (i.e. 1 = high income economies; 2 = upper-middle income economies: 3 = lower-middle income economies), the results are in the same direction as predicted by Hypothesis 2. Therefore, IJVs located in lower-middle income economies have a lower probability of survival than those in more developed countries. These findings are in line with those of Beamish (1994) who explains that instability rates of joint ventures in less developed countries are significantly higher. In our case, lower-middle income economies represented by Egypt, Morocco, and Syria (see Table 3.4) have become even more unstable since the Arab revolutions of early 2011 that deeply affected their economic situations, thus impacting on foreign investment flows.

Conclusion

The objective of our study was to analyze the impact of environmental factors on the longevity of IJVs based in SEMED countries. In this challenging environment, the institutional context plays a crucial role for the firm's performance. Thus, two factors related to the environment of the IJV are taken into consideration: country risk and level of economic development.

We chose to study IJVs in the Mediterranean region because of the Barcelona Process, signed in 1995, which encouraged cultural and economic cooperation between the European Union and Mediterranean countries. Since the launch of this process, the number of partnerships in this region has considerably increased.

The findings of our study show that the economic development of the host country has an impact on IJV longevity in the Mediterranean region. IJVs based in countries with a low level of economic development are less likely to survive than joint operations established in countries with a higher level of economic development. Conversely, country risk does

not seem to play an important role in explaining the longevity of IJVs in the SEMED region. Our results are in contrast with previous studies on both mature and emerging economies and highlight the importance of the geographic context for this field of research.

The empirical study presented in this chapter provides several interesting research perspectives. Firstly, it highlights the importance of considering host country factors when analyzing the performance of IJVs and other growth strategies linked to FDIs. It thus seems necessary to extend future studies to other external factors that are likely to influence IJV longevity, such as cultural distance between partner companies. Secondly, we used the criterion of longevity to assess IJV performance. It would be useful to combine objective and subjective measures for IJV performance, since results may vary according to the measure of performance (Larimo 2007). Thirdly, it would be interesting to extend the sample to other countries in the Mediterranean region, like Libya. Finally, Reus and Ritchie (2004) point out that future studies should integrate parent (cultural fit, control, experience, and commitment) and IJV (trust and partner learning) related factors that are also likely to determine IJV survival.

References

Allison, P. D. (1984). *Event history analysis*. London: Sage University Paper.

Barkema, H. G., & Vermeulen, F. (1997). What differences in the cultural backgrounds of partners are detrimental for international joint ventures? *Journal of International Business Studies, 28*(4), 845–864.

Beamish, P. W. (1994). Joint ventures in LDCs: Partner selection and performance. *Management International Review, 34*(2), 60–74.

Beddi, H., & Mayrhofer, U. (2013). Headquarters-subsidiaries relationships of French multinationals in emerging markets. *Multinational Business Review, 21*(2), 174–194.

Blodgett, L. L. (1992). Factors in the instability of international joint ventures: An event history analysis. *Strategic Management Journal, 13*(3), 475–481.

Cavusgil, S., Civi, E., Tutek, H., & Dalgic, T. (2003). Doing business in Turkey. *Thunderbird International Business Review, 45*(4), 467–479.

Chandler, G. N., & Hanks, S. H. (1993). Measuring the performance of emerging businesses: A validation study. *Journal of Business Venturing, 8*(5), 391–408.

Cox, D.R. (1972). Regression models and life-tables, *Journal of The Royal Statistical Society*, 34 (Series B Methodological): 187-220.

Cui, A. S., & Kumar, M. V. S. (2011). Termination of related and unrelated joint ventures: A contingency approach. *Journal of Business Research, 65*(8), 1202–1208.

Dhanaraj, C., & Beamish, P. W. (2004). Effect of equity ownership on the survival of international joint ventures. *Strategic Management Journal, 25*(3), 295–305.

Dow, D., & Karunaratna, A. (2006). Developing a multidimensional instrument to measure psychic distance stimuli. *Journal of International Business Studies, 37*(5), 578–602.

Duan, J., & Juma, N. (2007). Inter-partner credible threat and the survival of US-China joint ventures. *Journal of Business Strategies, 24*(1), 91–104.

Franko, L. G. (1971). Joint venture divorce in the multinational company. *Columbia Journal of World Business, 6*(3), 13–22.

Geringer, J.M. (1986). *Criteria for selecting partners for joint ventures in industrialized market economies*. Unpublished doctoral dissertation, University of Washington, Seattle.

Ghemawat, P. (2007). *Redefining global strategy: Crossing borders in a world where differences still matter*. Boston: Harvard Business School Press.

Gong, Y., Shenkar, O., Luo, Y., & Nyaw, M.-K. (2007). Do multiple parents help or hinder international joint venture performance? The mediating roles of contract completeness and partner cooperation. *Strategic Management Journal, 28*(10), 1021–1034.

Hadjikhani, A., Elg, U., & Ghauri, P. (Eds.) (2012). *Business, society and politics: Multinationals in emerging markets*. Howard House: Emerald Group.

Hannan, M. T., & Freeman, J. (1977). The population ecology of organizations. *American Journal of Sociology, 82*(5), 929–964.

Hennart, J.-F. (2009). Down with MNE-centric theories! Market entry and expansion as the bundling of MNE and local assets. *Journal of International Business Studies, 40*(9), 1432–1454.

Hennart, J.-F., Kim, D. J., & Zeng, M. (1998). The impact of joint venture status on the longevity of Japanese stakes in US manufacturing affiliates. *Organization Science, 9*(3), 382–395.

Hennart, J.-F., & Zeng, M. (2002). Cross-cultural differences and joint venture longevity. *Journal of International Business Studies, 33*(4), 699–716.

Kogut, B. (1988). Joint ventures: Theoretical and empirical perspectives. *Strategic Management Journal, 9*(4), 319–332.
Killing, J. P. (1983). *Strategies for joint venture success*. New York: Praeger.
Larimo, J. (2007). International joint venture performance: Impact of performance measures and foreign parent, target country and investment specific variables on performance. In G. Cliquet, G. Hendrikse, M. Tuunanen, & J. Windsperger (Eds.), *Economics and management of networks: Franchising, strategic alliances and co-operatives*. Heidelberg: Springer.
Lowen, A., & Pope, J. (2008). Survival analysis of international joint venture relationships. *The Journal of Business and Economic Studies, 14*(1), 62–74.
Lu, J., & Xu, D. (2006). Growth and survival of international joint ventures: An external internal legitimacy perspective. *Journal of International Business Studies, 24*(4), 797–818.
Makino, S., & Delios, A. (1996). Local knowledge transfer and performance: Implications for alliance formation in Asia. *Journal of International Business Studies, 27*(5), 905–927.
Malik, T. H., & Zhao, Y. (2013). Cultural distance and its implication for the duration of the international alliance in a high technology sector. *International Business Review, 22*(4), 699–712.
Mayrhofer, U. (Ed.) (2013). *Management of multinational companies. A French perspective*. Basingstoke: Palgrave Macmillan.
Mellahi, K., Demirbag, M., & Riddle, L. (2011). Multinationals in the Middle East: Challenges and opportunities. *Journal of World Business, 46*(4), 406–410.
Meschi, P.-X. (2005). Environmental uncertainty and survival of international joint ventures: The case of political and economic risk in emerging countries. *European Management Review, 2*(2), 143–152.
Meschi, P.-X. (2009). Les alliances entre grandes entreprises: le cas des joint ventures. In O. Meier (Ed.), *Stratégies de croissance: Fusions-acquisitions, alliances stratégiques, développement interne*. Paris: Dunod.
Meschi, P.-X., & Riccio, E. L. (2008). Country risk, national cultural differences between partners and survival of international joint ventures in Brazil. *International Business Review, 17*(3), 250–266.
Mjoen, H., & Tallman, S. (1997). Control and performance of international joint ventures. *Organization Science, 8*(3), 257–274.
Moalla, E., & Triki, D. (2013). How multinationals succeed in their partnerships. In U. Mayrhofer (Ed.), *Management of multinational companies. A French perspective*. Basingstoke: Palgrave Macmillan.

Nguyen, H. L., & Larimo, J. (2010). Determinants of international joint venture performance measurement. *Journal of Modern Accounting and Auditing, 6*(11), 11–24.

Oetzel, J. M., Bettis, R. A., & Zenner, M. (2001). Country risk measures: How risky are they? *Journal of World Business, 36*(2), 128–145.

Ott, U., Liu, X., & Buck, T. (2014). How long will the marriage of Sino-foreign JVs in China last? A theoretical and empirical investigation. *International Business Review, 23*(5), 873–886.

Park, S. H., & Ungson, G. R. (1997). The effect of national culture, organizational complementarity, and economic motivation on joint-venture dissolution. *Academy of Management Journal, 40*(2), 279–308.

Park, S. H., & Ungson, G. R. (2001). Interfirm rivalry and managerial complexity: A conceptual framework of alliance failure. *Organization Science, 12*(1), 37–53.

Prange, C., & Mayrhofer, U. (2014). Alliances and joint ventures. In M. Vodosek & D. Den Hartog (Eds.), *Wiley encyclopedia of management—vol. 6: International management* (3 ed.). New Jersey: Wiley.

Prévot, F., & Guallino, G. (2012). La survie des joint-ventures internationales: une étude de l'industrie pétrolière en Russie. *Management International, 17*(1), 71–87.

Puck, J. F., Holtbrügge, D., & Mohr, T. (2009). Beyond entry mode choice: Explaining the conversion of joint ventures into wholly owned subsidiaries in the People's Republic of China. *Journal of International Business Studies, 40*, 388–404.

Reus, T. H., & Ritchie III, W. J. (2004). Interpartner, parent, and environmental factors influencing the operation of international joint ventures: 15 years of research. *Management International Review, 44*(4), 369–395.

Shenkar, O., & Zeira, Y. (1987). Human resource management in international joint ventures: Direction for research. *Academy of Management Review, 12*(3), 546–557.

Steensma, H. K., Barden, J. Q., Dhanaraj, C., Lyes, M., & Tihany, L. (2008). The evolution and internalization of international joint ventures in a transitioning economy. *Journal of International Business Studies, 39*(3), 491–507.

Triki, D. (2013). *Les conditions initiales de la longévité des joint ventures internationales*: *une analyse des JVI implantées dans les pays de la Méditerranée* (p. 3). Unpublished doctoral dissertation, Université Jean Moulin Lyon, Lyon.

UNCTAD (2014). *World Investment Report 2014*. New York/Geneva: United Nations Conference on Trade and Development.

Valdes-Llaneza, A., & Garcia-Canal, E. (2006). Direct competition, number of partners and the longevity of stakes in joint ventures. *Management International Review, 46*(3), 307–326.

Xu, D., & Lu, J. W. (2007). Technological knowledge, product relatedness and parent control: The effect on IJV survival. *Journal of Business Research, 60*(11), 1166–1176.

Yan, A. (1998). Structural stability and reconfiguration of international joint ventures. *Journal of International Business Studies, 29*(4), 773–796.

4

Role, Motivation, and Performance of International Joint Ventures in Slovakia

Sonia Ferencikova and Tatiana Hluskova

Introduction

A joint venture is "a contractual arrangement that creates a separate legal entity in which the parent firms hold ownership interests under conditions and provisions that are specified by a legal document" (Murray and Siehl 1989). According to Harrigan (1985), joint venture is formed by "separate entities with two or more active businesses as partners." Gomes-Caseres (1987) understands a joint venture as "a subsidiary in which the multinational enterprise owns 5 percent to 95 percent of equity." The equity can act as a governance mechanism (Brouthers and Hennart 2007). A joint venture is "an agreement by two or more parties to form a single entity to undertake

S. Ferencikova (✉)
School of Management/Vysoka skola manazmentu, Panónska 17,
851 04 Bratislava, Slovakia
e-mail: sferencikova@vsm.sk

T. Hluskova
Ministerstvo hospodarstva SR, Mierova 19, 821 05 Bratislava, Slovakia

© The Editor(s) (If applicable) and the Author(s) 2017

S. Marinova et al. (eds.), *Value Creation in International Business*,
DOI 10.1007/978-3-319-30803-6_4

a certain project. Each of the businesses has an equity stake in the individual business and share revenues, expenses and profits" (Išoraitė 2009). A joint venture is also "a fast and effective way to acquire the missing knowledge that partners require to innovate" (Anderson et al. 2011). A joint venture is not expected to have indefinite existence. Its instability might be measured by unexpected termination via dissolution, sell-off, or acquisition (Park and Ungson 1997). Contractor and Lorange (2002) point out that a joint venture is a separate entity providing risks and rewards for the partners.

The research gap concerning international joint ventures (IJVs) has lasted for more than a decade in Slovakia, with the last study being realized in 2001. However, the results of our current research show that there have been significant changes in the performance and management of these companies, which is in accordance with the development of the Slovak economy itself.

The inflow of foreign direct investment (FDI) into Slovakia significantly lagged behind the other Visegrad Group (V4) countries—the Czech Republic, Hungary, and Poland—in the 1990s. The situation began to improve in 2000 with a significant drop in 2009, when the FDI inflow was even lower than in the 1990s due to the start of the global economic and financial crisis. However, the FDI recovery was significantly slower than in the Czech Republic or Hungary. Despite this fact, Slovakia had the second largest stock of inward FDI per capita among the V4 countries in 2012 (National Bank of Slovakia 2015). FDI was crucial in the transformation of the Slovak economy, and its importance still persists: in 2013, all of the ten biggest Slovak exporters were affiliates of foreign companies. However, separate data on IJVs as part of FDI are unavailable in Slovakia.

According to Brenner and Ambos (2009), the majority of findings on the management of foreign subsidiaries is based on results from developed countries. Therefore, there is a lack of literature and theory on the performance of foreign subsidiaries in transition economies. Larimo and Nguyen (2015) note that only a few studies focusing on IJV strategies and performance in Central and Eastern Europe (CEE) are available: of more than 100 studies focusing on IJV performance, only nine dealt with IJVs established in Latin America or CEE; only two of them did not date back to the 1990s (Wright 2008; Larimo 2010).

Even though Central Europe was an attractive region for foreign investors in the 1990s, the attention of economists was focused almost solely

on the Czech Republic, Hungary, and Poland, with the exception of a few Slovak researchers. As for the view of the foreign investors, they were usually satisfied with the performance of their investment, as shown by the survey of 134 British companies which operated in the Czech Republic, Hungary, and Poland: more than 75% of them were satisfied with their business activities in the region; 39.1% of respondents stated that the results fulfilled their expectations; and the expectations of the other 36.7% were even surpassed (Ali 1997).

However, the cooperation with foreign investors often ended up as a disappointment for the Central European companies without previous experience of international strategic alliances. Clark and Soulsby (2009) focused their research on the case of DeutschMotor-Autodil Joint Venture, an IJV of Czech and German companies. Autodil was a former Czechoslovak state company which was forced to seek a foreign partner after the collapse of its export markets at the beginning of the 1990s. In 1992, it formed a joint venture with DeutschMotor, which had been its customer as well as competitor. Their intentions were typical for the respective types of companies at that time: the Czech firm wanted to get access to the global distribution network of DeutschMotor, to know the preferences of Western customers, and also to obtain finance to invest in Autodil itself. Access to state-of-the-art technology and managerial know-how were also important. On the other hand, DeutschMotor perceived the IJV as a base to enter CEE markets and as a means of access to a low-cost-yet-qualified labour force, patents, and knowledge about the local environment.

As was the case with many CEE–Western IJVs in the 1990s, this joint venture was finally transformed into a wholly owned affiliate of the Western company. Four critical incidents contributed to this outcome: the transfer of employees from Autodil to the IJV exceeded the initial agreement (DeutschMotor attracted the most skilled employees with higher wages), the loss making of the IJV due to DeutschMotor's transfer pricing strategy, the expansion of DeutschMotor into the Czech Republic outside of the IJV, and the increase of DeutschMotor's capital investment in the IJV, which was unacceptable for Autodil, as it did not have funds to match DeutschMotor's investment in order to keep its stake on the same level. Thus, the intentions of the German company turned out to be radically different than Autodil expected.

As for the stakes of the respective partners, Zeira et al. (1997) analysis of 34 equity IJVs in Hungary showed that the more parent firms are satisfied with the ownership arrangements, the more effective the IJVs are. They explain that when parent firms are content with their stakes in IJVs, they are more willing to contribute to the IJVs which might lead to better performance.

Lyles and Baird (1994) conducted a research aimed at IJVs in Hungary and Poland. The number of IJVs in Hungary dramatically increased from 1330 in 1989 to more than 11,000 in 1991. Research results suggest that there are no important differences between IJVs in the respective countries. Employee benefits, support from the foreign partner, and the participation of the local partner in the decision making process had a positive effect on the performance of IJVs. On the other hand, the foreign partner's significant impact on the decision making had a negative effect on IJV performance. IJV managers perceived the financial and technical support from Western investors to be sufficient, as opposed to marketing support, for example.

Brouthers and Bamossy (1999) investigated eight IJVs between Western investors and state companies from Hungary and Romania. The results of their research showed that the majority of the successful IJVs changed their equity and control structure in favor of a Western partner in the first six years of existence. The quick resolution of cultural differences also contributed to alliance success. Nevertheless, trust between partners was built only slowly.

The comparison of research results in the aforementioned countries show some similarities with the Slovak IJVs, notably the different expectations of local and foreign partners. The perception of support from a foreign partner in Slovak IJVs was also often negative.

International Joint Ventures in Slovakia in the 1990s

As Slovakia faced the scarcity of internal capital resources, FDI played a major role in the transformation of the country's economy. Joint ventures were particularly important, especially at the beginning of the 1990s, as

they acted as a tool for risk-sharing by the Western companies in the then uncertain and hardly predictable environment.

Even though IJVs played an important role in the transition of the Slovak economy after the fall of the socialist regime, only a few authors paid attention to this type of company, namely Ferencíkova et al. Their research was focused either on selected manufacturing IJVs or on the companies with foreign partners from a particular country. Their research was conducted in the 1990s, therefore it does not reflect the major changes which have since influenced Slovakia, such as accession to the European Union (2004) or the adoption of the euro currency (2009). Slovak companies themselves also experienced an important development, as they were affected by the inflow of foreign investment and also their own activities abroad. They were thus able to amass knowledge from their experience of operating in the home and foreign markets.

The opening of the then Czechoslovak and subsequently Slovak market provided Western investors with new opportunities to expand their business. According to Hošková and Šestáková (1993), the main motivations for joint-venture creation in the former socialist countries were:

- increase of profits;
- taking advantage of the home-market knowledge of the CEE partner;
- gaining access to raw materials;
- lower costs of production (e.g., cheaper labour force);
- application of company's own technology in the host country in order to prolong its life-cycle.

However, as the situation in CEE countries was radically different to that in Western markets, the CEE companies also had rather different reasons for the creation of partnerships (Hoskova and Sestakova 1993), namely:

- gaining access to modern technologies, know-how, and managerial experience of the Western firms;
- gaining access to foreign currency;
- foreign-market entry;
- increase of employment, wages, and labour-force qualification.

In Slovakia, many of the state companies (or their parts) were made available for the entry of foreign investors. From the state's point of view, IJVs are potential taxpayers contributing to the state budget. The transformation of the economy itself would be much more difficult (and probably impossible) without foreign investment. Some of the companies which were considered for the entry of foreign investors were the home-market leaders (e.g., Tatramat, a producer of washing machines, which formed an IJV with Whirlpool in 1992). Western companies could therefore gain a dominant position in the Slovak market by the formation of an IJV.

Before the establishment of the sovereign Slovak Republic in 1993, the joint venture was the most widely used type of FDI in the country, which was part of the Czech and Slovak Federal Republic. As of December 31, 1992, joint ventures accounted for kč5 billion (Czechoslovak koruna), which represented 75.8% of the overall FDI stock in Slovakia. In the middle of 1996, there were 9419 entities with foreign equity in Slovakia, 5626 of them (60%) being joint ventures, with foreign investment worth US$411 million. However, the share of IJVs on all entities with foreign equity was gradually declining from 72% in 1993 in favor of the wholly owned subsidiaries. As for the structure of the sector, IJVs accounted for 88.9% of entities with foreign equity in manufacturing, 60.6% in finance and insurance, 20.5% in wholesale and retail, and only 2.9% in accommodation and restaurants (Ferencíkova 1996).

According to data in the Global Slovakia database (2015), IJVs accounted only for 20.5% of the foreign-invested companies. However, this percentage included also the companies which could be labeled as IJVs only formally, as one of the partners could have as little as a 1% stake for the company to be perceived as an IJV. This was in contrast with other CEE countries, where the IJV was the prevalent FDI mode (Gurau 2009). However, Slovak companies often did not enter partnerships with foreign investors with clear strategic intentions—a comparison of the actual performance with the initial strategy of the IJV was therefore complicated. Nevertheless, Slovak managers usually had a positive opinion of the IJV performance. They appreciated higher innovation activity, improved quality of the products, better work discipline, and motivation of the employees (Hoskova and Sestakova 1993).

On the other hand, Western companies were rather disappointed with the macroeconomic environment, which did not meet their expectations

(higher taxes compared to neighboring countries, a steep fall in consumer demand, and an undeveloped financial sector). A similar situation occurred in the field of company management in the Slovak firms (insufficient work discipline and identification of the managers with the company, low quality of production, absence of basic managerial knowledge, or problems with logistics). It was extremely difficult to predict the development of the environment in the CEE countries and the pace of transformation from the centrally planned to the market economy at the beginning of the 1990s (Sestakova 1994).

The consulting company Neumann conducted research among local and foreign managers in the Czech Republic, Hungary, Poland, and Slovakia about their experience with IJVs established in these countries at the beginning of the 1990s. The Western managers emphasized the need to pay more attention to the local mentality and environment, as well as to problems in communication with local managers: besides the language barrier, there were differences in traditions and organizational culture. All of these aspects posed possible threats for the effectiveness of the IJV (Sestakova 1994).

At the beginning of the 1990s, there were many local managers in IJVs because they knew the mentality of the employees and the environment in the country; they also had contacts with suppliers, customers, and the state authorities. However, Western managers were not satisfied with their unwillingness to take risks, their slow decision-making processes, and their efforts to avoid taking personal responsibility. Local managers lagged behind their foreign counterparts mainly in the fields of marketing and financial management. On the other hand, foreign managers appreciated their willingness to learn new management approaches, competence, and creativity in production management and in technical issues, as well as to gain a broad general knowledge (Sestakova 1994).

According to the opinion of both groups of managers, different organizational cultures and management styles were gradually converging—and they should have reached Western standards in five to six years. Virtually all of the Slovak companies adapted to the conditions of the foreign investors.

Better-informed partners, and partners with an increased ability to cope with market requirements, usually gained the leading position in the alliance. A major problem of the Slovak companies was dismantling

their own research and development (R&D) and becoming entirely reliant on that of the foreign partner. Slovak firms often relied on alliance partners in other company processes as well. However, the IJV agreements were quite ambiguous: they did not deal with the financing or the division of the IJV profits among the partners (Sestakova 1994).

Over time, the share of Slovak partners was declining, and many of the IJVs became affiliates of foreign investors. This shift can be explained by the progressive decrease of the risk of economic and political instability in Slovakia, which reached its highest level after the establishment of the Slovak Republic in 1993. The only exception is the manufacturing sector, where foreign investors still preferred partnerships with Slovak companies in order to gain access to their production facilities, market knowledge, and qualified labour force. Manufacturing was also more capital intensive, and thus riskier than other sectors. The main advantage of Slovakia was the relatively cheap, yet qualified, labor force, therefore it was possible to cut production costs in order to improve the competitiveness of the foreign companies in world markets.

The reasons for the transformation of the IJVs into affiliates of the foreign partners were mainly the global strategy of the foreign company, conflicts among partners, and the unwillingness or inability of the Slovak company to invest in the IJV in order to preserve its equity share. Slovak partners also often sold their stake in the IJV, because they wanted to obtain finance to solve problems in the Slovak company itself (Ferencíkova 1996). However, many of the Western partners also planned to transform the IJV into their wholly owned subsidiary as soon as possible, as they perceived it only as a tool to meet the government conditions of market entry.

The investment needs of Slovakia were far beyond what local companies could offer. State institutions were therefore trying to attract especially large, strategic investors in order to gain modern technologies, increase labour productivity, implement new managerial methods and corporate culture, increase employment and exports, and involve local suppliers.

In some cases, these expectations were met; however, the examples of the companies included in research by Ferencikova (1997)— BAZ-Volkswagen, Tatramat-Whirlpool, Samsung-Calex, and BC Torsion—show that even though the foreign investment had a significant transformational effect on particular companies, the impact on the

Slovak economy as a whole was limited. However, the transformation often led to staff reduction. None of the four IJVs used the highly qualified labor force for R&D, which remained within the sole competence of the foreign investor. The involvement of local suppliers in the IJVs' supply chain was also limited, mainly due to insufficient quality or low price competitiveness. Foreign investors used three of the given four IJVs as a tool to gain control over the Slovak company, which had a rather weak bargaining position. In another study by Ferencikova (2001), the examples of Volkswagen-BAZ, Alcatel SEL-Tesla, DIRICKX-PSB, Whirlpool-Tatramat, Henkel-Palma, and Hoechst-Biotika joint ventures show that foreign investors introduced the following changes in company operations (Ferencikova 2001):

- **higher quality of products:** foreign investors started the production of the brand new products or modified existing local products,
- **improvement in technology:** by means of the technology transfer from the foreign partner to the IJV; in many cases, foreign companies made available their state-of-the-art technologies;
- **improvement of the labour-force qualification:** even though Slovak companies disposed of qualified workers, foreign partners invested in language or technology training; another important aspect was the improvement of managerial skills of the Slovak managers, as there were only a few expatriates in Slovak IJVs in the 1990s;
- **implementation of managerial know-how:** foreign companies brought new standards of accounting, corporate finance, or organizational structure, as well as modern methods of human resources management (remuneration, motivation, or leadership);
- **implementation of modern marketing methods:** transfer of marketing know-how from the foreign company to the IJV contributed to the latter's higher competitiveness, the application of market-research methods led to higher satisfaction of customers, and lower costs of inputs procured from the supply chain of the Western partner were also important;
- **knowledge of foreign markets:** transfer of this know-how helped the IJVs to export goods on their own, and later even without any help from the foreign partner;

- **higher labor productivity:** this reflects a better organization of work, better qualified employees, improved management, and usage of new technologies.

Slovak IJV partners expected that these positive effects of cooperation would be transferred to their own companies; however, these expectations were met only to a limited extent, due to several factors:

- **unintentional learning:** whether in management processes or corporate culture, this learning may be supported by the exchange of the workforce between the IJV and the Slovak parent company or by the location of the IJV near or in the premises of the Slovak partner firm;
- **intentional learning:** the local company could make use of the know-how amassed in the IJV in marketing, management of human resources, or in decision-making processes;
- **acting as a supplier for the IJV:** in this case, the Slovak company had direct access to the quality requirements of the IJV and indirect access to the timing of supplies or the business ethics rules applied in the IJV;
- **acting as a supplier for the Western partner company:** this kind of cooperation brought similar benefits as in the previous case;
- **acting as direct competition to the IJV:** this would probably lead to the worsening of the cooperation, not only with the IJV, but with the Western partner as well;
- **receiving dividends or cash for shares after a buyout by a foreign company:** this might help in solving the financial problems of the Slovak company, but it is questionable whether it could bring long-term positive change.

Another study by Ferencikova (2000) conducted in 1998–1999 was aimed at the most important foreign-invested companies in Slovakia. Companies with a foreign investor's equity stake higher than Sk10 million (Slovak crowns) were included in the sample. According to the database of the Ministry of Economy of the Slovak Republic, there were 208 such companies in 1997, which accounted for a 92% share of inward FDI in Slovakia at that time, 117 of which took part in the survey (a response rate of 56%).

Of these firms, 67 (57.3%) were joint ventures and 50 (42.7%) were wholly owned affiliates. Among the joint ventures, foreign investors had a majority stake in 80% of them. One-third of the joint ventures was created before the establishment of the sovereign Slovak Republic on January 1, 1993, and 38% of the rest were established in the two-year period of 1993–1995. This fact may indicate that Slovak companies lacked the capital, attractiveness, and bargaining power for foreign investors to be interested in creating a partnership with them in the latter years.

Besides the aforementioned authors, only Kita (1999) conducted other research into IJVs with Slovak participation, which was focused on the French–Slovak partnerships. The aims of these joint ventures were the development of new products by using the competences of the foreign partner, the modernization of the technology, the sharing of costs and risks, time-saving and economies of scale in the production and commercialization of goods, the prevention of opportunistic behavior, inflow of capital to the Slovak economy, know-how transfer, usage of the foreign partner's brand and licences, entry to the foreign markets via the distribution channels of the French company, regional development, or the creation of new jobs.

There are several advantages which Slovak companies could provide for their French partners (Kita 1998):

- the addition of new products to the French company's portfolio;
- a qualified labour force;
- lower costs reflected in the lower prices of products;
- knowledge of Slovak and other Central European markets;
- the possibility of buying cheaper raw materials;
- the exchange of know-how.

Two research projects into French–Slovak IJVs were conducted in 1996 and 1998. The first of them was based on a research sample of 41 companies. The majority of these IJVs had Slovak chief executive officers (CEOs) at that time. Slovak managers were also often in charge of marketing, production, or human resources management. As for the management methods, the majority of the companies used modern methods inspired by the French partner firms. On the other hand,

Slovak managers could contribute to the performance of the IJV with their knowledge of the local competitive environment. To foster successful coordination of the partner firms' activities, French managers used to visit the IJVs in Slovakia. These companies usually reported their activities directly to the top management of the French partner.

Research conducted in 1996 showed that regular visits of the French managers to the IJVs in Slovakia, and the organization of training and traineeships of Slovak personnel in order to familiarize them with the corporate culture and management style of the French company, had a positive impact on the performance of the IJV. The reliance on Slovak managers therefore posed no threat to the coordination of the partner firms or the transfer of know-how—on the contrary, the involvement of Slovak managers secured better orientation of the IJV in the Slovak environment (Kita 1997).

The other research from 1998 concerned 50 companies with French equity established in Slovakia (Kita 1999). Of the IJVs, 50% were active in the service sector, 30% in manufacturing, and trading companies formed the last 20% of the sample. Seventy-five percent of companies were established as a consequence of the French firm's initiative. Personal contact among the representatives from France and Slovakia took place at the beginning of many alliance talks, especially in 1990–1993. Of the IJVs, 67.4% were based in Bratislava, the capital of Slovakia. This geographical concentration was caused by the favorable investment environment of the city, which could not be matched by other Slovak regions (mainly due to the lack of infrastructure).

The most common type of investment was market-oriented, followed by: investment aiming to improve the image and credibility of the French partner by its presence in Central Europe; investment willing to make use of the favorable geographical location of Slovakia; investment motivated by the credibility of the Slovak partner; and investment aiming to make use of financial incentives. The majority of the CEOs were Slovak, a prevalence that was even more visible in other managerial positions (marketing, production, finance, and human resources).

Only 20% of the companies declared a rise in exports as an important motive. The majority of the IJVs focused their activities on the Slovak market, 10% on the French market, and 25% on other foreign markets. Strategic management was characterized by the fragmented approach.

Table 4.1 Summary of the positive changes brought by the French-Slovak IJV

Benefits of French-Slovak IJVs for partners and Slovak economy
Introduction of new technologies to produce new or improve the quality of the existing products
Friendly relations among the partners
Easier transition of Slovak companies to the market economy
Broader and modernized assortment
Entry of the Slovak company to the French partner's supply chain, and thus potential input-quality improvement and higher reliability of supplies
Increase of the qualification of the Slovak employees
Creation of new jobs
Replacement of the old machinery
Modernization of the organizational and managerial systems and creation of new corporate culture
Possibility of the exports of the goods

Source: Adapted from Kita (1997) and Kita (1998)

The strategy of the French partners prevailed in marketing. However, in areas such as R&D, finance and production, and most of all in human resources management, the approach of Slovak managers was more dominant. Once again, the research confirmed that the nationality of the manager does not have a negative influence on the introduction of new managerial processes to the companies. The benefits of the French–Slovak IJV are summarized in Table 4.1:

No other research focused on one specific foreign partner country has been conducted in Slovakia. However, the results of the two aforementioned studies about French–Slovak IJVs confirm that the basic positive effects of IJVs on the Slovak business environment include a decrease of unemployment, an increased quality of production, and an increase in exports.

Development of the Business Environment in Slovakia

Slovakia underwent significant changes to its business environment which made it more attractive to foreign investment. However, the conditions for doing business are still not ideal, namely for local companies which cannot count on investment incentives as their foreign counterparts do.

The most important changes are linked with the effort to become a member of the European Union, among them debt elimination and the subsequent privatization of the banking sector in 2000–2001, and the partial or full privatization of utility companies (electricity, gas, and telecommunications providers). Tax reform, effective in 2004, represented another major shift in the Slovak business environment. Other notable reforms include labor market and social welfare reforms, and the decentralization of public finance management. All of these changes took place during the first and second governments of Prime Minister M. Dzurinda.

In its Doing Business 2005 report, the World Bank labeled Slovakia as the leading reformer in the world in 2003, with reforms taking place in all of the indicators—including starting a business, hiring and firing, enforcing contracts, and getting credit—by introducing flexible working hours, easing the hiring of first-time workers, opening a private credit registry, cutting the time to start a business in half, and reducing the time to recover debt by three-quarters. Slovakia ranked 17th overall on ease of doing business (The World Bank 2005). Major steps were taken to make the labor market more flexible: the introduction of part-time contracts for students, women, and retirees; the possibility of extending term contracts up to five years; the rise in the overtime limit from 150 to 400 hours (with the worker's consent); and the non-requirement of consent from a labour union to lay off a worker or to change shift hours within a four-month period, as well as to enact group dismissals (only notification is required).

As part of the collateral law reform in 2002, Slovakia permitted the use of all movable assets as collateral—present and future, tangible and intangible—abolishing the requirement for specific descriptions of assets and debts. At that time, more than 70% of all new business credit was secured by movables and receivables and credit to the private sector increased by 10% (The World Bank 2005).

However, the most important event was without doubt the tax reform of 2004, which was associated with the introduction of a flat income and value added tax rate of 19% and the overall simplification of the tax system. The focus shifted from direct to indirect taxes and exceptions, exemptions, and special regimes were abolished.

As for personal income tax, the previous system had been progressive, with five different tax rates ranging from 10% to 38%, depending on

the sum of the taxable income. Corporate income tax also used to be flat before the reform, but was 6 percentage points higher at 25%. The 15% dividend tax perceived as double taxation was cancelled in 2004. There were also two rates for value added tax: 20% and a reduced 14% for basic food, medicaments, electricity, and hotel and restaurant services (Zachar and Golias 2010).

Since then the Slovak tax system has gone through several adjustments: value added tax was increased to 20%, corporate income tax to 22%, and personal income to two rates (19% and 22%), depending on the level of income (Finančná správa 2015).

The state of the Slovak business environment is evaluated in the quarterly Business Environment Index, published by the Business Alliance of Slovakia. The satisfaction of entrepreneurs with the development of the business environment has been decreasing for 17 consecutive quarters, starting in the fourth quarter of 2010. The constant changes in legislation, the increase of the tax burden, and weak law enforcement all rank among the biggest business environment flaws according to respondents in the fourth quarter of 2014 (Podnikateľská aliancia Slovenska 2014).

In its *Transition Report 2014*, the European Bank for Reconstruction and Development lists the revival of competition in the gas market (following the recent acquisition of a stake in the gas utility company SPP by the state), innovation boosting in SMEs (including incentives for start-ups and reform of the education system), and streamlining of the administrative procedures and strengthening of the management of EU funds among the key priorities for Slovakia in 2015 (European Bank for Reconstruction and Development 2014).

International Joint Ventures in Slovakia: The Present Situation and Research Questions

Methodology

The economic situation in Slovakia has significantly changed since the end of the 1990s: the country joined the European Union in 2004 and adopted the euro currency in 2009. Nevertheless, no detailed research

focused on IJVs with Slovak participation has been conducted since the aforementioned studies by Ferencikova et al.

In order to draw a comparison between the current research and the studies made in the 1990s, we pose three research questions focused on the most important aspects of IJV establishment and operations:

1. What are the motives of Slovak–foreign IJVs?
2. How important are the various performance criteria for the IJV partners?
3. Are the IJV partners satisfied with the performance and strategy of the IJV?

The following research is therefore the first attempt to compare the characteristics of current Slovak–foreign IJVs with similar entities in the 1990s. It is aimed at the planning, managing, and performance outcomes of IJVs that involve the participation of Slovak companies. The information about the IJVs of the 1990s was obtained from the previous studies.

The information for 2012–2014 was gained via a questionnaire survey. This was divided into three sections: background information and structural characteristics of the IJVs; IJV relationship characteristics; and ownership changes and performance-related issues. For the purpose of this study, an IJV is a company formed by at least two entities from different countries, at least one of which is of Slovak origin.

The companies were asked to fill in the questionnaire only if they fulfilled the following conditions: (1) the company is a partner in an IJV established and conducting business in Slovakia, and (2) the company established in Slovakia is a partner in an IJV established and conducting business in a country other than Slovakia.

The survey would not have been feasible in the 1990s, as there were only a few IJVs in Slovakia then and the case study method would thus have been more appropriate. (Similarly, a majority of the CEE studies derive their conclusions from a relatively small sample size or from case studies; see for example, Hyder and Abraha 2006; Hyder and Abraha 2008.)

As there is no register of IJVs in Slovakia, the names of companies—as potential survey respondents—were searched for in newspapers, magazines, and on the Internet. Several companies were contacted due to our

previous knowledge of their equity structure (based for example on the case studies from the 1990s).

As for the rest of the potential research sample, their ownership structure was verified using the information available in the Obchodný register, the Slovak business register, specifically the names and countries of origin of the associates (in the case of a limited liability company—*spoločnosť s ručením obmedzeným*) or, if stated, the shareholders (in the case of a joint stock company—*akciová spoločnosť*). Finally, we addressed 150 companies that are IJVs with Slovak participation.

In 2012–2014, 45 questionnaires from IJVs with Slovak participation were collected, a response rate of 30%. These companies represent all firm sizes (micro, small, medium, and large) and all sectors of the economy (agriculture, manufacturing, and services). The companies with the participation of the state or municipalities are also included in the sample.

To sum up, we used following methods:

A. Brief analysis of the relevant studies on IJVs in Slovakia after 1989: (1993); a transformation phase with this method applied: a literature review and six case studies as the basis of research, i.e. the case study method, interviews, internal materials, press review (1994–1996), questionnare survey (1997–1998); 50 IJVs (56% response rate).
B. Questionnare survey: 45 IJVs out of 150 identified (30% response rate); market economy phase (2012–2014).
C. Comparative analysis.

Characteristics of the Research Sample Taken from the Market Economy Phase

The research sample consists of 17 (37.8%) large (250 and more employees) companies, 7 (15.6%) medium-sized (50–249 employees) firms, 11 (24.4%) small (10–49 employees) enterprises, and 8 (17.8%) micro-companies (less than ten employees). Two companies stated their number of employees to lie in the interval of 10–99; we can therefore assume they are either small or medium-sized firms. This division is based on the European Commission definition of small and medium-sized enterprises (European Commission 2003).

As for the line of business of the IJVs, 17 (37.8%) companies are active in the field of industrial products, four (8.9%) in consumer products, and three (6.7%) in both of them. The line of business of the remaining 21 (46.7%) companies can be labeled as "other"—meaning mostly various types of services, but also agriculture or technology development. This changing structure is the result of numerous developments, notably the changing structure of the Slovak economy itself, the emergence of new industries that were non-existent in the 1990s (for example, mobile and Internet technologies), and the liberalization of conditions for foreign investors, related to the accession of the Slovak Republic to the European Union.

Research Results

As for the motives for the establishment of IJVs, the Slovak partners ranked them as follows (from the least important to the most important): overcoming of government regulation barriers, access to low cost inputs, reduction of capital investment, learning from the partner, access to distribution channels of the partner, access to new technologies, and establishment of a base to access other countries. These motives are complementary with those of foreign investors in CEE, notably to gain access to local markets and to build a long term position in them (Marinov and Marinova 2000). Meyer (1998), Manea and Pearce (2006), and Slepniov et al. (2013) also point out that the majority of the investment in CEE can be labeled "market seeking."

Many of the IJVs in the 1990s have not met the expectations of the Slovak partners. However, the opinion of their foreign counterparts might be substantially different. The performance of a company is a very subjective matter and the indicators for its assessment thus cannot be generalized for all companies, let alone IJVs, where the possibly different opinions of the several partners have to be taken into consideration. The importance of various performance criteria for the IJV partners was therefore one of the research areas of focus.

The measurement of IJV performance may be problematic because the goals of the alliance might not necessarily be linked with a certain

level of financial criteria, such as sales or profits. The aim of the cooperation might be joint research, the development or launch of the new product, or the avoidance of government regulations. In these cases, the alliance might end following the mutual agreement of the partners after the accomplishment of the cooperation's main goal.

Beamish and Lupton (2009) divide joint venture performance indicators into two groups: (1) subjective: the opinions of the JV managers or partners; and (2) objective: the indicators that can be obtained from external sources, such as company financial statements or third-party surveys—they may also include the criteria of profitability, JV longevity, change in the market value of the JV partners, or alliance stability as assessed by ownership changes.

Jain and Jain (2004) studied the importance of various performance criteria on the example of Indian automotive IJVs. They divided the performance criteria into four dimensions:

- **partner interaction parameters:** satisfaction of partners, state of the organization, employee satisfaction, age of the IJV;
- **customer and product dynamics:** increase in product range, customer satisfaction, market share;
- **financial performance measures:** return on equity, rate of return on capital employed, P/E ratio;
- **company turnover:** capacity expansion, exports as a percentage of sales turnover, sales turnover.

The results of their research show that the most important performance measure is the partner interaction parameter, because—as opposed to individual companies—partner satisfaction and dynamics have higher priority than financial criteria. The preference for a long-term perspective in IJVs leads to the higher importance of partner related factors in deciding the alliance's objectives.

Nguyen and Larimo (2010) list these determinants of IJV performance measurement:

- the motives for entering IJVs;
- modes of IJV establishment;

- the IJV location;
- distribution of ownership in IJV;
- national cultural background of foreign partner;
- trust between partners;
- international and target-country specific experience;
- relatedness of the partner firms' businesses;
- the life stage of the IJV.

In his research of 140 IJVs established by Finnish firms in CEE in 1990–2005, Larimo (2010) assessed their performance from three perspectives:

- the existence of the business entity either in the form of an IJV or a Finnish–partner affiliate;
- the existence of the IJV with the participation of the Finnish company, hence if the IJV has not become an affiliate of one of the partners or ceased to exist;
- the stability of the ownership structure (changes of less than 10% of shares, which did not lead to a change from minority equity ownership to parity or majority ownership).

Varblane et al. (2005) found that foreign parent firms giving more autonomy to their subsidiaries in transition economies, especially in terms of finance, leads to better performance of subsidiaries. However, various authors seem to use indicators chosen by themselves, while examining the performance of joint ventures, without taking into account the opinion of the companies themselves. One of the goals of our research was therefore to find out how important particular performance indicators are for the IJV partners taking part in the questionnaire survey. To be more specific, this part of the research was aimed at IJVs established by the partial acquisition of existing companies, as these were the prevalent alliance type after the opening up of the Slovak market.

When it comes to IJVs established by the partial acquisition of an existing company, it might be expected that financial criteria would have higher importance than non-financial performance indicators, as it could be assumed that the firm was chosen for acquisition on the basis

of its previous successful business activities. As for the IJVs established as a greenfield investment, the partners usually do not expect immediate business success, because the alliance must develop its customer base and distribution channels first. In this case, it might be expected that the non-financial performance criteria might be preferred above the financial measures (Nguyen and Larimo 2010).

The respondents were asked which criteria they use for the performance assessment of an IJV: 1—not important at all, 2—fairly unimportant, 3—neutral, 4—fairly important, 5—very important. The financial criteria include the level of sales, sales growth, market share, profitability, and return on assets. The non-financial criteria are efficiency of distribution, efficiency of marketing, manufacturing and quality control, cost control, accomplishment of the goals set for the IJV, and overall performance compared to competitors.

As for the research sample, 18 (40%) of the 45 IJVs were established by the partial acquisition of the existing company. Results of the survey show that cost control is the most important performance indicator for the partners in IJVs established by partial acquisition, followed by the level of sales, sales growth, profitability, and accomplishment of the goals set for the IJV. On the other hand, the efficiency of marketing is the least important performance measure, according to respondents. The second least important indicator is efficiency of distribution, with market share in third place. The remaining criteria—return on assets, manufacturing and quality control, and overall performance compared to competitors—followed the three most unimportant measures and were on the same importance level for the responding companies.

The partners in IJVs established by partial acquisition therefore seem to prefer a more complex performance assessment, which might be connected with the complexity of the IJVs themselves: the need of cooperation among the partners from different countries is the specific attribute which distinguishes them from other types of companies. The reasons for the establishment of the IJV must also be taken into consideration, as they do not necessarily have to be associated with a certain level of financial criteria. The IJV performance evaluation seems to be too complicated to define a set of performance indicators which could be used by all IJVs or by the majority of these alliances. The decision about the

priorities and methods for assessment of their accomplishment is above all dependent on the agreement among the IJV partners. To sum up, the research shows that the partners in IJVs with Slovak participation established by partial acquisition do not prefer financial performance criteria over non-financial indicators—rather they assess performance by the more complex set of measures.

The research shows that respondents were most content with the level of the quality and production control, followed by cost control, the level of sales, and accomplishment of the goals set for the IJV. These results indicate that the IJV partners are more satisfied with the level of non-financial criteria.

Questions about the partners' satisfaction with overall IJV performance, its current business and management strategy, and long-term plans were also included in the questionnaire. As for the satisfaction with overall IJV performance, 43 joint-venture partners expressed their opinion on this issue. Only two (4.7%) of them were not satisfied with the overall alliance performance, nine (20.93%) held a neutral view, 23 (53.5%) stated they were satisfied, and nine (20.9%) were even very satisfied. The majority of respondents were thus at least satisfied with the overall IJV performance.

The satisfaction with current business and management strategy of the IJV seems to be even higher, as eight (21.1%) partners strongly agreed with this statement, 22 (57.9%) partly agreed, eight (21.1%) held the neutral view, and 38 expressed their opinion on current IJV strategies.

Thirty-eight respondents also answered the question whether they planned to participate in an IJV in the long term. Only one firm did not plan to continue its participation in the joint venture, five (13.2%) held the neutral view, 12 (31.6%) partly agreed that they planned to stay in the alliance, and 20 (52.6%) strongly agreed that they planned to continue the cooperation.

According to the opinions of respondents, the majority of them are at least partially satisfied with the performance and overall strategy of their IJV. The majority of the partners intend to continue their participation in IJV as well. In contrast to many of the IJVs with Slovak participation in the 1990s, the partners in current alliances seem to be—at least to some extent—content with their participation in these partnerships.

It is necessary to underline that a comparison of the performance of joint ventures may be very difficult, because they do not form a homogeneous group of companies. The priorities of the partners and their ideas about the success of IJVs may also be rather different, which stems from the various goals set for them. The termination of an IJV cannot be considered as a failure automatically, because the alliance might have accomplished its goal and its further existence thus has no justification. In the same way, the seemingly unsatisfying levels of the various financial criteria do not have to influence the partners' IJV performance assessment negatively, because the aim of the IJV could have been foreign market entry or technology development, and not primarily profits. The performance assessment is therefore a highly subjective matter, depending mainly on the satisfaction and opinion of the IJV partners.

The results of the survey show that IJVs with Slovak participation underwent major developments in certain aspects of their establishment and functioning. First of all, 38 of the 45 alliances still exist as IJVs between Slovak and foreign partners, which is in sharp contrast to the situation in the 1990s, when many foreign investors came to Slovakia with the intention of transforming the joint venture into their wholly owned affiliate. We can state that Slovak companies used to be viewed only as tools for Slovak market entry within the frame of market-oriented or resource-oriented investment because, due to government regulations, Western companies could not enter on their own.

The state of the Slovak economic environment has also substantially changed since the 1990s. Investors no longer have to use a joint venture as a tool to overcome government-regulation barriers, mainly due to the accession of Slovakia into the European Union in 2004 and the free movement of capital in the single market. Slovak companies also have their own valuable assets (in some cases, the results of their own research and development) which might be interesting for foreign companies; therefore they are attractive not only in terms of cheaper inputs and lower production costs. Foreign investors thus have other motives for creating joint ventures than simply faster market entry or a cheap labour force. In other words, foreign partners might be motivated to stay in the IJV and not to try to transform it into their wholly owned affiliate.

Another way in which the development of Slovak–foreign IJVs can be seen is in terms of business and management strategy. Managerial know-how was one of the areas of interest of the Slovak partners in the 1990s. Besides this fact, foreign partners usually considered the management style of the Slovak companies inappropriate for an IJV. As a result, the IJV often adopted the strategy of the Western company. The survey results suggest that the situation has changed: nowadays, partners often combine the best aspects of their respective strategies, or the IJV even applies a strategy similar to that of the Slovak partner. This development might hint at the improved level of Slovak companies' managerial know-how or it also might indicate the foreign company's belief that the Slovak partner's strategy is more suitable for the conditions of the Slovak market. In some cases, the strategies of both partners are used in the IJV, which might point out their similarity or complementarity.

As has already been mentioned, many Western companies entered the alliances with Slovak partners with the aim of transforming the IJVs into their wholly owned affiliates as soon as possible. However, Slovak companies usually did not know about these intentions and planned to participate in the IJV in the long term—they were thus often surprised by the opportunistic behavior of their foreign partners. Nevertheless, the situation has changed dramatically, according to the results of the survey. The vast majority of the respondents strongly or at least partly disagreed that the partner companies engage in opportunistic behavior. On the other hand, more than 80% of the companies strongly or partly agreed that their relationship with foreign partners is characterized by a high level of trust. A high level of commitment and trust also had a positive influence on the performance of ten Finnish IJVs in the Baltic states in the study conducted by Larimo and Nguyen (2015). Mattsson and Salmi (2013) also point out the importance of trust for the partners to commit their resources in a business relationship in transition economies. The perceived absence of opportunistic behavior and the high level of trust create preconditions for the successful cooperation of partners and subsequently also for the high performance of IJVs.

Conclusions

The results of the current research have made possible a comparison between Slovak–foreign IJVs in the 1990s (Ferencikova 2000) and today. Data concerning the first research question on the motives of IJV establishment show the significant development of these business entities closely connected with the development of the whole Slovak economy. The most striking difference is the lower importance of learning from the partner as a reason for establishing the IJV. The significance of capital investment as a motive of IJV creation has also decreased.

The lower requirement for learning might be explained by the more than 20-year period of a market economy existing in Slovakia. During this time, Slovak companies have been able to amass the knowledge needed for their success, based on their own experience.

The situation concerning capital investment has also significantly improved: Slovak partners have more opportunities to obtain finance than in the 1990s, as the banking sector is more developed. The accession of Slovakia into the eurozone in 2009 also represents an important milestone in the simplification of capital access.

However, the importance of market-seeking motives has increased: access to the EU single market and the higher confidence of Slovak companies stemming from their growing experience in doing business abroad has led to their willingness to expand into foreign markets (see Table 4.2).

As for the performance criteria, their respective importance reflects the differences of the motives for establishing an IJV and the overall economic situation in Slovakia between the 1990s and the present time.

Table 4.2 Motives of Slovak partners for IJV creation in the 1990s and today

Transformation phase	Current situation
Learning from the partner (transfer of know-how in production/operations, management, marketing, etc.)	Market-seeking motives (creation of a base to access foreign markets, access to distribution channels)
Capital investment from the partner	Access to new technologies
Profit sharing	Learning from the partner
Saving the company or jobs	Sharing of capital investment
Market access via partner	Access to low cost inputs

Criteria in the transformation phase express the effort of Slovak companies to integrate themselves in the market economy, hence the motives for higher product quality, employment and export growth, and know-how transfer. At present, the performance measures preferred by Slovak IJV partners show that they have established themselves in the market and no longer perceive the development-associated criteria as the most important. It is worth noting that Slovak firms do not prioritize financial over non-financial criteria—both of these groups of measures are essential for assessing IJV performance in its complexity (Table 4.3).

The comparison of the satisfaction of IJV partners between the two studies shows that the companies were content with the alliance performance in terms of goal achievement, and the majority of respondents of the current survey are satisfied or very satisfied with the IJV performance. However, the broader picture of partnerships in the transformation phase suggests that the Slovak partner companies were often disappointed with the behavior of the foreign investors who tended to perceive the IJVs only as vehicles for market entry with the intent of turning them into their wholly owned affiliates as soon as possible. A distinction should be made between the performance of an IJV and the partner company: even though the IJVs often succeeded and many of them continue to exist as affiliates of the foreign companies, a large number of Slovak partners withdrew from the partnership or ceased to exist at all (Table 4.4).

The development of IJVs speaks for much of the development of the Slovak economy itself. Even though many of the IJVs established at

Table 4.3 Performance criteria of IJVs in the 1990s and today

Transformation phase	Current situation
Higher quality of goods and services	Cost control
Sales growth	Sales volume
Profitability growth	Sales growth
Capital investment	Profitability
Employment growth	Goals set for IJV
Export growth	Efficiency of marketing
Know-how transfer	Efficiency of distribution
Supplier network development	
Financial and non-financial factors	Financial indicators are not preferred to non-financial indicators

Table 4.4 Partners' satisfaction with IJV performance in the 1990s and today

Transformation phase	Current situation
Questionnaires (*48 answers*)	*Questionnaires* (*43 answers*)
33.3% (16 companies)—goals fully met	21% (9 companies)—very satisfied
58.3% (28 companies)—goals partially met	53.5% (23 companies)—satisfied
8.3% (4 companies)—goals not met	21% (9 companies)—neutral
	4.5% (2 companies)—not satisfied

the beginning of the 1990s were originally intended to become gradually wholly owned affiliates of the foreign partners, some of them still exist and can be counted among the most successful Slovak companies. However, the longevity of some IJVs is a success in itself, as the companies have had to live through the turbulent and uncertain times of the Slovak economy's development.

Many of the IJVs in Slovakia indeed ended up as affiliates of the foreign partners. However, they still play a prominent role in the Slovak economy. The best example is probably Volkswagen Slovakia, the biggest carmaker and also the biggest exporter in the country. Moreover, it is one of the most state-of-the-art production plants of Volkswagen in the world, exclusively producing SUVs, such as the Volkswagen Touareg or the Audi Q7. It was even voted as the best Volkswagen plant in the world in 2013.

The present-day IJVs show the emancipation of Slovak partners in many regards, and their growing role in the decision making and functioning of the partnerships. The emergence of IJVs by Slovak firms abroad is also a sign of their higher confidence and willingness to take risks and make use of the opportunities presented by the single market of the European Union. The differences between the current situation and that in the 1990s is summarized in Table 4.5.

The most striking difference between present day IJVs and those in the 1990s is probably the rise in the satisfaction of the Slovak partners with the IJV performance. The intention of the majority of the respondents to continue their participation in the alliance is less surprising, as Slovak companies seem to understand—now and also back in the period after the fall of the socialist regime—the benefits of partnerships with foreign firms.

Table 4.5 Differences between Slovak–foreign IJVs in the 1990s and today

1990s	Current situation
Slovak partners often dissatisfied with IJV performance	Majority of Slovak partners satisfied with IJV performance
Strategy of Slovak partner usually dismissed by foreign investor	Strategy of Slovak partner or its aspects often employed in IJV strategy
Weak bargaining position of Slovak partners	Improved bargaining position of Slovak partners
IJVs often turned into wholly owned affiliates of foreign partners	Majority of companies continue their existence as IJVs
High level of trust in foreign partners	Slovak partners still trust their foreign counterparts
Frequent occurrence of foreign partners' opportunistic behavior	Low level of perceived opportunistic behavior of the foreign investors
Small number of IJVs with Slovak partners abroad	IJVs more frequent as a form of outward FDI by Slovak companies

Even though the views of the Slovak partners have not changed in some aspects, their role and bargaining position has certainly improved in many areas of IJV management. First of all, in many cases the strategy of the Slovak company, or its attributes, is used in the IJV. This is in contrast to the situation in the past, when the Western partners almost automatically dismissed the strategies of their Slovak counterparts as inappropriate for the alliance.

Another interesting shift might be seen in the continuing existence of the IJV itself: of the 45 respondents, 38 are still partners in existing IJVs. This might indicate that the motives of foreign partners have extended beyond simple market entry, as the overcoming of government regulations is no longer an issue. Another possible reason is that Slovak companies own valuable assets other than a cheap labour force, which serve as incentives for the foreign partners to remain in IJVs, and not to transform them into their affiliates.

The development in the relationship of the partners is also visible: the high level of trust was present on the Slovak side in the 1990s, and it seems that the Slovak companies still trust in the good intentions of their foreign counterparts. However, the low level of perceived opportunistic behavior of the foreign partners is a significant positive development in comparison with the situation 20 years ago, when Western

companies often did not intend to cooperate with the Slovak firms in the long term, and transformed the IJV into an affiliate instead. As trust among the partners and the lack of opportunistic behavior are considered to be preconditions of successful IJV performance, their presence (or lack thereof) is a positive aspect of the functioning of these companies.

Table 4.6 shows the largest existing or former IJVs with Slovak participation, according to their sales volume. Only three of the ten biggest IJVs have transformed into affiliates of the foreign partners. Five of the IJVs are former state companies, which have been privatized but are still partly owned by the Slovak Republic: Slovenské elektrárne, a.s., Západoslovenská energetika, a.s., Stredoslovenská energetika, a.s., Východoslovenská energetika Holding a.s. (energy sector), and Slovak Telekom, a.s. (telecommunications). However, all the companies in the list are former state companies or at least the Slovak partner participating in the IJV was transformed from a state company (Table 4.6).

The story of Slovak economic success is also a story of Slovak companies' cooperation with their foreign counterparts. Even though some of their partnerships ended up as a failure for the Slovak partners, these alliances undoubtedly contributed to the country's economic success and, from the long-time perspective, had also learning and transformational effects on the Slovak business entities in general.

The research presented in this chapter aims to fill the knowledge gap caused by more than a decade-long absence of studies about Slovak–foreign IJVs. Even though these entities played an important role in the Slovak economic transition and still have enormous potential to improve the performance of the economy, virtually no attention has been paid to these companies, either by Slovak economists or state institutions.

The research results are limited by the number of IJV partners willing to participate in the questionnaire survey. Another limitation of the study is the absence of an IJV database in Slovakia. The information about the joint ventures and their partner entities have to be searched for in publicly available resources, such as newspapers or the Internet, because state institutions do not keep any specific records about Slovak–foreign joint ventures.

Future research might be focused on the comparison of IJVs in Slovakia and other CEE countries which have also experienced the transition to

Table 4.6 The largest IJVs with Slovak participation

Company name	Sales (2014, €)	Year of IJV establishment	Year of affiliate establishment	Number of employees (2015)	Share of exports on sales (%, 2014)	Ownership share of foreign partner(s) (%, 2015)
VOLKSWAGEN SLOVAKIA, a.s.	6,171,170,000	1991	1999	9400	99	100
Slovenské elektrárne, a.s.	2,338,863,000	2006	—	4382	N/A	66
Slovak Telekom, a.s.	700,106,000	2000	2015	3290	0	100
Stredoslovenská energetika, a.s.	614,567,000	2002	—	380	N/A	49
Mondi SCP, a.s	453,000,000	2004	—	1350	95	51
INA Skalica spol s r.o.	448,815,000	1991	1994	4607	98	100
Slovalco, a.s.	329,708,000	1994	—	480	83	55.3
HENKEL SLOVENSKO, spol. s r.o.	152,373,888	1991	1997	1199	30	100
Západoslovenská energetika, a.s.	58,239,000	2002	—	1271	N/A	49
Východoslovenská energetika Holding a.s.	31,283,000	2002	—	1588	0	49

Source: Adapted from Global Slovakia database (2015)

a market economy, notably the other V4 countries (the Czech Republic, Hungary, and Poland). Another interesting research direction would be the comparison of different forms of foreign direct investment—IJVs and wholly owned affiliates in Slovakia, notably the satisfaction of foreign investors with FDI performance.

References

Ali, S. (1997). Market entry, motives and performance in Central Europe: The case of British firms. *Journal of East-West Business, 3*(3), 63–82.

Anderson, A. R., Benavides-Espinosa, M. M., & Mohedano-Suanes, A. (2011). Innovation in services through learning in a joint venture. *Service Industries Journal, 31*(12), 2019–2032.

Beamish, P. W. and Lupton, N. C. (2009). *Managing joint ventures.* http://amp.aom.org/site/misc/May09ManagingJointVenturesbyBeamish.pdf. Accessed 25 July 2014.

Brenner, B., & Ambos, B. (2009). Dynamics in foreign markets—A study of strategic control in CEE. *Marketing Review St. Gallen, 26*(3), 28–33.

Brouthers, K. D. and Bamossy, G. J. (1999). *A longitudinal study of IJV performance in Eastern Europe.* http://deepblue.lib.umich.edu/bitstream/handle/2027.42/39625/wp239.pdf;jsessionid=71ED6EB1E707CD100761983BB8A68B12?sequence=3. Accessed 24 Aug 2014.

Brouthers, K. D., & Hennart, J.-F. (2007). Boundaries of the firm: Insights from international entry mode research. *Journal of Management, 33*(3), 395–425.

Clark, E., & Soulsby, A. (2009). Perceptions of MNC management: Local parent sensemaking in international joint venture process. *Journal for East European Management Studies, 14*(3), 286–309.

Contractor, F. J., & Lorange, P. (2002). The growth of alliances in the knowledge-based economy. In F. J. Contractor & P. Lorange (Eds.), *Cooperated strategies and alliances*. Oxford: Elsevier.

European Bank for Reconstruction and Development. (2014). *Transition report 2014*: *Slovak Republic.* http://tr.ebrd.com/tr14/slovak-republic/. Accessed 3 April 2015.

European Commission. (2003). *What is an SME*? http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/index_en.htm#top. Accessed 17 July 2014.

Ferencikova, S. (1996). Priame zahraničné investície—teória a prax v Slovenskej republike. *Ekonomické rozhľady, 25*(1), 17–35.

Ferencikova, S. (1997). *East-West joint ventures in a transitional economy: The case of Slovakia*, *The Davidson Institute working paper series*. Ann Arbor: University of Michigan Business School.

Ferencikova, S. (2000). Foreign direct investment as an agent of change: Ten years of Slovak experience. *Economic and Business Review for Central and South-Eastern Europe, 2*(3), 229–264.

Ferencikova, S. (2001). Foreign direct investment as a factor of change: The case of Slovakia. In D. Denison (Ed.), *Managing organizational change in transition economies*. Mahwah: Lawrence Earlbaum Publishers.

Finančná správa Slovenskej republiky (2015). *Daň z príjmov.* https://podpora.financnasprava.sk/index.php?type=page&urlcode=993423&title=Da%C5%88-z-pr%C3%Adjmov. Accessed 3 Apr 2015.

Global Slovakia (2015). https://www.economyserver.eu/. Accessed 30 Mar 2015.

Gurau, C. (2009). Entrepreneurial strategies of small Romanian-Italian joint ventures. *International Journal of Business and Globalization, 3*(1), 81–93.

Harrigan, K. R. (1985). *Strategies for joint ventures*. Lexington: Lexington Books.

Hoskova, A., & Sestakova, M. (1993). *Medzinárodné Podnikanie*. Bratislava: Elita.

Hyder, A. S., & Abraha, D. (2006). Strategic alliances in the Baltic states: A case of Swedish firms. *Competitiveness Review, 16*(3/4), 173–196.

Hyder, A. S., & Abraha, D. (2008). Institutional factors and strategic alliances in Eastern and Central Europe. *Baltic Journal of Management, 3*(3), 289–308.

Išoraité, M. (2009). Importance of strategic alliances in company's activity. *Intellectual Economics, 3*(1), 39–46.

Jain, K., & Jain, S. K. (2004). Performance evaluation criteria for international joint venture. *Journal of International Business and Economy, 5*(3), 53–76.

Kita, J. (1997). Les Conditions de Gestion des Entreprises Franco-Slovaque. *Cahiers franco-polonais, 6*(21), 19–32.

Kita, J. (1998). Les Aspects choisis du management des entreprises franco-slovaques. In *Interdisciplinary education in the quality assurance*: *Proceedings of the international workshop, June 3–15, 1998, Toulon, France.* Bratislava: Slovak University of Technology.

Kita, J. (1999). Le Rôle des entreprises franco-slovaques dans le processus de transitions d`économie slovaque Le Consommateur et l`entreprise dans l'espace européen – ethnocentrisme ou globalisation?: 5ème Conférence

internationale du Réseau PGV, Katowice: Centre des Recherches et des Expertises de l`Université d'Économie Karol Adamiecki de Katowice.

Larimo, J. (2010). International joint venture performance in Central and Eastern Europe. *Journal of Euromarketing, 19*(1), 67–87.

Larimo, J., & Nguyen, H. L. (2015). International joint venture strategies and performance in the Baltic states. *Baltic Journal of Management, 10*(1), 52–72.

Lyles, M. A., & Baird, I. S. (1994). Performance of international joint ventures: The case of Hungary and Poland. *Management International Review, 34*(4), 313–329.

Manea, J., & Pearce, R. (2006). MNEs' strategies in Central and Eastern Europe: Key elements of subsidiary behavior. *Management International Review, 46*(2), 235–255.

Marinov, M. A., & Marinova, S. T. (2000). Foreign direct investment in the emerging markets of Central and Eastern Europe: Motive and marketing strategies. In S. T. Cavusgil, A. Yaprak, & H. Tutek (Eds.), *Advances in international marketing: Globalization, the multinational firm, and emerging economies*. Emerald Publishing: Bingley.

Mattsson, L. G., & Salmi, A. (2013). The changing role of personal networks during Russian transformation: Challenges for Russian management. *Journal of Business & Industrial Marketing, 28*(3), 190–200.

Meyer, K. (1998). Enterprise restructuring and investment frontiers of transitions from plan to markets on the eve of the 21st century. *Journal of East-West Business, 4*(1/2), 7–27.

Murray, A. L., & Siehl, C. (1989). *Joint venture and other alliances: Creating a successful cooperative linkage*. Morristown: Financial Executive Research Foundation.

National Bank of Slovakia. (2015). *Priame zahraničné investície.* http://www.nbs.sk/sk/statisticke-udaje/statistika-platobnej-bilancie/priame-zahranicne-investicie. Accessed 22 Feb 2015.

Nguyen, H. L., & Larimo, J. (2010). Determinants of international joint venture performance: A theoretical framework. *Journal of Modern Accounting and Auditing, 6*(11), 11–24.

Park, S. H., & Ungson, G. R. (1997). The effect of national culture, organizational complementarity, and economic motivation on joint venture dissolution. *Academy of Management Journal, 40*(2), 279–307.

Podnikateľská aliancia Slovenska (2014). *Negativny vývoj podnikateľského prostredia pokračuje.* http://alianciapas.sk/tag/podnikatelske-prostredie/. Accessed 4 Apr 2015.

Sestakova, M. (1994). Joint ventures: Teoretické Prístupy A Realita. *Ekonomický časopis, 42*(2), 103–114.

Slepniov, D., Brazinskas, S., & Wahrens, B. V. (2013). Nearshoring practices: An exploratory study of Scandinavian manufacturers and Lithuanian vendor firms. *Baltic Journal of Management, 8*(1), 5–26.
The World Bank. (2005). *Doing business in 2005.* http://www.doingbusiness.org/~/media/FPDKM/Doing%20Business/Documents/Annual-Reports/English/DB05-FullReport.pdf. Accessed 3 Apr 2015.
Varblane, U., Mämmik, K., & Hannula, H. (2005). *Autonomy and performance of foreign subsidiaries in five transition countries*, *William Davidson Institute working paper, No. 780*. Ann Arbor: University of Michigan Business School.
Wright, R. (2008). Determinants of subsidiary performance in Central and Eastern Europe. *International Journal of Business and Emerging Markets, 1*(1), 1–13.
Zachar, D. and Goliaš, P. (2010). *Report on reforms of business environemnt in Slovakia.* http://www.ineko.sk/file_download/534/Paper_Reforms+of+BE+in+Slovakia.pdf. Accessed 1 Apr 2015.
Zeira, Y., Newburry, W., & Yeheskel, O. (1997). Factors affecting the effectiveness of equity international joint ventures in Hungary. *Management International Review, 37*(3), 259–279.

5

Cross-Border Mergers and Acquisitions from India: Motives and Integration Strategies of Indian Acquirers

Melanie Hassett, Zsuzsanna Vincze, Uma Urs, Duncan Angwin, Niina Nummela, and Peter Zettinig

Introduction

India is an important player regarding mergers and acquisitions (M&As) from emerging economy (EE) countries, both in terms of inward and outward foreign direct investment (FDI). After two consecutive years of

M. Hassett (✉) • N. Nummela • P. Zettinig
Department of Marketing and International Business, Turku School of Economics, Rehtoripellonkatu 3, 20500 Turku, Finland
e-mail: melanie.hassett@utu.fi

Z. Vincze
Samhällsvetarhuset Biblioteksgränd 6 B30301, Umeå University, 901 87 Umeå, Sweden

U. Urs
Department of Business and Management, Business School, Oxford Brookes University, Wheatley Campus, Wheatley, Oxford OX33 1HX, UK

D. Angwin
Department of Entrepreneurship, Strategy and Innovation, Lancaster University Management School, Bailrigg, Lancaster LA1 4YX, UK

© The Editor(s) (If applicable) and the Author(s) 2017

S. Marinova et al. (eds.), *Value Creation in International Business*,
DOI 10.1007/978-3-319-30803-6_5

decline, the gross value of cross-border M&A deals increased in 2014 by 34%, reaching US$900 billion. One key characteristic was the increasing amount of M&A deals with values larger than US$1 billion (World Investment Report 2015). Cross-border M&As from EEs, especially from China and India, have increased dramatically during the past decade (Bhagat et al. 2011; Sun et al. 2012; Nicholson and Salaber 2013). In 2014, multinational enterprises (MNEs) from developing economies alone invested US$468 billion abroad, which is a 23% increase on the previous year. According to the World Investment Report (2015), for the first time MNEs from developing Asia became the world's largest investing group. The largest home economies for FDI in developing or transition economies were, among others, China, Hong Kong (China), Singapore, Brazil, India, Chile, Indonesia, and the Russian Federation. In India the FDI outflow increased fivefold to US$10 billion in 2014 (World Investment Report 2015).

Until 2008, India was the biggest acquirer among the BRIC countries. Indian companies have completed a number of high profile deals, including the acquisition of Corus by Tata Steel in 2006 and the acquisition of Jaguar and Land Rover by Tata in 2008. These acquisitions have been widely viewed as successful and they have attracted a lot of international attention, both among academics and practitioners. Since then China has overtaken India in M&A activity (World Investment Report 2015). However, as the Chinese economy shows signs of slowing down, India may soon overtake China's M&A activity. As the M&A activity from EEs is increasing and becoming more significant, it is no wonder that this phenomenon has received increasing academic attention. For example, Lebedev et al. (2015) provide a review synthesizing the emerging literature on M&As in and out of EEs.

It has been argued that cross-border M&As from emerging markets would somehow be different to those from developed countries, and research suggests that the internationalization patterns and M&A strategies of firms from EEs would be very distinct (e.g. Madhok and Keyhani 2012). Based on the literature, M&As from an EE such as India would be distinct in at least three ways. Firstly, M&As from EEs differ in an important manner from Western M&As in terms of the lack of prior M&A experience, institutional factors (financial markets, stability and strength of institutions, privatization), and country characteristics (the comparative

advantage of the nation) (cf. Lebedev et al. 2015). EE firms are based in countries which are characterized by low to middle-income levels and a weak institutional environment. They do not possess proprietary advantages such as technology and brand, and they tend to be latecomers when entering markets in developed economies (Madhok and Keyhani 2012: 26). Secondly, companies from emerging markets appear to have a distinct internationalization pattern and path, which is reflected both in terms of target countries and internationalization strategy. They enter usually developed economies and tend to favor M&As as their primary internationalization mode (Kumar 2009; Madhok and Keyhani 2012; Yamakava et al. 2013). It has been suggested that traditional internationalization theories such as Dunning's ownership, location & internalization (OLI) paradigm (Dunning 1980, 1988, 1993) cannot fully explain the rise in M&As from emerging markets (Nicholson and Salaber 2013). The use of M&As as a first and primary way of internationalization also challenges the traditional internationalization process research, that is the Uppsala model (cf. Johanson and Wiedersheim-Paul 1975; Sun et al. 2012; Nicholson and Salaber 2013), as the companies leap-frog when adopting a high-commitment and high-risk strategy very early on (Kumar 2009; Sun et al. 2012). Thirdly, the literature suggests that companies from EEs would have M&A motives, which would be unique to them, such as national pride, institutions, and latecomer disadvantage (Lebedev et al. 2015).

Consequently, it has been suggested that due to these distinctions there is a call for new explanations for EE internationalization, as the dominant theories in international business (IB) reflect strongly the experiences of firms from the USA and Europe of a few decades ago. Instead of adopting the traditional IB perspectives and focusing on advantageous resources, there is a need to focus on asymmetry as the starting point (Madhok and Keyhani 2012). Miller (2003) defines asymmetries as the inimitable differences between themselves and other firms that in their initial states could in no way be considered valuable. Asymmetries between EEs and developed economies stem from their historical and institutional differences. It has been argued that these asymmetries would be one explanation for M&As by EE firms in advanced economies, as acquisitions serve to overcome the "liability of emergingness" (Madhok and Keyhani 2012). In this chapter we focus on asymmetries as drivers for Indian M&As in developed countries.

The research on Indian M&As is scarce and there are many research gaps. To start with, it has been argued that India has been under-researched as a result of scarcity of data, that is official data of Indian outward FDI is seldom available (Buckley et al. 2012). Next, the majority of these studies are empirical with quantitative research design (cf. Gubbi et al. 2010; Bhagat et al. 2011; Buckley et al. 2012; Nicholson and Salaber 2013), thus providing a bird's-eye view of the phenomenon, though less detailed information is lacking. Additionally, although India and China are very different in many respects, Indian and Chinese companies are often used in comparative studies and often just referred to under the generic category of "emerging markets" (De Beule and Duanmu 2012; Sun et al. 2012; Amendolagine et al. 2015). Yet EEs are a very heterogeneous group of countries and there can be important differences between acquisition strategies that influence them (Lebedev et al. 2015). In this chapter we attempt to tap into some of these research gaps by focusing on India and forming a deeper understanding of what drives Indian M&A and their post-M&A strategies. We do this through three qualitative case studies.

The success of Indian multinationals in advanced economics has attracted the attention of researchers from diverse fields such as economics and international business. Researchers have been particularly interested in understanding whether there is a distinctively 'Indian' way to managing acquisitions (Pugsley 2008; Kripalani and Ihlwan 2008; Kumar 2009). It has been suggested that Indian acquirers can create value from M&As more easily than companies from developed countries (Kumar 2009; Athreye and Kapur 2009; Gubbi et al. 2010). For instance, a study of foreign acquisitions by Indian multinationals during the period 2000–2007 shows that using acquisitions to enter advanced economies produced larger than expected positive benefits (Gubbi et al. 2010). Practitioners have also suggested that Indian acquirers might perform post-acquisition integration in a different way to other non-Indian acquirers, that is to have a softer approach to post-M&A integration (Dobbs and Gupta 2009), though this suggestion has yet to be properly investigated.

In sum, to address the above points, this chapter focuses on the *drivers* of Indian M&As and their *post-M&A strategies*. We start with a literature review on the motives for M&As and on post-M&A strategies. Next, we

highlight the key characteristics of Indian M&As through three illustrative cases made by Indian companies in three European countries. The study concludes with our findings which indicate that the success of value creation in Indian M&As can be at least partially explained through their clear motives and slower integration process. Moreover, our case studies give support to the asymmetry-based view when analyzing M&As from EE firms (Madhok and Keyhani 2012).

M&A Motives and the Key Drivers Behind Indian M&As

Cross-border M&As represent many lucrative opportunities. The main motives for pursuing them are: access to new markets; market expansion and new knowledge, capabilities, and technology; complementary resources; and increasing market power (e.g. Pablo and Javidan 2004). However, it has been suggested that the motives of firms from EEs to expand abroad are fundamentally different from those of developed economy firms (e.g. Madhok and Keyhani 2012). The main motives for emerging firms to undertake acquisitions include faster access to markets, entering a new market, and gaining access to technology and brands, that is asset seeking (Buckley et al. 2012). These motives were behind a number of recent deals, including Tata Motors' acquisition of Jaguar and Land Rover, Lenovo's acquisition of IBM's PC business, and Nanging, which acquired MG Rover. This challenges the predominant theoretical view of FDI in the literature, which regards it as an asset-exploitation perspective in contrast to an asset-seeking perspective (Gubbi et al. 2010; Nicholson and Salaber 2013). Other motives driving Indian cross-border M&As are fast entry, lower liability of foreignness, and comparative ownership advantage (e.g. Sun et al. 2012).

In terms of motives for using cross-border M&As as an international growth strategy, Indian companies may have a slightly different starting point than other firms. India, as a member of the Commonwealth and because of its status as a former British colony, may have easier access to global markets than companies from other EE countries due to the common language and shared history (Buckley et al. 2012; Nicholson and

Salaber 2013). Therefore, although fast entry to market is probably also a significant driver for Indian cross-border M&As, these deals tend to have a more global reach compared to other firms from EEs. "Global" does not mean that the investments of Indian companies are necessarily widely spread, on the contrary they are heavily concentrated in the UK and US markets, which account for 60% of all transactions (Sun et al. 2012).

Sun et al. (2012) propose a comparative ownership advantage framework to explain the motivation behind the cross-border M&As of firms from EEs. They identify five forces driving Indian cross-border M&As: (1) national-industrial factor endowments, (2) dynamic learning, (3) value creation, (4) reconfiguration of the value chain, and (5) institutional facilitation and constraints. The national-industrial factor endowments refer to the suggestions that M&As tend to occur in industries in which the investing company has a comparative advantage. In order to be successful, cross-border M&As require dynamic learning from for example previous M&As. Moreover, to create comparative ownership advantage with the target's complementary assets, it is recommended that companies from emerging markets integrate their resources in different regions. These new combinations in different geographic regions may create value. Furthermore, based on the comparative ownership advantage framework, cross-border M&As are used to enhance international competitive advantage through strategic asset seeking, and enable firms from emerging markets to optimize their position in the value chain. Finally, the institutions may play a dual function of both facilitating and constraining the comparative ownership advantage (Sun et al. 2012). This dual function of institutions is closely linked to the asymmetries between Indian and Western firms, which is believed to be an important driver behind Indian M&As (Madhok and Keyhani 2012).

Prior research suggests that M&As are particularly well fitted to the asymmetries that characterize EE firms, asymmetries regarding location (i.e. being from an EE), and resources (i.e. firms possess mainly ordinary resources) (Madhok and Keyhani 2012). Hence it has been suggested that cross-border M&As serve in fact as a way to overcome these asymmetries. First, M&As help to overcome the "liability of emergingness", which is a disadvantage EE firms tend to suffer simply by being from an EE. While "liability of foreigness", a term which has been long accepted in IB, and "liability of outsidership" relates to the handicap emerging because of

where the acquirer is not from (Johanson and Vahlne 2009), liability of emergingness occurs because of where the acquirers are from. Second, M&As represent opportunities and a search for advantage creation through strategic entrepreneurship when firms possess mainly ordinary resources. Consequently, even though EE firms would not possess resources that would give them firm-specific advantages, they are able to see potential where it has not yet been realized, and use M&As as a way to tap into the opportunity (Madhok and Keyhani 2012: 28). Low cost production advantages (Kumar 2008), India's institutional support structure (Taylor and Nolke 2008), and comparative ownership advantage (Sun et al. 2012) also provide explanations of factors that favor Indian acquirers.

In sum, it has been suggested that Indian M&As are motivated by asymmetries. In other words, M&As serve as a way to overcome distinctive challenges such as *liability of emergingness* (Madhok and Keyhani 2012). M&As also serve as a way to penetrate existing networks and become an "insider," hence overcoming the *liability of outsidership* (cf. Johanson and Vahlne 2009). M&As not only enable Indian firms to confront and overcome the disadvantages linked to asymmetries, but they also enable the harnessing of the potential advantages. M&As serve both as a resource and an opportunity where the availability of the target firm defines the opportunities, and the opportunities define the M&A as a resource as well (Madhok and Keyhani 2012). Consequently, understanding the motives of M&As from EE countries requires contextualization and the challenging of existing motive theories (cf. Trautwein 1990; Häkkinen et al. 2009).

Post-acquisition Strategies in Indian M&As

While it has been argued that acquisitions offer a great way to overcome challenges related to the asymmetries EE firms face, acquisitions have some disadvantages. One of the key downsides of acquisitions is related to post-M&A integration problems (Madhok and Keyhani 2012). The growing body of literature on post-acquisition integration focusing on the human side argues that M&A failure is largely down to socio-cultural challenges such as change resistance and acculturation stress (e.g. Buono and Bowditch 1989; Cartwright and Cooper 1993; Very et al. 1996; Birkinshaw et al. 2000; Stahl and Voigt 2008). In other words, M&A

success and value creation depends largely on how the post-M&A phase is managed.

The post-M&A phase has been referred to in a number of ways, such as the post-acquisition integration phase, the post-merger integration phase, or the post-acquisition implementation phase (Teerikangas and Joseph 2012). The integration process can be analyzed on different levels and in relation to, for example, human resource integration, task integration, or cultural integration, that is the acculturation process (see e.g. Nahavandi and Malekzadeh 1988; Cartwright and Cooper 1993; Birkinshaw et al. 2000; Teerikangas and Very 2006). Task integration is the "hard side," which refers to the operational and functional integration, such as assets, processes, practices, and systems, while the human resource and cultural integrations represent the "soft side," such as the integration of organizational cultures and values.

Integration strategies reflect the different degrees to which the acquired firm can be integrated into the buying firm. Several typologies of post-M&A integration strategies have been proposed. One of the most quoted is the typology proposed by Haspeslagh and Jemison (1991) (see also Teerikangas and Joseph 2012), according to which there are four possible integration strategies: preservation, holding, symbiosis, and absorption. These integration strategies vary in respect of the desired degree of (1) acquiring firm and target firm strategic interdependence, and (2) target firm autonomy (Teerikangas and Joseph 2012). In "holding" acquisitions the acquirer does not seek to integrate the target, while in the "preservation" mode there is a limited level of integration, though the target firm retains autonomy. In absorption acquisitions, the aim is to absorb explicitly the acquired firm into the acquiring firm. Finally, in the "symbiotic" acquisitions the aim is to ensure a balance between the target firm's autonomy and its integration into the acquiring firm (Teerikangas and Joseph 2012). Since a fifth strategy has been identified, namely "reorientation," "holding" has been renamed "intensive care." In contrast to the holding strategy, intensive care refers to the rapid intervention and strict financial controls imposed on the target company by the parent company. In reorientation M&As, the targets are in good financial condition and well-managed. In these acquisitions distinctive areas of the

firm are deliberately left independent (Angwin and Meadows 2015). Accordingly, the level of post-acquisition integration may vary from wholly independent to fully merged (Lees 2003: 116). The desired level of integration depends highly on the type of acquisition; hence complete integration is not always desirable and the acquired organization may be left relatively autonomous (e.g. Haspeslagh and Jemison 1991; Lees 2003; Angwin and Meadows 2015). The successful integration of acquisitions includes effective communication, retention of top managers, and active human resource management within the post-acquisition period (Haspeslagh and Jemison 1991; Jemison and Sitkin 1986; Shrivastava 1986).

While academic research has focused on the performance of Indian cross-border acquisitions (e.g. Bhaumik and Selarka 2012; Kohli and Mann 2012; Nicholson and Salaber 2013; Buckley et al. 2014), research on the post-acquisition strategies of Indian M&As is scarce. However, a recent study found that, unlike firms from advanced economies, more than 50% of Asian acquirers do not integrate their target to any significant extent (Madhok and Keyhani 2012; Cogman and Tan 2010). Moreover, Buckley et al. (2014) suggest that EE firms usually absorb, rather than transfer, technical and marketing knowledge from target firms located in developed countries. In this study we investigate the motives and integration strategies in three qualitative case studies, where an Indian acquirer has acquired a firm in Europe. Practitioners have also suggested that Indian acquirers tend to have a softer approach to post-M&A integration than firms from developed economies (Dobbs and Gupta 2009), though this has not been properly investigated yet. We hope to be able to shed more light on the Indian post-M&A strategies through these case studies.

Illustrative Case Examples of Acquisitions from India

Next, to provide a more detailed view on Indian cross-border M&As, we describe three illustrative cases of M&As by Indian companies in three European countries. Data for the case descriptions were collected by us,

primarily through face-to-face interviews but also supported with secondary data publicly available, such as websites, annual reports, and press releases. The three cases have in common the home country, that is the acquirer is Indian in all three cases, but otherwise we have strived for heterogeneity in terms of background of the companies, that is all three cases represent different industries. This was done in order to obtain as versatile a view of the phenomenon as possible. The three cases are based in different contexts both in terms of industry (IT, pharmaceutical, textile) and institutional context (Finland, Sweden, the UK), hence providing an interesting variation for the purposes of this study. These cases are, more specifically, an Indian–Finnish M&A in the IT field, an Indian–Swedish M&A in the textile industry, and an Indian serial acquirer in the pharmaceutical industry.

An Indian–Finnish Acquisition in the IT Field

The Acquisition: Background

Indian Sasken Communication Technologies acquired Finnish Botnia Hightech Oy in July 2006. This acquisition can be defined as a friendly, concentric acquisition, as both companies operated in the same field though in complementary business fields (cf. Cartwright and Cooper 1992). The acquiring company and the target company had a rather similar company history and shared the same values to a large extent; for example both Sasken and Botnia were established in 1989 and in both companies the founders were still actively involved in the strategic decision making. Moreover, both companies valued social responsibility and wanted to give back to the local community. In addition, both companies had similar goals regarding the M&A, namely to grow, internationalize, and expand their customer base.

The acquiring company Sasken Communication Technologies employed over 2800 people at the time of the acquisition and had offices in India, China, Germany, Japan, Mexico, Sweden, the UK, and the USA. Among Indian companies, it could be considered medium-sized. Sasken was established in 1989 in California and moved its headquar-

ters from the States to Bangalore in India in 1991. It is listed on the Bombay Stock Exchange and the Indian National Stock Exchange. The company is a global provider of software and support services for the communications industry and works with network original equipment manufacturers, semiconductor vendors, terminal device original equipment manufacturers, and operators across the world.

The acquired company, Botnia Hightech was a sub-contractor in the field of telecommunications. It was a globally operating wireless technology company employing around 250 workers at the time of the acquisition. The core business areas were hardware, software, and mechanical design and testing. Botnia Hightech had grown through smaller acquisitions and as a result it was geographically spread over six cities and had a strong presence in two main sites, one in a smaller town in a rural area, the other in a city. Additionally, smaller sites were located close to or within the premises of key account customers in a number of cities to allow the employees to be closely involved with customers' projects. Both main sites had strong, distinct identities and the cultural differences between the organizations were substantial, even though both companies operated within the same country. Thus, the target company had employees with multiple organizational identities. The integration of the last acquisition (a fast-growing software engineering company) was still on-going at the time of the acquisition by Sasken.

Acquisition Motives

The main motives behind the Botnia M&A were knowledge and capabilities, market entry, and new customers. More specifically Sasken sought to acquire complementary capabilities, hence the main motive could be described as *asset seeking* (Kumar 2009; Gubbi et al. 2010; Nicholson and Salaber 2013). While Sasken was very strong in software engineering and wireless technology, the acquired Finnish company brought valuable new competences in the area of hardware engineering, enabling the acquiring Indian company to serve its customers better. In addition, having a European presence was seen as very important and was highlighted on several occasions. The quote below describes the motives of Sasken very well:

> The second acquisition was that of Botnia Hightech and its subsidiaries, based in Finland. This was an all cash deal for €35 million, to acquire 100 percent stake in Botnia and all its subsidiaries. The acquisition gives us skills in the area of Hardware and Mechanical Design, RF Design and Testing, apart from a strategic proximity center in Europe. Botnia also helps us scale a key Tier 1 customer significantly. Botnia's European presence and their expertise combined with Sasken's global reach and India based development centers will enable us to offer a compelling portfolio of value added solutions to our customers across the globe. (Sasken Annual Report 2006–2007: 13)

This deal was very important for the target company, Botnia. One of the most important motives for the acquired Finnish company was the need to grow. In fact, they had been looking actively for a partner for quite a while. The market was extremely competitive, and organic growth in the European market was becoming ever more difficult to attain. Moreover, the acquired Finnish company was very dependent on their key customer, which alone represented around 90% of their sales. They didn't want to do anything to jeopardize this customer relationship, thus finding a suitable partner from their key account perspective was important. Their key account put pressure on its suppliers by requiring growth, a global footprint, the reduction of costs, as well as proximity centers, especially in India and China. At the same time their key account was also diminishing its number of suppliers and emphasizing the bigger ones. Consequently, it was important for Botnia Hightech to internationalize and grow to meet these demands, though it became crucial to expand their customer base as well. As this was impossible through organic growth, selling the company became a viable option. Sasken was identified as a potential buyer with the help of investment bankers, and it was chosen mainly for its similar size to Botnia Hightech and its similar values regarding for example social responsibility and human resource management (Sasken has a people first ethic which ensures certain benefits to employees). To sum up, for the acquired company the main motives for selling to an Indian acquirer were related to the changing requirements set by the ICT industry (cf. World Investment Report 2015).

Sasken had very clear motives, which were of an asset seeking nature. Moreover, it used a comparative ownership advantage, as India's cheap labor force was vital for Botnia which was struggling in a highly competitive Finnish IT sector. IT companies were increasingly forced to find ways to outsource some or all functions to low-cost countries. In this case institutions played an important role in facilitating the comparative ownership advantage, as Sasken was able to use the low-cost aspect (Sun et al. 2012). Consequently, this deal seemed ideal and a win–win situation for both parties and the potential for joint value creation was considerable. An Indian acquirer from a related business field offered the acquired Finnish company all the prerequisites needed for international growth: financial security, an enlarged and international customer base, a low-cost advantage, and a chance to diversify the customer portfolio. On the other hand, for the acquiring company, the deal provided an extension to their knowledge base, an enlargement to their customer base, and a foothold in Europe.

Post-Acquisition Integration Strategy

The former owners of the acquired company had expressed their wish for a slow and gentle integration approach. The new owner Sasken was viewed positively and most employees were keen to adopt the new post-M&A identity. Sasken respected this wish and did their best to respect the local culture of their Finnish subsidiary. Moreover, Sasken Communication Technologies wanted to secure a successful business and consequently the acquired company was left at first relatively independent. It became a business unit within Sasken with the mandate to do business with their former key account. This quote from the Annual Report reveals how Sasken truly wanted to bring the two companies together, but at the same time how challenging it might be:

> Integration efforts aimed towards bringing the two companies together culturally and in all aspects of the business are currently underway, and progressing satisfactorily. The subsidiaries of Botnia Hightech have been merged with the holding company and the combined entity has been renamed as Sasken Finland Oy. This acquisition furthered the vision of

Sasken towards becoming a truly global company. (Sasken Annual Report 2006–2007: 13)

The integration process was characterized by a couple of organizational changes at Sasken and a relatively slow approach, where the focus was more on financial and operational issues than human resource and cultural issues. While this allowed Sasken to learn more about the acquired company and to protect the special relationship with the key account, it also yielded feelings of frustration. Employees in Botnia were expecting more visible changes and tighter business integration allowing them to work also for new international customers and in Indian–Finnish mixed project teams. It came slightly as a surprise that the acquirer, Sasken, just wanted them to carry on as they always had. The cultural differences between India and Finland obviously brought some challenges to the integration phase, although in general both parties were very culturally sensitive from the very beginning. However, as the integration process progressed and the interaction between the acquirer and the acquired company increased, cultural differences became more obvious and differences in organizational and national culture resulted sometimes in frustration.

In sum, as the acquired company was performing very well and growing rapidly, Sasken did not want to disturb the target company with intense integration but decided to adopt a *preservation strategy* (Haspeslagh and Jemison 1991): the acquired company was left relatively autonomous, though as Sasken was a public company certain key functions such as finance was closely integrated. Although this was regarded as the best approach at first, tighter integration was expected two years after the deal when the integration process was revived. We can conclude that the acquisition of Botnia has been successful, as after ten years it is now Sasken. It has managed to have a strong presence in Finland despite the turbulence experienced in the market following the Microsoft and Nokia M&A.

An Indian–Swedish Acquisition in the Textile Industry

The Acquisition: Background

In Spring 2011, Aditya Birla Group acquired Domsjö Fabriker (DF), a leading Swedish specialty pulp manufacturer, through its global companies Thai Rayon Public Company Limited (Thailand) and Indo Bharat Rayon (Indonesia), for the sum of US$340 million from a Swedish consortium. At the time, this was the 27th acquisition in the series the Birla Group had realized since the mid-1990s.

The acquiring company, Aditya Birla Group, is a sixth-generation industrial conglomerate, one of the three largest family business houses in India (Tata Group was established in 1868, Reliance Group in 1966). Aditya Birla's origin was in a Marwari village in the region of Rajasthan, where Seth Shiv Narayan Birla started cotton trading operations in 1857 (Som 2006). The business principles of the Marwaris of yesteryear are still alive:

> watch the money, delegate but monitor, plan but have a style and system, lead to expand and do not let the system inhibit growth, the right corporate culture, do not get blown away by fads and do not miss new developments. (Timberg 2014)

Since 1995, the chairman of the group is Kumar Mangalam Birla (K. M. Birla). He inherited the family business at the age of 28, since when the strategy of the group has been to increase cost competitiveness with vertical integration (i.e. improve returns in value businesses) and to use its cash flow to expand into growth sectors (Subramanian 2010). Under Birla's leadership the group has redesigned itself from a family owned diversified organization to a Fortune 500 global business group. The group has interests in sectors such as fibers, chemicals, cement, metals, yarns and textiles, branded apparel, fertilizer, carbon black, telecommunications, financial services, information technology, life insurance, and asset management businesses. It is the world's largest producer of viscose staple fiber (VSF) and, in the other businesses too, the focus is on being/becoming number one or one of the biggest players in the world.

The group's revenues have increased 20 times, from US$2 billion in 1995 to US$45 billion by 2014, with a target of US$65 billion by 2016. It is now one of India's most globalized conglomerates, operating in 36 countries on five continents and employs 136,000 people around the world. Over 60% of the revenues come from overseas (McKinsey and Company 2013). Its three flagship companies—Grasim Industries, Hindalco Industries, and Aditya Birla Nuvo—are separately listed, despite their close collaboration. The group sponsors hundreds of schools and temples, and tens of hospitals around the country. Virtually every Indian recognizes the Birla name.

The target company, Domsjö Fabriker (DF) is located in Örnsköldsvik, on the north-eastern coastline of Sweden. The main product of DF is a special cellulose for viscose textiles. It is one of the world's leading manufacturers with a 7% share in the world market. DF's special cellulose, a very strong brand, provides the highest quality viscose, which is primarily used in the fashion industry and for sanitary products, where "total chlorine free" is required. The company had 400 employees in Sweden and in the Baltic countries. The annual revenue was in the order of US$177 million. It has a long history stretching over 150 years of industrial and technological change that have seen the Chandlerian paper and pulp conglomerate evolve into a bio-refinery cluster of which Aditya Birla Domsjö is an active part today. DF's recent success story took off after a Finnish paper & pulp multinational divested it in 2003. DF then moved forward with investments aimed at increasing the production capacity for special cellulose, wood room, lignin dryers, and large-scale demonstration plants for biofuels. With these investments DF consolidated its role as Sweden's first and one of the world's most advanced bio-refinery clusters (Johard 2011). Also, despite the setback during the financial crises from 2008 onward, the viscose market recovered relatively fast. Viscose is a natural alternative to cotton production and in certain products it can replace the oil-based product of polyester.

Whatever the prospects were in 2009, DF had a weak balance sheet and did not have sufficient financial strength to expand upwards on the value chain and survive the volatility of the market. Preparations started to take the firm public, but the plan changed when the Aditya Birla Group made a winning bid to take it over. DF obtained investment funds

from Birla, whose balance sheet was strong and could pay the price which included the further investments required for capacity increase. Both the owners and the management of DF agreed to accept Aditya Birla's offer, as there were no other alternatives worthy of being considered. It was a friendly acquisition.

Acquisition Motives

Birla's strategy has been continuous consolidation and diversification for many decades, and its primary mode of internationalization has been via M&As, because organic growth has not been possible at the speed desired. The M&A motives behind the DF deal are reflected in the chairman's comment:

> The acquisition of Domsjö Fabriker, a world-class company, with the most environmentally-friendly technology marks a significant milestone for our Pulp & Fibre business. Its cutting edge technology and production process coupled with a state-of-the-art bio-refinery, add significant value to our Pulp & Fibre operations. Its high quality pulp will enable us to enhance the supply of top quality premium VSF to our customers. The Pulp & Fibre business is a core business of the Aditya Birla Group. Domsjö has a highly professional management team and a committed staff. I most warmly welcome them to the Aditya Birla Group. (Press Release, April 9, 2011)

Aditya Birla's main motive was capacity building and it guaranteed a long-term uninterrupted supply of pulp, as over 70% of the Swedish affiliate's production was for internal use. Since in India a company cannot own a forest, Birla had to import. The captive raw material source through Domsjö minimizes the uncertainties:

> Gaining control of critical raw material is in line with our strategic objective. For natural resources like pulp, there is pressure from Chinese companies and the race is only heating up. We will look at all geographies for resources, technologies and cutting-edge capabilities. (Dev Bhattacharya, group executive president, *Times of India*, April 19, 2011)

Indeed, buying out suppliers to meet long-term objectives isn't unusual (Johnson et al. 2014). DF continued to sell 25% of its production to high profile medical companies even after the takeover. For the Aditya Birla group, the cutting-edge technology and the clientele was equally important, while securing global legitimacy (Piscitello et al. 2014). The acquisition was also positively commented on by DF's CEO at the time:

> For Domsjö, this is great news. Aditya Birla brings a strong financial base and global presence to our operations and strengthens our position in the entire value chain (textile). With a commitment to continue to expand our production facilities and invest further in research and development, Aditya Birla is the perfect owner of Domsjö.

The M&A motives of Birla were clearly strategic. It wanted to improve its global competitive advantage with international (global) extension geography, product and market wise. Similar to Indian and Chinese conglomerates, it was active in large scale acquisitions in order to secure the material resources needed for growth and to access Western technologies. Innovation became the focus more recently, and K. M. Birla admitted that, while development is at a high level at Birla, it needs to acquire research capacities. Beyond the motive of securing raw material, DF, with its proven technology for specialty pulp and bio-refinery, is one example to the point. For the Birla Group, shareholders' interests came first. As acquisitions represent a means to achieve the long-term growth target, the firm also made acquisitions during the global recession:

> We have expanded internationally for many reasons—sometimes to spread our bets, sometimes because we found it impossible to open a plant in India as fast and as cheaply as we could abroad. In each case, we've based our decision on whether or not the deal would increase shareholder value. (McKinsey and Company 2013)

Post-acquisition Integration Strategy

On the one hand, the key criterion was the extent of strategic interdependence: the need for transfer or share of capabilities (technology) and

resources (manufacturing facility) in order to capture value. This value in the case of the DF acquisition could be captured almost purely through the ownership of assets and integration in terms of financial systems. On the other hand, there was a need for organizational autonomy because the acquired firm had a distinct culture, geographical distance, language, and management practices, and performed at a high level. DF was indeed a distinctive company. As the organizational fit was low, Birla chose a lengthier integration process and kept on the acquired management. Similar to Tata Group, the Birla Group did not insist on tight integration. Whether the preservation strategy towards DF is to develop towards symbiosis through learning (cf. Haspeslagh and Jemison 1991), the future will tell.

An Indian Serial Acquirer in the Pharmaceutical Industry

Zgenet Pharma is a publicly traded Indian pharmaceutical firm headquartered in Mumbai. With a long history of local presence, the firm has pursued internationalization with a series of overseas acquisitions. It has also played a key role in domestic market consolidation through local acquisitions. This case reviews its serial acquisition strategy and how that has impacted on its competitiveness.

The Acquisition: Background

The Indian Patent Act (1970) is hailed as the landmark legislation that invigorated the Indian pharmaceutical industry. Together with the growing population of skilled chemists, pharmacists, and other skilled workers, this act made life saving drugs affordable by abolishing patents on pharmaceutical products. Nearly two decades later, domestic firms started to dominate the Indian pharmaceutical scene by reverse engineering the products that started the generic drug market, and leading domestic firms (e.g. Ranbaxy) began to explore markets in Asia and Africa. The 1990s witnessed a stellar growth with domestic firms growing at the rate of 15%; currently India accounts for about 1.4% of the global pharmaceutical industry in value terms and 10% in volume terms. India is among the

top six global pharmaceutical producers in the world, exporting US$15 billion worth of products in 2013–2014.

New drug discovery and commercialization is a long process that lasts 15 to 20 years on average and that involves clinical trials, drug delivery, regulatory approvals, and marketing once the new drug has been formulated. With the passing of the Indian Patent Act (1970), Indian firms gained their ground in the middle stages where a drug is manufactured and marketed; however, they lacked other capabilities in new drug development. On the other hand, the reverse engineering abilities of Indian firms lowered the production costs of generic products and, with USA being the single largest market for them, foreign multinationals noted the advantages of collaboration with Indian firms that resulted in the outsourcing of manufacturing (Ramani 2002; Ramani and Maria 2005; Ramani and Putz 2001). For the Indian firms, the generic markets in the USA and Europe provided the internationalization option that resulted in M&A activity.

Zgenet Pharma started as a small pharmaceutical distribution firm in the 1960s and only in the early 1990s did it delve into biotechnology research, investing nearly 20% to 30% of its revenue on R&D. It focused not only on drug delivery but also on drug development. During the 1970s and 1980s it diversified into agribusiness, hospitals, and the life sciences, and many years later it split the business to separate pharmaceuticals from the rest. This restructuring allowed it to focus primarily on pharmaceuticals, which allowed it to expand its market.

In the late 1990s, the firm embarked on a non-organic growth strategy through friendly acquisitions both at home and across borders. By then, Indian generics had already made a name in the international markets. The firm made two local acquisitions and followed this up with five cross-border acquisitions in the UK, Ireland, Germany, France, and the USA. In addition to leveraging the acquired firm's R&D and regulatory capabilities, it stated that the main objective of acquisition was to leverage the marketing and distribution channels to launch its products in international markets. It aimed at acquiring technological know-how in order to gain domestic market advantage through its internationalization strategy, powered by a series of both local and cross-border acquisitions.

After acquiring seven firms in the span of ten years it was cash strapped. The global economic crisis provoked the credit crisis that soon followed

and the firm defaulted on its debt repayments that resulted in expensive law suits. This led to changes in the top leadership, organization structure, and the asset divesture of the group. While integrations were further delayed, the firm embarked on a cost leadership program to streamline its businesses under a new leadership. Over-exposure in the European markets, the fall of the euro, and the increase in domestic competition resulted in Zgenet Pharma losing its dominant position in the domestic market.

A rapid and intense restructuring during 2009–2011, followed by a disciplined approach to business management, allowed the firm to reduce its debt leverage, and it is now sitting on a cash pile. It has only recently consolidated its European operations and has integrated its local acquisitions. This has resulted in it becoming an acquisition target for other MNCs trying to enter and establish themselves in the Indian market.

Zgenet Pharma's ambitious acquisition strategy was funded using a combination of cash, loans, and foreign currency convertible bonds (FCCBs). It raised more than US$100 million through FCCBs at almost a 50% premium to the prevailing market rate at that point in time (the late 1990s and early 2000). Market observers and analysts commented that Zgenet Pharma was getting carried away with an aggressive acquisition strategy and losing sight of the domestic market. The firm stressed its investment on R&D and unveiled the country's largest R&D facility and embarked on building large capacities following a consolidation of its manufacturing plants. It justified its cross-border acquisition strategy as the only way to overcome the regulatory hurdles for new market expansions. The sales director of Zgenet Pharma US said:

> M&As are the only way to pursue internationalization in a highly regulated industry such as pharmaceuticals. We are pursuing joint ventures (JVs) and partnerships in markets such as Mexico where we find that JVs deliver better value than 100% ownership.

Post-acquisition Integration Strategy

Zgenet Pharma planned a detailed acquisition strategy that included only administrative integration plans. Instead of embarking on full integration

immediately following the acquisition, the firm decided to run the acquired firm without making any further changes apart from those that were needed to change the ownership and meet the regulatory requirements. As the objective of the acquisition was to harness the synergies, the lack of integration meant that existing drugs could not be launched on new markets and harness the acquired firms' infrastructures:

> We were forced to launch our drugs in new markets but without adequate infrastructure. This resulted in temporary and ad hoc processes and systems resulting in not only errors but also additional cost. (Operations manager of Zgenet Pharma)

Acquired firms on the other hand were surprised at the lack of involvement of the acquiring firm in day-to-day running:

> We were expecting Indians to march in and tell us what needs to be done. On the contrary, we did not see anyone for many months. And, when they turned up, they just listened to what we were doing. … It was not until a few years that there was consolidation in phases and some changes to how we did things. (Regional operations director of acquired firm)

Zgenet Pharma set up an integration team but its charter was to ensure smooth and seamless functioning of acquired firms with only the minimum changes that were needed to meet regulatory requirements. The team was also tasked to detail the gaps and provide recommendations for future integration that included consolidation of manufacturing and R&D facilities.

Discussion and Conclusions

This chapter has focused on the drivers and strategies related to Indian cross-border M&As, that is, is there an "Indian way"? To shed more light on what really drives Indian M&As and what post-M&A integration strategies are employed, we used three cases from three different industries to illustrate the key characteristics, namely ICT, the textile industry, and the pharmaceutical industry. Table 5.1 summarizes these three cases.

Table 5.1 Summary of M&A cases

	An Indian–Finnish M&A in the IT field	An Indian–Swedish M&A in the textile industry	An Indian serial acquirer in the pharmaceutical industry
Acquisition	Sasken Communication Technologies (SCT) acquired Botnia Hightech (BT) in 2006	Aditya Birla Group acquired Domsjö Fabriker 2011	Serial acquirer Zgenet Pharma
Acquirer	Indian medium-sized company, strong, long-term CEO, family firm feel	Traditional Indian family owned company, business very diversified (chemicals, cement, metals, fertilizers, telecommunications, financial services, IT)	Publicly traded, well established Indian pharmaceutical firm headquartered in Mumbai
Acquired	A Finnish medium-sized company (300 employees)	A Swedish company focusing on viscose textiles	Two local acquisitions followed by five cross-border acquisitions in UK, USA, France, Ireland, and Germany
M&A type	Concentric, friendly acquisition	Friendly acquisition	Friendly acquisitions
M&A motives	Foothold to Europe (market entry), first tier customer (acquiring business relationships), knowledge and skill acquisition (hardware technology)	Environmentally friendly technology, guaranteed long term, uninterrupted supply of pulp, captive raw material source, cutting edge technology, clientele, global leadership	Internationalization in a highly regulated industry

(continued)

Table 5.1 (continued)

	An Indian–Finnish M&A in the IT field	An Indian–Swedish M&A in the textile industry	An Indian serial acquirer in the pharmaceutical industry
Integration strategy	Slow, SCT respected target's wish of slow integration, name changed after nine months from the target's initiative, target became frustrated with slow integration, more significant changes only two years after. BH had grown very fast and been very successful, customer dependency 90%, cultural differences and distance led to its being left autonomous	Strategic fit, but not organizational fit. Left target autonomous, ownership of assets, financial integration. Need for organizational autonomy led to cultural and geographical distance, distance in management practices	Only administrative acquisition plans led to no further changes, apart from what was needed to change ownership and to meet regulatory requirements

All three cases had their distinct motives. Both the Sasken Communication Technologies acquisition in the Finnish ICT industry and the Adita Birla acquisition in the textile industry were motivated by strategic asset seeking. Gaining access to complementary resources and capabilities and obtaining a foothold in the market was critical. In the Sasken case the main motives were to enter the European market, to obtain new key customers, and to gain knowledge and skills; in the Adita Birla case the main motives were to obtain an uninterrupted supply of pulp, technology, and knowledge. On the other hand, the acquisitions made by the serial acquirer Zgenet Pharma in the pharmaceutical industry were motivated by comparative ownership advantages and more specifically restrictions within the industry. In other words, Zgenet Pharma's drivers were institutional: it justified its cross-border acquisition strategy as the only way to overcome the regulatory hurdles for new market expansions (Sun et al. 2012). While the firm tried to harness its early mover advantage following the liberalization of the Indian pharmaceutical industry in the 1980s, the continuous spree of seven acquisitions, with short windows of less than a year between each acquisition, meant that there was limited opportunity for learning from past acquisition experience. In line with Laamanen and Keil (2008), this case highlights the importance of program management for serial acquisitions. This case also demonstrates the difficulties faced by firms from emerging markets during the early stages of internationalization, in line with Ramamurti and Singh (2009) who discuss gaps in international business strategy with respect to early internationalization strategies of firms.

All three cases faced the challenges related to asymmetries (Madhok and Keyhani 2012). Firstly, being based in India and an EE, they all suffered from the liability of emergingness. However, Sasken was able to turn this into an advantage, as the low-cost position was seen as a competitive advantage in IT sector firms coming from developed economies. In the Sasken deal, Botnia needed connections to India to lower its cost structure and being acquired by Sasken was strategically important (Madhok and Keyhani 2012).

Regarding the post-acquisition integration strategies, all companies used a soft approach to integration (Dobbs and Gupta 2009). These cases had in common the lack or slow post-M&A integration, which

might result from the fact that Indian acquirers are very well aware of the liability of foreignness and prefer to wait so as to learn about the target company. This would also be in line with an asset seeking strategy where the main purpose is to integrate the complementary assets to the business (Madhok and Keyhani 2012). In the Sasken case, it was happy to let Botnia carry on as it always had as it was growing fast and had a good relationship with their key account. Sasken did not want to interfere too much so as not to disturb the business. This, however, led eventually to uncertainties and dissatisfaction among former Botnia employees who were eager to see tighter integration. In the Birla case, it was similarly accepted that there was a need for a certain level of autonomy. In Birla Group's overseas acquisitions the strategic fit was always rather clear: target firms would be strengthened and would complement Birla—in line with the original strategic motives. However, when Birla Group made acquisitions on other continents (North and Latin America, Europe) it did not expect a good (easy) organizational fit. The extent of integration was carefully thought out and only seemingly allowed the acquired company to remain autonomous. Strategic fit is critical for the Birla Group while organizational fit it can manage through ownership rights rather than forced integration. Birla Group made parallel strategic, organizational and managerial changes in order to respond to changing environments (cf. Som 2006).

To conclude, our main findings give support to the asymmetry-based view in explaining Indian M&As to developed markets, and imply that Indian M&As adopt a preservation strategy in the post-M&A phase for very strategic reasons, which might also explain why Indian M&As are so successful and manage to create value despite limited integration. Current research argues that traditional IB theories wouldn't be adequate in explaining M&As from EEs. For example, Ramamurti (2012) suggests that the real challenge is to discover which aspects of existing theory are universally valid, which aspects are not, and what to do about the latter. While there is a need to understand the drivers behind the Indian cross-border M&As to understand better how they perform and create value, it is important to understand also the contextual factors. The context such as the pharmaceutical industry may have restrictions that drive the companies to acquire rather than look for other internationalization opportunities. It is evident

that this topic needs further investigation, particularly in terms of understanding which internationalization theories can be applied to M&As from EEs. However, as Lebedev et al. (2015) point out, there can be important differences between acquisition strategies that influence EEs. Hence, we encourage more comparative research in this area in order to understand not only how M&As from EE firms differ from M&As from Western countries, but also how M&As from EE firms differ from one EE country to another. Future research is also needed regarding the asymmetries that EE firms encounter and how M&As can help overcome these challenges. Moreover, we encourage more research in the field of the liability of emergingness as well as liability of outsidership (cf. Johanson and Vahlne 2009; Madhok and Keyhani 2012).

Acknowledgments The authors wish to thank warmly the Foundation for Economic Education for funding this research project (MATAFI 2600285611).

References

Amendolagine, V., Cozza, C., & Rabellotti, R. (2015). Chinese and Indian multinationals: A firm-level analysis of their investments in Europe. *Global Economic Review, 44*(4), 452–469.

Angwin, D., & Meadows, M. (2015). New integration strategies for post-acquisition management. *Long Range Planning, 48*(4), 235–251.

Athreye, S., & Kapur, S. (2009). Introduction: The internationalization of Chinese and Indian firms: Trends, motivations and strategy. *Industrial and Corporate Change, 18*(2), 209–221.

Bhagat, S., Malhotra, S., & Zhu, P. (2011). Emerging country cross-border acquisitions: Characteristics, acquirer returns and cross-section determinants. *Emerging Markets Review, 12*, 250–271.

Bhaumik, S., & Selarka, E. (2012). Does ownership concentration improve M&A outcomes in emerging markets?: Evidence from India. *Journal of Corporate Finance, 18*(4), 717–726.

Birkinshaw, J., Bresman, H., & Håkanson, L. (2000). Managing the post-acquisition integration process: How the human integration and task integration processes interact to foster value creation. *Journal of Management Studies, 37*(3), 395–423.

Buckley, P. J., Forsans, N., & Munjal, S. (2012). Host-home country linkages and host-home country specific advantages as determinants of foreign acquisitions by Indian firms. *International Business Review, 21*, 878–890.

Buckley, P. J., Elia, S., & Kafouros, M. (2014). Acquisitions by emerging market multinationals: Implications for firm performance. *Journal of World Business, 49*(4), 611–632.

Buono, A. F., & Bowditch, J. L. (1989). *The human side of mergers and acquisitions: Managing collisions between people, cultures, and organizations*. San Francisco: Jossey-Bass.

Cartwright, S., & Cooper, C. L. (1992). *Mergers and acquisitions. The human factor*. Oxford: Butterworth-Heinemann.

Cartwright, S., & Cooper, C. L. (1993). The role of culture compatibility in successful organizational marriage. *Academy of Management Executive, 7*(2), 57–70.

Cogman, D., & Tan, J. (2010). A lighter touch for post-merger integration. *McKinsey Quarterly, 34*, 8–12.

De Beule, F., & Duanmu, J.-L. (2012). Locational determinants of internationalization: A firm-level analysis of Chinese and Indian acquisitions. *European Management Journal, 30*, 264–277.

Dobbs, R., & Gupta, R. (2009). An Indian approach to global M&A: An interview with the CFO of Tata Steel. *McKinsey Quarterly, 33*, 1–8.

Dunning, J. H. (1980). Towards an eclectic theory of international production: Some empirical tests. *Journal of International Business Studies, 11*, 9–31.

Dunning, J. H. (1988). The eclectic paradigm of international production: A restatement and some possible extensions. *Journal of International Business Studies, 19*, 1–31.

Dunning, J. H. (1993). *Multinational enterprises and the global economy*. Wokingham: Addison-Wesley.

Gubbi, S. R., Aulakh, P. S., Ray, S., Sarkar, M., & Chittoor, R. (2010). Do international acquisitions by emerging-economy firms create shareholder value? The case of Indian firms. *Journal of International Business Studies, 41*, 397–418.

Häkkinen, L., Nummela, N., & Taalas, S. (2009). On motives for acquisition activity in the media sector: Understanding actions through contextualization. In A. Albarran, P. Faustino, & R. Santos (Eds.), *The media as a driver of the information society* (pp. 157–178). Lisbon: MediaXXI.

Haspeslagh, P. C., & Jemison, D. B. (1991). *Managing acquisitions: Creating value through corporate renewal*. New York: The Free Press.

Jemison, D. B., & Sitkin, S. B. (1986). Corporate acquisitions: A process perspective. *Academy Of Management Review, 11*(1), 145–163.

Johanson, J., & Vahlne, J.-E. (2009). The Uppsala internationalization process model revisited: From liability of foreignness to liability of outsidership. *Journal of International Business Studies, 40*(9), 1411–1431.

Johanson, J., & Wiedersheim-Paul, F. (1975). The internationalization of the firm—Four Swedish cases. *Journal of Management Studies, 12*(3), 305–322.

Johard, C. (2011). Domsjö Fabriker—The success story continues. *SPCI Stockholm Sweden*, 42–44.

Johnson, G., Whittington, R., Scholes, K., Angwin, D., & Regner, P. (2014). *Exploring strategy* (10 ed.). Harlow: Pearson Education Limited.

Kohli, R., & Mann, B. J. S. (2012). Analyzing determinants of value creation in domestic and cross border acquisitions in India. *International Business Review, 21*(6), 998–1016.

Kripalani, M., & Ihlwan, M. (2008). Tata: Master of the gentle approach. *Businessweek, 4072*, 64–66.

Kumar, N. (2008). Internationalization of Indian enterprises: Patterns, strategies, ownership advantages, and implications. *Asian Economic Policy Review, 3*(2), 242–261.

Kumar, N. (2009). How emerging giants are rewriting the rules of M&A. *Harvard Business Review, 87*(5), 115–121.

Laamanen, T., & Keil, T. (2008). Performance of serial acquirers: Toward an acquisition program perspective. *Strategic Management Journal, 29*(6), 663–672.

Lebedev, S., Peng, M. W., Xie, E., & Stevens, C. E. (2015). Mergers and acquisitions in and out of emerging economies. *Journal of World Business, 50*(4), 651–662.

Lees, S. (2003). *Global acquisitions: Strategic integration and the human factor*. New York: Palgrave MacMillan.

Madhok, A., & Keyhani, M. (2012). Acquisitions as entrepreneurship: Asymmetries, opportunities, and the internationalization of multinationals from emerging economies. *Global Strategy Journal, 2*, 26–40.

McKinsey and Company (2013). Butter Chicken at Birla by Kumar Mangalam Birla. In McKinsey and Company (Ed.), *Remaining India: Unlocking the potential of Asia's next superpower* (pp. 338–343). New York: Simon & Schuster.

Miller, D. (2003). An asymmetry-based view of advantages: Towards an attainable sustainability. *Strategic Management Journal, 24*, 961–976.

Nahavandi, A., & Malekzadeh, A. R. (1988). Acculturation in mergers and acquisitions. *Academy of Management Review, 13*(1), 79–90.

Nicholson, R. R., & Salaber, J. (2013). The motives and performance of cross-border acquirers from emerging economies: Comparison between Chinese and Indian firms. *International Business Review, 22*, 963–980.

Pablo, A. L., & Javidan, M. (2004). *Mergers and acquisitions. Creating integrative knowledge*. Oxdord: Blackwell Publishing.

Press Release. (2011). Available at http://www.adityabirla.com/media/Aditya-Birla-Group-acquires-Dornsjö-Fabriker. Accessed on 31 Aug 2016.

Piscitello, L., Rabellotti, R. and Scalera, V.G. (2014). Chinese and Indian M&A in Europe: The relationship between motive and ownership choices. *Circle Lund University*, Paper No. 2014/03.

Pugsley, J. (2008). Can Tata succeed where Ford failed? *Acquisitions Monthly, 280*, 24–25.

Ramamurti, R. (2012). What is really different about emerging market multinationals? *Global Strategy Journal, 2*, 41–47.

Ramamurti, R., & Singh, J. V. (2009). Indian multinationals: Generic internationalization strategies. In R. Ramamurti & J. V. Singh (Eds.), *Emerging multinationals in emerging markets* (pp. 1–66). Cambridge: Cambridge University Press.

Ramani, S. V. (2002). Who's interested in biotechnology: R&D strategies, knowledge base and market sales of Indian biopharmaceutical firms. *Research Policy, 31*, 381–398.

Ramani, S. V., & Maria, A. (2005). TRIPS and its possible impact on the biotech based segment of the Indian pharmaceutical industry. *Economic and Political Weekly, Feb, 12–18*, 675–683.

Ramani, S. V., & Putz, C. (2001). Resources, performance and strategy: A statistical examination of the integration of biotechnology in the Indian pharmaceutical sector. *International Journal of Biotechnology, 3*, 374–390.

Sasken Annual Report. (2006–2007). Available at http://www.sasken.com/investors/annual-reports/. Accessed on 31 Aug 2016.

Shrivastava, P. (1986). Post-merger integration. *Journal of Business Strategy, 7*(1), 65–76.

Som, A. (2006). *Aditya Birla Group*: *Redesigning to become a Fortune 500 company*. ESSEC Business School, Case Study Paper.

Stahl, G. K., & Voigt, A. (2008). Do cultural differences matter in mergers and acquisitions? A tentative model and examination. *Organization Science, 19*(1), 160–176.

Subramanian, V. (2010). *Birla, The "unknown" global Indian conglomerate*. Hong Kong: Asia Case Research Centre.

Sun, S. L., Peng, M. W., Ren, B., & Yan, D. (2012). A comparative ownership advantage framework for cross-border M&As: The rise of Chinese and Indian MNEs. *Journal of World Business, 47*, 4–16.

Taylor, H. and Nolke, A. (2008, June). *Regulatory governance and the rise of non-triad multinational companies*: *A modified* "*varieties of capitalism*" *perspective on Indian multinationals.* Proceedings of the ECPR Standing Group on Regulatory Governance Conference, Utrecht.

Teerikangas, S., & Very, P. (2006). The culture-performance relationship in M&A: From yes/no to how. *British Journal of Management, 17*(S1), S31–S48.

Teerikangas, S., & Joseph, R. J. (2012). Post-deal integration: An overview. In D. Faulkner, S. Teerikangas, & R. J. Joseph (Eds.), *The handbook of mergers and acquisitions* (pp. 339–371). Oxford: Oxford University Press.

Timberg, T. A. (2014). *The Marwaris: From Jagat Seth to the Birlas*. New Delhi: Allen Lane.

Trautwein, F. (1990). Merger motives and merger prescriptions. *Strategic Management Journal, 11*(2), 283–295.

UNCTAD, United Nations Conference on Trade and Development (2015). *Reforming international investment governance*, *World Investment Report*. Geneva: United Nations.

Very, P., Lubatkin, M., & Calori, R. (1996). A cross-national assessment of acculturative stress in recent European mergers. *International Studies of Management and Organization, 26*(1), 59–86.

Yamakava, Y., Khavul, S., Peng, M. W., & Deeds, D. L. (2013). Venturing from emerging economies. *Strategic Entrepreneurship Journal, 7*, 181–196.

6

The Value Creation of Mergers and Acquisitions in Mature and Emerging Markets: A Study of French Multinationals

Ludivine Chalençon and Ulrike Mayrhofer

Introduction

Foreign direct investment (FDI) in emerging markets has considerably increased during the recent period. These investments often take the form of mergers and acquisitions (M&As) signed with local partners (Hadjikhani et al. 2012; Mayrhofer 2013). In 2013, 26% of registered operations took place in emerging economies, whereas M&As in these countries only accounted for 6% in 1990 (UNCTAD 2014). The increasing interest of multinationals in M&As in emerging markets raises numerous questions (Malhotra and Gaur 2014). Which companies are particularly active in establishing M&As? Which are the preferred destinations chosen for these external growth strategies? How do financial

L. Chalençon (✉) • U. Mayrhofer
Magellan Research Center, IAE Lyon,
Jean Moulin Lyon 3 University, 6 cours Albert Thomas,
69008 Lyon, France
e-mail: ludivine.chalencon@univ-lyon3.fr

© The Editor(s) (If applicable) and the Author(s) 2017

S. Marinova et al. (eds.), *Value Creation in International Business*,
DOI 10.1007/978-3-319-30803-6_6

markets react to these trends? Do M&As in emerging countries create similar value to operations in mature countries?

This chapter examines the characteristics and value creation of cross-border M&As established by French multinationals who often choose to form M&As to accelerate their international expansion: they realize 4% of the volume and value of M&As in the world, which positions France as number three in terms of M&A activities, following the United States and the United Kingdom (Chalençon 2014). Despite their important use of external growth strategies, French companies have not been widely studied in the academic literature. This research aims to contribute to a better knowledge of M&As conducted by French companies in both mature and emerging markets. The empirical study is based on a sample of 385 M&As announced between 2010 and 2012 and formed by companies of the French SBF 120 index in 55 countries. Initially, the major characteristics of French M&As will be described and analyzed. This is followed by a comparison of the value creation of M&As in the context of mature and emerging economies.

Major Characteristics of M&As Formed by French Multinationals

French multinationals are particularly active in forming M&As, but few empirical studies have been conducted on their growth operations. As mentioned above, French companies are ranked third in terms of the number of acquisitions (UNCTAD 2014). Figure 6.1 shows, for the last wave of M&As, the data for the three most active countries. After the economic crisis in 2008, we can identify a clear recovery of activity in 2010.

Table 6.1 indicates the percentage of cross-border M&As by country. In the year 2000, 88% of cross-border M&As were conducted by acquiring companies from developed economies, versus 73% in 2013. Deals initiated by French companies represent about 13% of cross-border M&As in the European Union, 6% of operations in developed economies, and 5% worldwide.

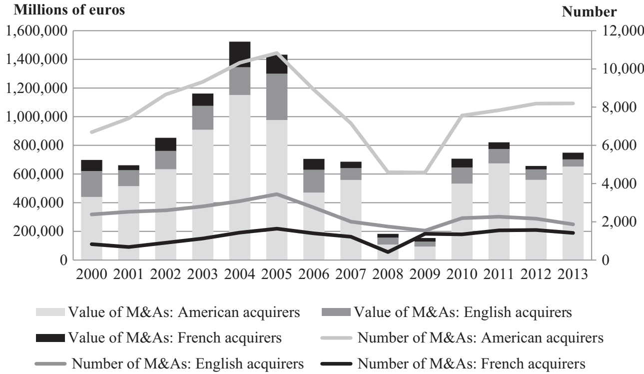

Fig. 6.1 M&A activity in the USA, the UK, and France (2000–2013) (*Source*: Based on Securities Data Company Platinum on line (Chalençon 2014))

The data collection for the empirical study presented in this article is based on the French SBF 120 index. This stock market index with the 120 most actively traded stocks listed in Paris includes the 40 companies of the CAC 40 index and a selection of 80 additional companies listed on the Premier Marché and Second Marché under Euronext Paris. The list of these companies was obtained via the DataStream database, published by Thomson Reuters. After excluding operations in the banking and insurance industries, a press review was made through the Factiva database in order to collect data on M&A operations. This database provides access to different secondary sources (*Les Echos*, Reuters, Dow Jones Newswires, Boursier.com, Business Wire, Agence France Press) seven days before and after the announcement date. The collected data was then completed by information published in other databases and by public institutions (Chalençon 2014). We used this data to identify potential overlapping events close to the announcement date. These M&As were excluded from our sample.

Characteristics of French Acquiring Companies

The database shows that 90 out of 120 companies listed on the SBF 120 index chose to establish 395 M&As between 2010 and 2012, which

Table 6.1 Percentage of cross-border M&As by country of acquirer (2000–2013)

Country	2000 (%)	2001 (%)	2002 (%)	2003 (%)	2004 (%)	2005 (%)	2006 (%)	2007 (%)	2008 (%)	2009 (%)	2010 (%)	2011 (%)	2012 (%)	2013 (%)
Developed economies	**88**	**86**	**82**	**78**	**79**	**79**	**80**	**80**	**77**	**70**	**72**	**74**	**73**	**73**
European Union	51	50	46	40	38	40	41	42	42	36	37	37	35	35
Belgium	2	2	1	1	1	1	1	1	1	1	1	1	1	1
Denmark	2	2	2	1	1	2	1	1	1	1	1	1	1	1
Finland	2	2	2	1	1	1	1	1	1	1	1	1	1	1
France	7	7	6	4	5	5	5	6	6	5	5	5	4	5
Germany	8	7	7	6	5	5	5	5	5	6	4	5	5	5
Italy	2	2	2	2	2	2	2	2	2	2	1	1	1	2
Netherlands	4	4	4	3	3	3	3	3	4	3	3	3	2	2
Spain	2	2	2	2	2	2	2	2	2	2	2	1	1	1
Sweden	3	3	3	2	2	3	3	3	3	2	3	3	3	2
United Kingdom	13	13	12	12	12	12	11	11	10	8	8	9	8	9
North America	27	25	25	27	29	25	26	24	22	22	2	25	25	25
Canada	5	5	6	6	7	6	6	6	5	6	6	7	6	6
United States	22	20	19	21	22	19	20	19	18	16	17	18	19	20
Other developed countries	11	11	11	11	12	14	14	14	12	12	12	12	12	12
Developing economies	**9**	**10**	**13**	**14**	**15**	**15**	**15**	**15**	**17**	**19**	**20**	**19**	**19**	**19**
Africa	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Asia	6	7	9	11	12	13	12	12	13	14	15	14	14	14

Country	2000 (%)	2001 (%)	2002 (%)	2003 (%)	2004 (%)	2005 (%)	2006 (%)	2007 (%)	2008 (%)	2009 (%)	2010 (%)	2011 (%)	2012 (%)	2013 (%)
China, Hong Kong	2	2	3	4	4	4	3	3	3	4	5	5	5	6
India	1	1	1	1	1	1	2	2	2	1	2	2	1	1
Latin America and the Caribbean	2	2	3	2	2	2	2	3	3	3	4	4	4	4
Brazil	0	0	0	0	0	0	0	1	1	1	1	1	1	1
Oceania	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Transition economies	**0**	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**2**	**2**	**2**	**2**	**2**	**2**
Russian Federation	0	1	1	1	1	1	1	1	1	2	2	2	2	2
Unspecified	**2**	**4**	**4**	**6**	**5**	**5**	**4**	**4**	**5**	**9**	**6**	**5**	**6**	**6**

Source: Based on data from UNCTAD (Chalençon 2014)

reflects that French companies are highly active in these operations. The company names are indicated in Table 6.2. Several large multinationals formed a significant number of M&As, namely Publicis Groupe (9% of M&As, an average of 12 operations per year), Air Liquide (4%, approximately 5 operations per year), and Schneider Electric (4%, approximately 5 operations per year). As shown in Table 6.2, major French acquirers operate in important industries of the French economy, such as aeronautics, the automobile industry, electrical appliances, the food industry, pharmaceutical products, communication services, and information and communication technologies.

Even if the SBF 120 index covers a variety of companies in terms of size and internationalization strategies, several observations can be made. On average, these multinationals achieve annual total sales of €17.6 million and their net income amounts to 12% of total sales; their market capitalization is €15.5 million, their workforce consists of 79.5 people, and their balance sheet is €28.3 million. Their average ratio of financial independence (total debts/equity) is 83%, which reflects a satisfactory financial flexibility. It is also interesting to note that most of the acquiring companies are characterized by a high degree of internationalization (on average, foreign sales amount to 63%) and have important experience in terms of M&As (on average, 20 transactions during the ten-year period preceding the announcement of an operation). The average value of announced M&As represents 5% of their market capitalization and 3% of their balance sheet.

Target Countries of M&As Formed by French Companies

Recent M&A activities of French companies have taken place in a large variety of countries, thus reflecting the accelerated international expansion of French multinationals. During the observation period (2010–2012), companies listed on the SBF 120 index acquired targets in 55 countries (see Table 6.2). It is interesting to note that 28% of operations concern other French companies, which reflects important concentration moves within certain industries, and 72 percent of operations target foreign

Table 6.2 French acquiring companies (2010–2012)

Acquiring company	Mergers	Acquisitions	M&As	Acquiring company	Mergers	Acquisitions	M&As
Accor		1	1	Klepierre		2	2
Air Liquide	**2**	**8**	**10**	Lagardere		2	2
Alcatel Lucent		1	1	Legrand	1	4	5
Alstom		6	6	L'Oreal		1	1
Altran Technologies	1	1	2	LVMH	1	2	3
Areva		3	3	Maurel et Prom		1	1
Arkema		1	1	Michelin		2	2
Atos	2	4	6	Neopost		4	4
BioMérieux	1	1	2	Nexans		2	2
Bonduelle		1	1	Orpea		1	1
Bourbon		1	1	PagesJaunes		1	1
Bureau Veritas		**10**	**10**	PPR	1	4	5
Capgemini	2	5	7	**Publicis Groupe**	**14**	**20**	**34**
Carrefour	1	5	6	Rémy Cointreau	1		1
Casino Guichard-Perrachon		2	2	Renault	1		1
CGGVeritas		2	2	Rexel	1	2	3
Saint-Gobain	1	8	9	Rhodia (Solvay)	1	1	2
Plastic Omnium		3	3	Rubis		2	2
Danone	1	4	5	Safran	1	2	3
Dassault Systèmes	1	2	3	Sanofi	2	6	8
EADS (Airbus Group)		1	1	**Schneider Electric**	**2**	**11**	**13**
Edenred		2	2	Seb		2	2

(continued)

Table 6.2 (continued)

Acquiring company	Mergers	Acquisitions	M&As	Acquiring company	Mergers	Acquisitions	M&As
EDF Energies Nouvelles		2	2	Sodexo	3	3	6
EDF		2	2	Technicolor		1	1
Eiffage		1	1	Technip		3	3
Essilor International		6	6	Teleperformance	1	2	3
Eurofins Scientific		2	2	Thales		3	3
Eutelt Communications		1	1	Total		7	7
Faiveley Transport (Faiveley)		3	3	Ubisoft Entertainment		2	2
Faurecia		5	5	Unibail-Rodamco	1	2	3
France Télécom	1	4	5	Valeo		4	4
GDF Suez	1	8	9	Vallourec		1	1
Havas		8	8	Vicat		1	1
Hermès International	1	2	3	Vilmorin & Cie		3	3
Imerys		3	3	Vinci		3	3
Ingenico	1	1	2	Virbac		3	3
Ipsen		1	1	Vivendi		1	1
Ipsos		1	1	Zodiac Aerospace		3	3
JCDecaux		2	2	Total	47	238	285

Source: Adapted from Chalençon (2014)

companies. Thirteen firms in our sample formed exclusively domestic M&As (22 altogether), 45 firms signed both domestic and international M&As, and 32 firms formed only international M&As. These latter mainly concern other European countries (37%), Asia (17%), North America (14%), and Latin America (9%). Operations in Africa (3%) and Oceania (2%) are rather limited.

The United States (12% of operations) appears to be the first foreign target country of French M&As, followed by the United Kingdom (7%), Brazil (6%), India (5%), China (4%), Germany (4%), Spain (3%), and Russia (3%). The geographic distribution of international M&As shows that the United States and large European markets like the United Kingdom, Germany, and Spain attracted a significant number of French investors.

Table 6.3 also indicates that emerging markets have become increasingly important for M&A activities: the four BRIC (Brazil, Russia, India, China) countries are among the ten most important target markets of French acquirers, highlighting the increasing geographic dispersion of the value chains. Like other multinationals from mature economies, French companies aim to become global market leaders and thus increase their investments in emerging economies (Beddi and Mayrhofer 2013; Mayrhofer 2013). According to our dataset, 29% of M&As signed by French companies concern emerging economies. The growing attractiveness of these target countries for French investors is also confirmed by other studies (e.g. PricewaterhouseCoopers and ARFA 2010; INSEE 2013).

The average value of M&As formed by French companies amounts to €420 million, but important variations can be observed according to the location of the target. The average value of domestic operations is €372 million, whereas international operations reach a total of €444 million. M&As in mature economies have an average value of €464 million as against €274 million for operations in emerging economies. These figures demonstrate that the largest operations still take place in mature markets. Table 6.4 indicates the ten most important M&As announced between 2010 and 2012. The first operation is the acquisition of the US Genzyme company by Sanofi (€18,512.05 million), which was one of the most significant deals in the biotechnology industry. This operation is followed

Table 6.3 Target countries of French acquiring companies (2010–2012)

Target countries	Number of M&As	%	Target countries	Number of M&As	%
Europe		***37***	***North America***		***19***
European Union		*34*	Canada	7	2
Austria	1	0	**United States**	**47**	**16**
Belgium	4	1	***Asia***		***24***
Czech Republic	1	0	**China**	**16**	**6**
Denmark	2	1	Hong Kong	2	1
Finland	1	0	**India**	**18**	**6**
Germany	**16**	**6**	Iraq	1	0
Hungary	1	0	Japan	1	0
Ireland	1	0	Malaysia	3	1
Italy	7	2	Philippines	1	0
Luxembourg	3	1	Qatar	1	0
Netherlands	9	3	**Russia**	**11**	**4**
Poland	5	2	Singapore	3	1
Romania	3	1	South Korea	3	1
Spain	**11**	**4**	Turkey	6	2
Sweden	2	1	United Arab Emirates	1	0
United Kingdom	**29**	**10**	Vietnam	1	0
Other European countries		*4*	Yemen	1	0
Norway	1	0	***Africa***		***5***
Serbia	1	0	Botswana	1	0
Switzerland	8	3	Egypt	1	0
Latin America		*12*	Israel	3	1
Argentina	4	1	Morocco	.2	1
Brazil	**22**	**8**	Nigeria	2	1
Chile	2	1	Republic of Congo	1	0
Columbia	3	1	Saudi Arabia	1	0
Jamaica	1	0	South Africa	1	0
Mexico	1	0	Tunisia	1	0
Panama	1	0	***Oceania***		***3***
Uruguay	1	0	**Australia**	**8**	**3**
Total				**285**	**100**

Source: Adapted from Chalençon (2014)
Note: Investments in Russia are both in its European and Asian part

Table 6.4 The ten most important M&As in terms of value (2010–2012)

Date of announcement	Acquiring company	Target company	Location of target	Value (€ thousands)
8/29/2010	Sanofi	Genzyme	United States	18,512.05
3/2/2011	Total	Novatek	Russian	2,884.83
3/7/2011	LVMH	Bulgari	Italy	2,012.03
9/24/2012	CGGVeritas	Fugro NV-Geoscience Division	Netherlands	1,200.00
5/31/2011	Schneider Electric	Telvent GIT	Spain	1,099.87
9/20/2010	Safran	L-1 Identity Solutions Inc	United States	832.96
9/21/2010	France Telecom	Medi Telecom	Morocco	640.00
12/14/2010	Atos	SIS	Germany	608.88
6/6/2011	Ipsos	Synovate	United Kingdom	596.44
6/27/2012	Danone	Centrale Laitiere	Morocco	550.00

Source: Adapted from Chalençon (2014)

by the acquisition of the French Vivendi group by SFR (Société Française de Radiotéléphonie) in the telecommunication industry and the acquisition of the Russian Novatek company by Total in the petrol industry.

Characteristics of M&As

The main characteristics of cross-border M&As conducted by French companies are shown in Table 6.5. Of all the operations, 84% were acquisitions and 16% were mergers. A large majority of all operations (96%) could be considered as neutral (this means that the management of the target has nothing to do with the transaction), 4% are friendly operations (the board recommends the offer), and we cannot identify any hostile M&As (the board officially rejects the offer). These figures may be explained by the fact that hostility usually generates an increase in costs and triggers more integration issues. Moreover, only 8% of the targets are listed and these companies are mainly located in mature countries (84%).

Table 6.5 Characteristics of M&As by location

Variable	Modalities	Total		Mature country		Emerging country	
		Number	%	Number	%	Number	%
Form	Merger	47	16.5	28	16.4	19	16.7
	Acquisition	238	83.5	143	83.6	95	83.3
Attitude	Friendly	11	39.0	5	2.9	6	5.3
	Neutral	274	96.1	166	97.1	108	94.7
Status	Public	17	6.0	12	7.0	5	4.4
	Private	268	94.0	159	93.0	109	95.6
Relatedness	Specialization	109	38.2	56	32.7	53	46.5
	Diversification	176	61.8	115	67.3	61	53.5

Source: Adapted from Chalençon (2014)

Finally, our sample integrates a majority of deals with a diversification strategy in both mature and emerging countries (65%). In that case, the acquiring company does not have the same standard industrial classification (SIC) code (four digit).

French companies form M&As to gain access to foreign markets. Therefore, the location of targets appears to be a crucial determinant of M&As. This factor and the economic growth rate are the two main motivations for French multinationals to conduct M&As in emerging countries.

The analysis of our data shows that the majority of French companies listed on the SBF 120 index chose to grow through M&As during the observation period. Several large multinationals appear to be particularly active in forming M&As, notably Publicis Groupe, Air Liquide, and Schneider Electric. French companies show a preference for M&As in France and other European Union countries, the United States, and BRIC countries. Of the observed operations, 72% concern targets located in foreign markets. The average value of conducted operations is significantly higher in mature economies than in emerging ones, and 15 out of the 20 M&As concern mature markets. After having identified major trends of M&A activities of French companies, it is interesting to examine the value creation of the developed growth strategies.

Value Creation of M&As in Mature and Emerging Countries

The available studies highlight the fact that M&As lead to contrasting results: their risk of failure is estimated at more than 50% (Buckley and Ghauri 2002; Caliphaet et al. 2010; Schoenberg 2006; Vazirani 2012). The value creation of these external growth strategies is often measured by the reaction of the financial markets to the announcement of an operation (Humphery-Jenner 2014; Very 2011). This indicator reflects how financial analysts perceive the performance of M&As and how they estimate their value creation for the shareholders of the acquiring companies (Bargeron et al. 2014; Dittmar and Thakor 2007). We will first analyze the reaction of financial markets to the announcement of M&As by French companies and then compare the reaction of the financial markets according to the location of targets in mature or emerging markets.

The Reaction of Financial Markets to M&A Announcements

We calculated the cumulated abnormal returns (CARs) in order to analyze the reaction of the financial markets to M&A announcements (Aktas et al. 2011; Kim and Finkelstein 2009). We chose to follow an event study methodology and used the market model to estimate the abnormal component of returns (AR) of stock *i* on day *t*:

$$AR_{it} = R_{it} - \left(\hat{a}_i + \hat{b}_i \, R_{mt} \right)$$

where R_{it} indicates the returns of stock *i* at time *t*, R_{mt} the market return at time *t*, and $t = 0$ the announcement date.

Then, we estimated the CARs for acquiring firms over the seven trading days surrounding the announcement dates [–3 days; +3 days]:

$$CAR_i = \sum_{t=-3}^{+3} AR_{i,t}$$

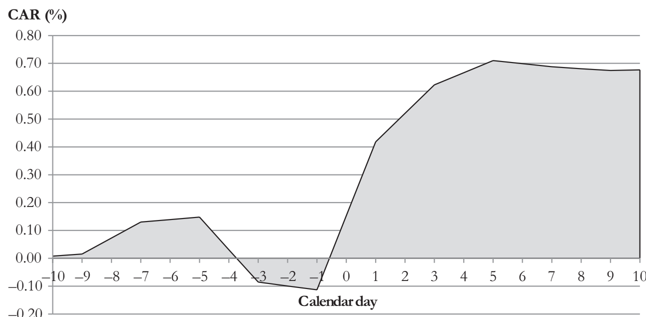

Fig. 6.2 Cumulated abnormal returns of M&As (*Source*: Adapted from Chalençon (2014))

Figure 6.2 shows the CARs ten days before and ten days after the announcement of the operation. The reaction of the financial markets appears to be limited before the announcement and then significantly increases the day after. During this period, CARs amount, on average, to 0.49%. They are weakly positive between days 9 and 4 before the announcement and then become weakly negative between days 4 and 1 prior to the announcement. It is interesting to note that, for M&As formed by French companies, CARs are positive after the announcement. This result is consistent with several studies focusing on M&As established by French (Meschi and Métais 2006) and other European companies (Faccio et al. 2006; Kallunki et al. 2001; Lopez-Duarte and Garcia-Canal 2007; Lowinski et al. 2004). Conversely, studies on M&As signed by Anglo-Saxon companies show that the financial markets tend to react negatively to M&A announcements (Billett and Qian 2008; Cai and Vijh 2007; Cosh et al. 2006). Our findings suggest that the financial markets consider that external growth strategies conducted by French multinationals create value for the shareholders of the acquiring companies.

The average abnormal returns (AARs) for the same period (ten days before and ten days after the announcement) are indicated in Fig. 6.3. The graph illustrates the weak reaction of the financial markets to the announcement of M&As. The reaction seems to be concentrated several days before and after the announcement, and mainly on the day of the announcement and the day after. This trend confirms that investors attentively observe multinationals with an important market capitalization and thus react very rapidly to M&A announcements.

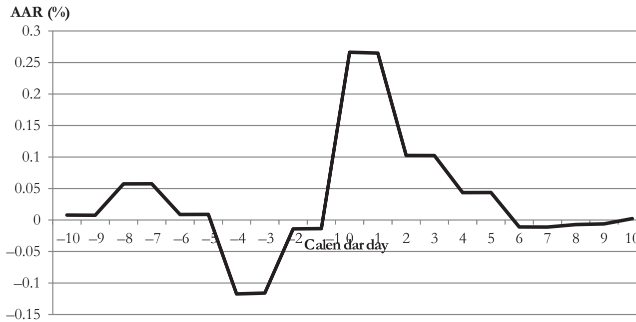

Fig. 6.3 Average abnormal returns of international M&As (*Source*: Adapted from Chalençon (2014))

Value Creation of M&As in Mature and Emerging Markets

The analysis presented in the first part of this article shows that French companies increasingly form M&As in emerging economies. It thus seems interesting to compare the reaction of the financial markets according to the location of the acquired targets. Figure 6.4 indicates CARs ten days before and ten days after the announcement of domestic and international M&As signed by French companies. The event study highlights that CARs are positive regardless of the location of the target company. Nevertheless, the financial markets react more strongly for domestic than for international M&As. They seem to favor domestic M&As, since acquiring firms have better access to information about national targets. Kang and Kim (2008) observe a lower information asymmetry for national investments, and Boeh (2011) shows that international M&As involve higher costs.

Figure 6.5 indicates CARs ten days before and ten days after the announcement of M&As by French companies in both mature and emerging markets. The graph shows that the financial markets react in a different way before and after the announcement according to the target markets. Before the announcement, CARs remain weakly positive for M&As in mature economies, but clearly negative for those in emerging economies. After the announcement, the reaction of the financial markets is clearly positive for M&As in mature markets, but remains weakly positive for those in emerging markets.

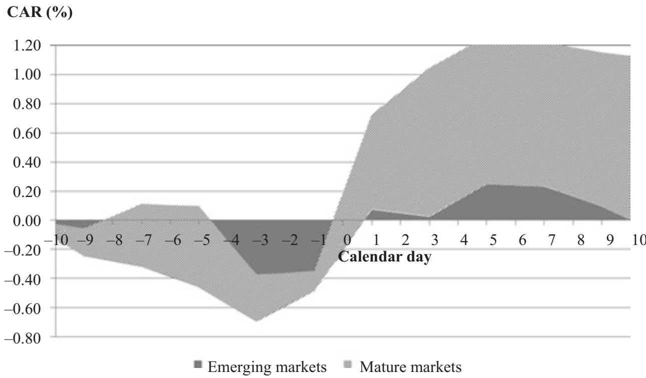

Fig. 6.4 Cumulated abnormal returns of M&As in mature and emerging markets (*Source*: Adapted from Chalençon (2014))

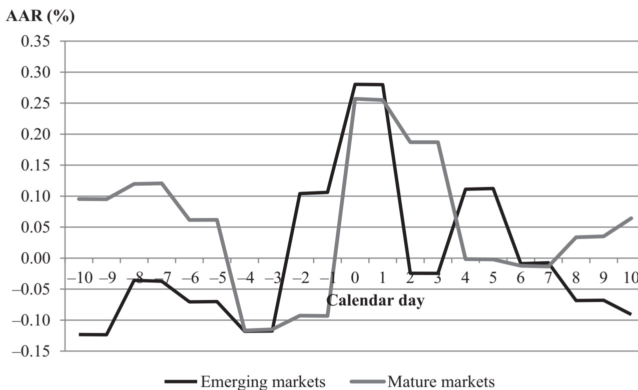

Fig. 6.5 Cumulated abnormal returns of M&As in mature and emerging markets

The observed differences suggest that the financial markets consider that external growth strategies in mature markets create more value for the shareholders of acquiring companies than those developed in emerging markets. It is important to note that existing studies indicate contrasting results concerning the impact of location on the value creation of M&As (Moeller and Schlingemann 2005; Thraya and Albouy 2012). In fact, international operations allow the capturing of high growth opportunities (Danbolt and Maciver 2012), especially when targets are located

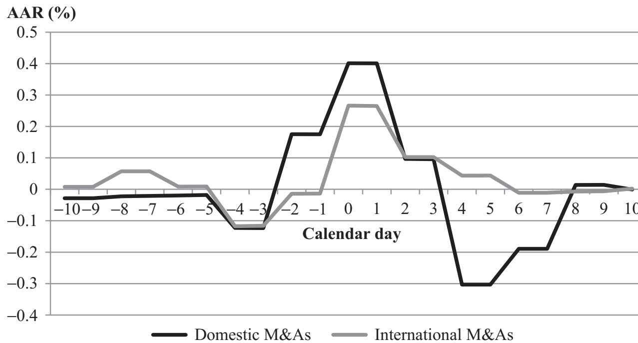

Fig. 6.6 Average abnormal returns of M&As in mature and emerging markets

in emerging markets (Xia et al. 2008). Nevertheless, the risks associated with deals in these countries are significantly stronger, mainly because of substantial asymmetry of information, agency costs, and severe competition to acquire these companies (John et al. 2011; Moeller and Schlingemann 2005).

Figure 6.6 illustrates the AARs for the same period (ten days before and ten days after the announcement) for both domestic and international M&As. The financial markets react quickly around the date of announcement. We can observe that on the fourth and fifth days after the announcement, AARs are positive for international M&As while they are negative for domestic ones.

Figure 6.7 illustrates the AARs for the same period (ten days before and ten days after the announcement) for both mature and emerging markets. The reaction to M&As in mature and emerging countries remains concentrated on the day of announcement and the days before and after, which reflects the fact that the financial markets react very rapidly to M&A announcements. The graph also reveals some contrasting trends according to the geographic location of targets: the financial markets tend to react negatively between days 3 and 6 after the announcement for M&As in mature economies, while the reaction becomes positive during this period for M&As in emerging economies.

These findings suggest that investors take into account the higher risks associated with these deals and show a preference for domestic

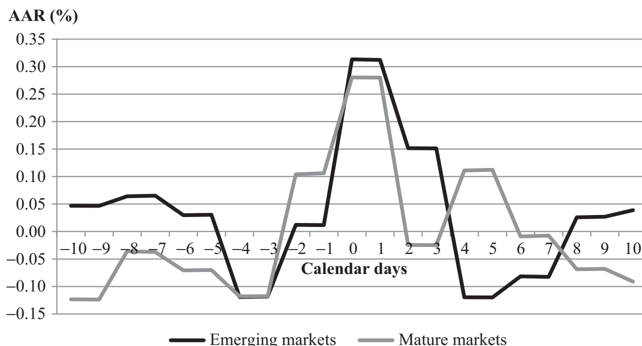

Fig. 6.7 Average abnormal returns of M&As in mature and emerging markets

acquisitions, as demonstrated by Kang and Kim (2008). The AARs indicate that the financial markets anticipate a limited value creation concerning M&As in emerging markets. Despite the driving forces of market globalization, investors seem to be aware of the substantial number of unsuccessful deals and the integration difficulties of targets located in these countries. In emerging markets, other entry modes such as joint ventures appear to be more popular, since they require fewer resources and thus limit the risks associated with foreign investments (Beamish 2008). Joint ventures also give access to local market knowledge and contacts.

The analysis presented shows that the reaction of the financial markets before the announcement of M&As initiated by French multinationals is limited, but significantly increases the day after the announcement of operations. Unlike their Anglo-Saxon counterparts, M&As announced by French multinationals tend to generate positive reactions by the financial markets, especially on the day of the announcement and the day after, thus confirming the rapid reaction of the financial markets to M&A announcements. Moreover, operations in mature markets seem to generate more value than those conducted in emerging economies, which indicates the high risks associated with external growth strategies in emerging markets.

Conclusion

In a context where emerging economies are becoming increasingly attractive for foreign direct investment, the present study contributes to a better understanding of value creation of M&As formed by French multinationals. Based on the analysis of 285 cross-border M&As announced by 90 French companies listed on the SBF 120 index, we have attempted to identify the major characteristics of M&As established by French companies during the recent period. Our findings show that a large majority of these companies choose to grow through M&As in foreign markets. The preferred destinations are the European Union, the United States, and BRIC countries. The analysis demonstrates that, unlike for their Anglo-Saxon counterparts, M&As established by French multinationals tend to generate positive reactions on the financial markets which rapidly react to their announcements. External growth strategies in emerging markets continue to develop, but the created value appears to be limited, showing the high risks perceived for this type of operation.

The findings of our research contribute to the literature on the value creation of cross-border M&As. They indicate that the financial markets react in a different way to operations formed in mature and emerging markets, thus suggesting that location remains a key question for external growth strategies. In this sense, our study highlights the importance of geographic dimensions for strategic decisions concerning M&A activities, despite the growing pressures of market globalization.

This study also provides several promising research perspectives. Our findings emphasize the necessity of considering country-specific factors for the analysis of external growth strategies. Therefore, it would be interesting to extend the study to other countries in order to identify the similarities and differences concerning the reaction of the financial markets to M&A announcements. Today, companies are facing multiple opportunities in both mature and emerging economies, but they need to seize them adequately, considering the mitigated results of external growth strategies. The recent period is marked by a significant increase of investments in emerging economies and it seems essential to anticipate the

important risks associated with these markets, which seem to be perceived by the financial markets. Future analysis should also deal in more detail with the specific features of the acquiring firms, such as their international and target-country-specific experience, the ownership level acquired, the absolute and relative size of the investment, as well as the methods of payment (cash vs stock).

References

Aktas, N., de Bodt, E., & Cousin, J.-G. (2011). Do financial markets care about SRI? Evidence from mergers and acquisitions. *Journal of Banking & Finance, 35*(7), 1753–1761.

Bargeron, L. L., Lehn, K., Moeller, S. B., & Schlingemann, F. P. (2014). Disagreement and the informativeness of stock returns: The case of acquisition announcements. *Journal of Corporate Finance, 25*, 155–172.

Beamish, P. W. (2008). *Joint venturing*. Charlotte: Information Age Publishing.

Beddi, H., & Mayrhofer, U. (2013). Headquarters-subsidiaries relationships of French multinationals in emerging markets. *Multinational Business Review, 21*(2), 174–194.

Billett, M. T., & Qian, Y. (2008). Are overconfident CEOs born or made? Evidence of self-attribution bias from frequent acquirers. *Management Science, 54*(6), 1037–1051.

Boeh, K. K. (2011). Contracting costs and information asymmetry reduction in cross-border M&A. *Journal of Management Studies, 48*(3), 568–590.

Buckley, P. J., & Ghauri, P. N. (2002). *International mergers and acquisitions*. London: Thomson.

Cai, J., & Vijh, A. M. (2007). Incentive effects of stock and option holdings of target and acquirer CEOs. *Journal of Finance, 62*(4), 1891–1933.

Calipha, R., Tarba, S., & Brock, D. (2010). Mergers and acquisitions. A review of phases, motives, and success factors. In C. L. Cooper & S. Finkelstein (Eds.), *Advances in mergers and acquisitions* (Vol. 3, pp. 1–24). New York: JAI.

Chalençon, L. (2014). *Les stratégies de localisation et la création de valeur des fusions-acquisitions internationales* (p. 3). Unpublished Doctoral dissertation, Université Jean Moulin Lyon, Lyon.

Cosh, A., Guest, P. M., & Hughes, A. (2006). Board share-ownership and takeover performance. *Journal of Business Finance & Accounting, 33*(3/4), 459–510.

Danbolt, J., & Maciver, G. (2012). Cross-border versus domestic acquisitions and the impact on shareholder wealth. *Journal of Business Finance & Accounting, 39*(7/8), 1028–1067.

Dittmar, A., & Thakor, A. (2007). Why do firms issue equity? *Journal of Finance, 62*(1), 1–54.

Faccio, M., McConnell, J. J., & Stolin, D. (2006). Returns to acquirers of listed and unlisted targets. *Journal of Financial & Quantitative Analysis, 41*(1), 197–220.

Hadjikhani, A., Elg, U., & Ghauri, P. (Eds.). (2012). *Business, society and politics*: *Multinationals in emerging markets*. Bingley: Howard House, Emerald Group.

Humphery-Jenner, M. (2014). Takeover defenses, innovation, and value creation: Evidence from acquisition decisions. *Strategic Management Journal, 35*(5), 668–690.

John, K., Knyazeva, A., & Knyazeva, D. (2011). Does geography matter? Firm location and corporate payout policy. *Journal of Financial Economics, 101*(3), 533–551.

INSEE (2013). *Les Entreprises en France*. Paris: Institut National de la Statistique et des Etudes Economiques.

Kallunki, J.-P., Larimo, J., & Pynnönen, S. (2001). Value creation in foreign direct investments. *Management International Review, 41*(4), 357–376.

Kang, J.-K., & Kim, J.-M. (2008). The geography of block acquisitions. *Journal of Finance, 63*(6), 2817–2858.

Ji-Yub (Jay) Kim., & Finkelstein, S. (2009). The effects of strategic and market complementarity on acquisition performance: Evidence from the U.S. commercial banking industry, 1989–2001. *Strategic Management Journal, 30*(6), 617–646.

Lopez-Duarte, C., & Garcia-Canal, E. (2007). Stock market reaction to foreign direct investments: Interaction between entry mode and FDI attributes. *Management International Review, 47*(3), 393–422.

Lowinski, F., Schiereck, D., & Thomas, W. T. (2004). The effect of cross-border acquisitions on shareholder wealth: Evidence from Switzerland. *Review of Quantitative Finance and Accounting, 22*, 315–350.

Malhotra, S., & Gaur, A. S. (2014). Spatial geography and control in foreign acquisitions. *Journal of International Business Studies, 45*(2), 191–210.

Mayrhofer, U. (Ed.) (2013). *Management of multinational companies. A French perspective*. Basingstoke: Palgrave Macmillan.

Meschi, P.-X., & Métais, E. (2006). International acquisition performance and experience: A resource-based view. Evidence from French acquisitions in the

United States (1988–2004). *Journal of International Management, 12*(4), 430–448.

Moeller, S. B., & Schlingemann, F. P. (2005). Global diversification and bidder gains: A comparison between cross-border and domestic acquisitions. *Journal of Banking & Finance, 29*(3), 533–564.

PricewaterhouseCoopers, & ARFA (2010). *Acquisitions et Partenariats dans les BRIC*. Paris: PriceWaterhouseCoopers and Association des Responsables de Fusions-Acquisitions.

Schoenberg, R. (2006). Measuring the performance of corporate acquisitions: An empirical comparison of alternative metrics. *British Journal of Management, 33*(6), 361–370.

Thraya, M. F., & Albouy, M. M. (2012). Enracinement des Actionnaires de Contrôle et Performance à Court Terme des Fusions-Acquisitions en France. *Finance Contrôle Stratégie, 15*(4), 33.

UNCTAD (2014). *World Investment Report 2014*. New York/Geneva: United Nations Conference on Trade and Development.

Vazirani, N. (2012). Mergers and acquisitions performance evaluation: A literature review. *SIES Journal of Management, 8*(2), 37–42.

Very, P. (2011). Acquisition performance and the "quest for the Holy Grail". *Scandinavian Journal of Management, 27*(4), 434–437.

Xia, J., Tan, J., & Tan, D. (2008). Mimetic entry and bandwagon effect: The rise and decline of international equity joint ventures in China. *Strategic Management Journal, 29*, 195–217.

7

Africa: An Emerging Context for Value Creation with Cross-Border Mergers and Acquisitions

William Y. Degbey and Kimberly M. Ellis

Introduction

Merger and acquisition (M&A) transactions have been well researched for their value creation potential (Haleblian et al. 2009; King et al. 2004; Seth 1990b) and their great practical importance in strategic, monetary, and social terms (Aklamanu et al. 2015; Gomes et al. 2013), particularly in developed countries over the last half-century. Yet, there is limited understanding of the overall relevance and sources of value creation associated with M&As in developing or emerging economies (Narayan and Thenmozhi 2014), though firms are steadily expanding into these markets as a vital element of their internationalization strategy. For instance,

W.Y. Degbey (✉) • K.M. Ellis
Department of Marketing and International Business, Turku School of Economics, Rehtoripellonkatu 3, 20500 Turku, Finland

College of Business, Florida Atlantic University, Fleming West (FL-23), Boca Raton, FL, USA
e-mail: william.degbey@utu.fi

© The Editor(s) (If applicable) and the Author(s) 2017

S. Marinova et al. (eds.), *Value Creation in International Business*,
DOI 10.1007/978-3-319-30803-6_7

despite the fragile and slow economic recovery in many developed nations, the value of global M&A transactions in 2013 alone exceeded US$2.3 trillion (Bloomberg 2013). The strong growth in continents comprised of emerging market economies such as South America and Africa have positively shaped this upward trend. In recent years, M&As have increasingly become common as a relevant medium for foreign direct investment (FDI) in Africa for both international and regional market players. This strong growth has been supported by greater diversification, increased economic stability among the continent's nations, an abundance of natural resources throughout Africa, and the existence of sizable consumer markets in many African countries (Mergermarket 2012; Triki and Chun 2011). Figure 7.1 presents an overview of the trends in African M&A in terms of the number and value of deals from 2009 to 2013.

Cross-border acquisitions, that is those undertaken between companies of different national origin (Shimizu et al. 2004), constitute about half of all announced M&A transactions globally (Clifford Chance 2013). This trend is also evident on the African continent as the majority of M&As occur through this same mode to enhance value (African Development Bank 2012; Degbey and Pelto 2013, 2015). It is worth noting that foreign firms, especially those headquartered in Western developed countries, made acquisitions in African countries during the

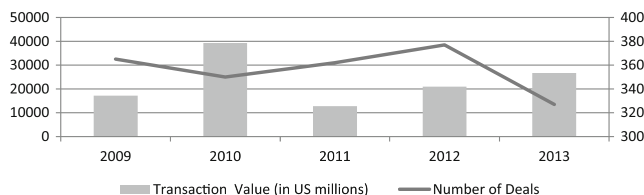

Fig. 7.1 African M&A trends 2009–2013 (*Source*: Based on a report generated from the Securities Data Corporation (SDC) Platinum International Mergers (IMA) Database. *Notes*: Search criteria included (1) deal announcement date from January 1, 2009 to December 31, 2013; (2) target nation region of North Africa (NA) or sub-Saharan Africa (SF) to capture the entire continent; and (3) completed deal status. This process resulted in an initial sample of 1969 deals. We eliminated 188 deals in which the acquirer was listed as investor, shareholder, creditor, undisclosed, or unknown, thus resulting in a final sample of 1781 deals. All figures and tables are based on the 1781 deals unless otherwise noted.)

global economic downturn in 2010, resulting in near record levels of annual M&A activity on the continent (Mergermarket 2012; Thomson Reuters 2012). Moreover, the annual growth of cross-border acquisitions in Africa as a target region significantly outpaced other regions in 2012 (Clifford Chance 2013).

This phenomenal increase in M&A activity in Africa has attracted extremely little academic research (Ellis et al. 2015; Gomes et al. 2012). Indeed, the attractiveness of the African M&A market as a destination for seeking value creation is strongly catalyzed by high economic growth along with resilient energy, mining, and utilities sectors, irrespective of its present size (no more than 3% of the global M&A market) relative to other regions in the world, and the wide intra-continental disparities in deal distributions (African Development Bank 2012). Such trends highlight the fact that more scholarly work is urgently required to provide both recognition to and understanding of the value creation potential of M&As on the African continent.

The objective of this chapter is to shed light on the potential value creation opportunities Africa may offer by specifying several M&A trends. These include the sectors driving the M&A activity, the main actors involved in these deals in terms of key acquiring and target nations, and the nature and type of deals taking place. We aim to highlight actors and conditions that may influence value creation on the African continent as well as to discuss future prospects for the African M&A market. Finally, we seek to provide research insights into the significance of M&A activity in Africa for firms seeking international value creation using secondary data on completed deals from 2009 to 2013. In doing so, we hope to spark an interest among other scholars who will join us in developing new conceptual models that analyze the M&A strategy formation process in the African context.

Value Creation in M&As

Since the early 1990s, value creation has had a central position as a key driver and outcome of interest in the M&A literature (e.g. Seth 1990a, b; Haspeslagh and Jemison 1991). Specifically, the review work of Shimizu

et al. (2004) emphasizes a value-creating strategy as one of the three major perspectives for both theoretically and empirically examining cross-border M&As. In a recent meta-analysis by Haleblian et al. (2009), the desire for value creation has again been reiterated as one of the major antecedents driving firms to undertake M&As. From a strategic management perspective, value creation in M&As tends to be justified particularly on the basis of the synergy hypothesis, and also in terms of building a competitive advantage (Calipha et al. 2010).

According to the vast M&A literature examining the relatedness concept, value creation in M&As stems from the degree to which the acquiring and target firms are similar (usually assessed by comparing primary standard industrial classification or SIC codes), such that a higher relatedness yields enhanced value creation (Prabhu et al. 2005; Swaminathan et al. 2008). In the strategy discipline, "strategic fit" is a closely used concept, and thus suggests that pre-M&A relatedness between target and acquiring firms, especially with respect to their respective resource portfolios or product market presence, is a source of synergy potential (Cartwright and Schoenberg 2006; Gomes et al. 2013; Meyer and Altenborg 2008). However, research findings are inconclusive in terms of a consistent linkage between relatedness of the combining firms and post-M&A value creation (Haspeslagh and Jemison 1991; King et al. 2004). Despite the widespread dominance of the relatedness or similarity concepts in the M&A literature, other scholars suggest that complementary differences between combining firms (i.e. strategic complementarity) is more critical for improved value creation in M&As (Bauer and Matzler 2014; Larsson and Finkelstein 1999). Following the latter assertion, the wide heterogeneities within and among African countries may likely be a useful source for harnessing complementary differences for improved value creation, particularly in intra-African M&A deals. For example, the combination of African firms with strong corporate governance structures operating under stringent government regulations, and African firms with proven abilities to build social capital as a result of weak government policies, may facilitate the development of enhanced managerial capabilities, which yield tremendous market benefits for the combined firm. Kim and Finkelstein (2009: 618) emphasize that strategic complementarities provide combining firms with a "wider array of business opportunities to develop competencies that either firm could not create alone."

Furthermore, the cultural fit literature suggests that M&A value creation may be influenced by factors such as cultural distance, cultural similarity and compatibility, and cultural integration (Chatterjee et al. 1992; Datta 1991; Weber et al. 1996). But like the literature examining the two firms' relative product market factors, cultural similarities or differences can have varying effects on post-deal value creation (Stahl and Voigt 2008). Considering the level of diversity in values, beliefs, customs, and norms influencing the attitudes and ways in which people act, not only across the continent, but also in some cases within a given African country (Gomes et al. 2012; Richards and Nwanna 2010; Zoogah et al. 2015), cultural issues are likely to be one of the major concerns in fostering value creation in M&A activity in Africa.

M&A Activity in the African Context

Despite the world's sluggish growth and uncertainty following the recent economic turbulence, M&A activity on the African continent has remained resilient. Moreover, recent surveys and reports of M&A practitioners operating in Africa shows that M&A activity on the continent is expected to increase steadily (Clifford Chance 2013; Ernst and Young 2012; Mergermarket 2013). This robust M&A activity is supported by important factors such as increasing diversification among the region's economies (creating untapped investment opportunities in: financial services; technology, media, and telecom; and business services, for instance), improving regulatory and financing conditions, implementing policies that increase economic growth and stability, and a rapidly expanding middle class of more than one billion consumers (Clifford Chance 2015). As such, expectations among M&A practitioners are upbeat in terms of continued growth in M&A activity over the next several years with most predicting sustained levels in the energy, mining, and utilities sectors and strong, increasing performance in consumer-focused sectors (Clifford Chance 2015; Mergermarket 2013). These positive developments are not without a sense of some political risks among investors in the region. While political risks are certainly present and well documented in some countries, investors with a long-term view recognize them as a country-specific phenomenon, and that the continent has

attained significantly more stability as compared to other times in recent history (Ernst and Young 2012).

Given the growth and stability being experienced in multiple African countries and the increased access to capital by larger corporations and investment funds located on the continent, practitioners expect cross-border expansion among African companies (i.e. intra-African firms' expansion) to become a major driver of M&A activity in the years ahead (Clifford Chance 2015; Krüger and Strauss 2015). A key reason for this cross-border expansion is the need to secure a solid position and make use of the growing demand before competition intensifies from the ever-growing presence of foreign firms and investors based outside the continent. However, there is some concern that it is relatively difficult for African firms—particularly small and medium sized firms that seek growth through M&As—to raise capital in comparison to most large foreign companies. This in turn hinders the ability of many African firms to engage in M&As in their home country markets as well as other countries on the continent, thus they have to relinquish opportunities to would-be acquirers from outside the continent. Data from our sample sheds additional light on some of these findings, as will be discussed in the next section.

Who and Where: Main Actors in African M&A Activity

Consistent with the practitioner viewpoint, a recent study on FDI activity in Africa provides evidence that African companies have been the main source of M&A activity, particularly by deal volume, since 2006 (Krüger and Strauss 2015). Intra-African M&A activity, which includes activity both among and within African countries, has remained steady since 2006 and accounts for 50–60% of total deal volume annually. As a consequence, competition in the region is increasing and the African corporations and investors are becoming more competitive through their complementary asset acquisitions, improvement in brand value, and expansion in scale (BCG 2010; Krüger and Strauss 2015). The competitiveness of these African-based acquirers is also supported by other scholars who emphasize that M&As provide emerging economy firms with access to resources that

Table 7.1 M&A activity based on the country headquarters of the acquirer and target firms (%)

	2009	2010	2011	2012	2013
Domestic	49.6	42.6	40.3	50.4	41.0
Intra-continent	10.7	14.6	13.0	11.7	15.3
Inter-continent	39.7	42.9	46.7	37.9	43.7

enable a faster transformation of status and reputation, and hence lead to improved capability and value creation (Du and Boateng 2012; Uhlenbruck et al. 2006; Vermeulen and Barkema 2001).

As shown in Table 7.1, data from our sample supports the sustained level of M&A activity by acquirers headquartered in Africa. Between 2009 and 2013, the total percentage of deals involving acquirers headquartered in Africa ranged from 53.3% to 62.1%. It is also worth noting that during this five-year period the *intra-continent* category (deals where acquiring and target firms are headquartered in different African countries) had the most significant growth (43%) while the *domestic* category (deals where the acquiring and target firms are headquartered in the same African country) declined by 17%. This reveals the trend of African firms looking beyond their home markets and seeking to establish a presence in other countries on the continent. Finally, during this period there was a 4 percentage point (10%) increase in the *inter-continent* category which represents those deals in which the acquiring firm is headquartered in a country outside the African continent.

Practitioners in the field expect intra-African transactions to continue to increase in the coming years. For example, a chief financial officer from Ethiopia reiterates that "there is a significant increase in cross-border activity in Africa and this is because of a rise in demand and improving performance levels of firms in this region. There is greater revenue growth, with a focus on operational efficiency and efforts to raise the bar will give rise to more and more deals in the market" (Mergermarket 2013: 15). Moreover, M&A activity in Africa by acquiring firms from outside the region are expected to increase during the upcoming years with Asia-Pacific, European, and North American acquirers (in this order of prominence) dominating the M&A landscape (Clifford Chance 2015; Mergermarket 2013).

Our sample allows us to go beyond these general distinctions between African and non-African acquirers to provide a further breakdown in

terms of the specific countries in which these acquirers are headquartered. Table 7.2 highlights the top 20 nations for both acquiring and target firms. Panel A details the leading countries that are home to the firms making M&As in Africa. Panel B provides a listing of the top African nations in which the firms being purchased are based. Given that a transaction value is not disclosed for 49% of the M&As in our sample, we rank the acquiring and target nations by the number of deals announced during the focal period. This same convention is used in constructing the remaining tables and figures in the chapter unless otherwise noted.

Although Table 7.2 does not capture the actual value creation of deals in our sample, it does provide a snapshot of (1) the countries whose firms are most actively engaging in M&A transactions in Africa, and (2) the countries within the region where M&A activity is more prevalent. The table may also conceivably raise some questions why such nations have attracted more M&A activity relative to other African countries and why firms from some countries are more active in the Africa M&A market

Table 7.2 Top 20 acquirer and target nations

Panel A: acquirer nation			Panel B: target nation		
Nation	Frequency	%	Nation	Frequency	%
1. South Africa	617	34.6	1. South Africa	824	46.2
2. Egypt	146	8.2	2. Egypt	232	13.0
3. UK	128	7.2	3. Morocco	93	5.2
4. USA	72	4.0	4. Nigeria	81	4.5
5. Australia	66	3.7	5. Mauritius	45	2.5
6. Canada	63	3.5	6. Tunisia	39	2.2
7. France	58	3.3	7. Kenya	37	2.1
8. Morocco	55	3.1	8. Mozambique	32	1.8
9. Nigeria	48	2.7	9. Namibia	31	1.7
10. India	36	2.0	10. Zambia	29	1.6
11. UAE	32	1.8	11. Zimbabwe	29	1.6
12. Mauritius	28	1.6	12. Tanzania	28	1.6
13. Singapore	24	1.3	13. Ghana	27	1.5
14. Netherlands	23	1.3	14. Ethiopia	15	0.8
15. Kenya	22	1.2	14. Ivory Coast	15	0.8
16. China	21	1.2	14. Uganda	15	0.8
17. Tunisia	21	1.2	17. Burkina Faso	14	0.8
18. Germany	16	0.9	17. Rep. of Congo	14	0.8
19. Switzerland	16	0.9	19. Botswana	13	0.7
20. Saudi Arabia	13	0.7	19. Sierra Leone	13	0.7
20. Zimbabwe	13	0.7			

than others. Clearly, South Africa and Egypt top the chart as both the acquirer and target nations on the basis of deal volume, while Morocco and Nigeria are among the top ten on both lists. It is also noteworthy that almost 90% of the domestic M&As in Africa occur in these four countries. It is therefore reasonable to infer that, as firms gain experience (Kengelbach et al. 2011) in their home of origin through direct or indirect series of M&A experiential learning, they are more likely to embark on acquisition activities beyond their domestic borders. While M&A experiential learning may not depend on the mere number of acquisitions undertaken previously, either in the firms' home countries or outside their national borders, frequent acquirers have a high likelihood of gaining some specific deal-type experiences (Degbey 2015). In addition, other scholars argue that frequent dealmakers usually undertake heterogeneous and causally ambiguous transactions but that many underlying sub-activities, for example identifying, screening, and selecting acquisition targets, may be quite similar across deals and hence provide considerable latitude for valuable experience accumulation across acquisitions (Zollo and Winter 2002). Finally, firms in a target nation may be afforded vicarious learning opportunities about different facets and benefits of the M&A process by observing the actions and decisions of foreign acquirers. Such learning may then encourage firms, from a target nation where there were a sizable number of M&As, to consider becoming an acquirer in subsequent deals (Erhun et al. 2005).

With regard to the national origin of the acquirer firm, other than those from the African continent, those from North America and Western Europe are most represented, especially among the top ten, as shown in Panel A of Table 7.2. The United Kingdom, France, the Netherlands, and Germany were all former colonial powers on the African continent so their presence among the top acquiring nations is not totally surprising given historical trade patterns, some of which still remain in intact (Athow and Blanton 2002).[1]

The United States, Australia, and Canada not only have close historical ties with the United Kingdom, but these countries are also home to many

[1] The United Kingdom and France accounted for the majority of colonial relationships in Africa at the time of many African countries' independence. As such, parts of Africa are often referred to as being Anglophone or Francophone. See Athow and Blanton (2002) for a listing of British and French colonial ties.

large firms operating in the extractions sectors. Due to shared histories, it is likely that acquiring firms from these countries have a common administrative heritage and business practices with target firms in Africa which negates some liabilities of foreignness (Athow and Banton 2002; Zaheer 1995). Finally, there is some representation in the second half of the list of countries in Asia and the Middle East, with India, the United Arab Emirates, Singapore, and China leading the way. Firms in these countries not only have access to capital for FDI in foreign markets and need natural resources to build their infrastructure at home, but they are also accustomed to operating in business environments where the government plays an active role, informal relationships are critical, and various political, financial, or economic risks have to be managed (BCG 2010; Nayyar 2008; Wang et al. 2014). Such similarities with institutional conditions in some African countries may bode well for acquiring firms from these nations and provide a source of value-creating advantage.

To provide a sense of the sectorial distribution of M&A transactions in Africa, Table 7.3 shows the sectors accounting for the most M&A deals in the African continent during our sample period. The table and related Fig. 7.2 also provide a glimpse of the sectors which have traditionally attracted the attention of acquiring firms and those that are considered

Table 7.3 Top 15 target industry sectors (%)

Industry sector	2009	2010	2011	2012	2013
Mining	18.4	17.4	16.0	11.7	14.4
Business services	14.5	8.0	9.1	8.8	10.1
Investment firms	8.2	10.0	8.0	8.8	5.8
Food products	4.4	4.6	5.5	8.0	4.6
Oil & gas	4.1	7.1	5.2	5.6	7.6
Banks	3.8	2.6	4.7	2.9	3.4
Telecommunications	3.8	3.7	2.2	3.4	3.4
Real estate and brokers	3.3	2.0	5.2	4.5	3.4
Transportation & shipping	2.7	3.1	3.3	3.4	3.4
Wholesale trade	2.7	2.3	1.9	2.1	2.8
Metal products	2.2	3.1	2.2	1.6	2.1
Agriculture	1.6	2.9	1.7	3.2	2.4
Hotels and casinos	0.0	1.7	2.2	0.8	0.6
Pharmaceuticals	0.5	1.7	1.9	1.6	2.8
Insurance	2.2	1.4	1.9	1.6	2.8

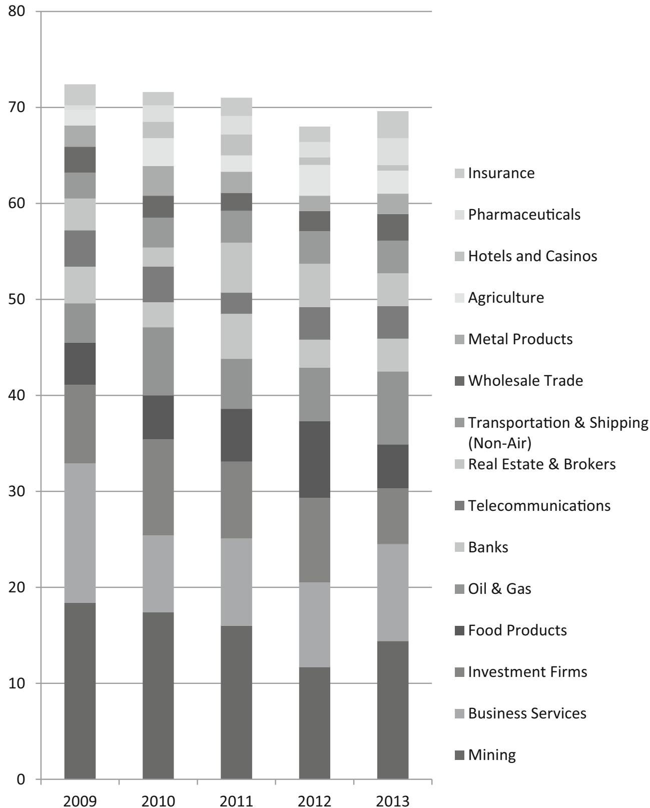

Fig. 7.2 Top industry sectors by year

attractive and growing sectors on the African continent. In particular, while the mining sector accounts for the largest percentage of deals each year, indicative of its traditional attractiveness to foreign investors, this percentage is declining over time. At the same time there has been an increase in M&A activity in another sector—the oil and gas sector, reflective of the continent's abundance of natural resources. In fact, this sector's percentage of annual deals has almost doubled going from 4.1% in 2009 to 7.6% in 2013.

Changes in industries attracting M&A activity in Africa are also depicted in Fig. 7.2. One interesting trend to note is that in 2009 the top

three industries accounted for 40% of the deals in Africa, while this had dropped to 30% in 2013. This suggests that M&A activity is taking place in a greater number of industries over the five-year period. Moreover, there is a noticeable shift toward consumer products and services sectors (e.g. food products, transportation and shipping, hotels and casinos, pharmaceuticals, and insurance). Collectively these trends reveal not only the level of diversification currently underway among the various economies in Africa, but also the investment attractiveness of the continent attributable to its sizeable consumer markets and growing middle class (Ernst and Young 2012; Mergermarket 2013).

Nature of African M&A Deals

Most of the surveys and reports by M&A practitioners, and our analysis up to this point, has focused on two primary factors: (1) who is engaging in M&As in Africa based on the nation or continent in which the acquiring and target firms are headquartered, and (2) which target nations and industries the M&A activity is occurring in. In this section, we now expand our focus to include five features or core characteristics of African M&A deals. These features include the deal ownership types, government involvement in M&A transactions, deal relatedness types, deal sizes, and payment method used to finance the deal. The first two features are infrequently considered in the existing M&A literature, while the latter three features are among the most commonly studied (for reviews of the broad M&A literature see Haleblian et al. 2009; King et al. 2004).

The analyses that follow, which are primarily descriptive in nature, will help us along with other scholars interested in researching M&A activity in Africa to determine how deals in this specific context may be similar to and differ from those occurring in other emerging markets such as China, Brazil, and India or in the more developed markets of North America and Western Europe, upon which most existing M&A studies are based. Such an understanding is crucial to advancing the M&A literature while offering insights of practical relevance.

First we consider *ownership type* based on the acquiring firm's equity position in the target firm. Though not incorporated in most M&A

studies, the decision of the acquiring firm regarding ownership type or mode has important implications on the degree to which and nature of ownership sharing and collaboration between the firms. In distinguishing between partial and full acquisitions, Brouthers and Hennart (2007) note that, with a partial acquisition, regardless of the stake owned by the acquiring firm, aspects of the decision-making process and forms of control will be shared with the target firm. This distinction may be particularly important in the African M&A context where the potential for value creation is very promising, but the conditions in the target nations are often quite informal and volatile (Triki and Chun 2011). As such, partial acquisitions may be critical, especially for acquiring firms headquartered outside the African continent, for gaining the cooperation of members of the African target firm, learning about the idiosyncrasies of a given country market on the continent, establishing relationships with key government personnel, suppliers, and other stakeholders, and understanding similarities and differences across African nations—all of which can facilitate value creation (Zaheer 1995).

In Table 7.4 we show the ownership type of M&A deals ranging from partial to full ownership on the basis of shares owned after the focal acquisition. We chose to place emphasis on the acquiring firm's ownership stake after completing the focal deal because about 15% of the deals in our sample represented toehold investments where the acquiring firm already had an equity position in the target firm at the time of the focal deal. In our sample about 48% of the deals are full acquisitions and 46% are partial acquisitions. The almost equal representation of both overall

Table 7.4 Ownership type based on shares owned after focal deal

Type	Frequency	%
Full (95% and higher)	850	47.7
Partial: controlling (50.1–94.9%)	339	19.0
Partial: half (50.0%)	46	2.6
Partial: non controlling (49% and less)	431	24.2
Not reported	115	6.5

Note: Consistent with the work of Chen (2008) and others, we use a 95% stake and higher as the cutoff point to classify a deal as a full acquisition

ownership types may be indicative of the perceived level of risks and instability on the African continent. In this context, acquiring firms may engage in more partial acquisitions than normal in order to share more decision-making activities and risks with the African target firm. This would in turn allow the acquiring firm to tap more fully into the target firm's knowledge of local market conditions (Lord and Ranft 2000) or minimize potential losses in the event that its operations are unprofitable and a subsequent divestiture is necessary (Gleason et al. 2002; Johanson and Vahlne 1977). Government restrictions particularly with respect to foreign ownership, investor screening and approval, and other operational restrictions (see UNCTAD 2006; Kalinova et al. 2010 for country and sector reviews) exist in some African countries at the overall country level or within certain industries considered critical to a country's economic development, thereby compelling acquiring firms to engage in a partial acquisition (Curwen and Whalley 2011). These contextual factors collectively suggest it may be fruitful to develop theoretical models which place emphasis on the antecedents to or consequences of ownership type as determined by the percentage of ownership stake the acquiring firm purchases in the African target firm.

Another deal characteristic we consider is *government involvement* as a buyer or seller in the M&A transactions. This construct is rarely considered in M&A studies, though a recent study by Holburn and Vander Bergh (2014) found that firms invested more in developing government ties by increasing their political campaign contributions in the period leading up to an acquisition. It is posited that such political influence and connections would favorably affect the regulatory approval process in ways that facilitate value creation (Brockman et al. 2013). Governments must not only approve any M&As within their borders, but often, in emerging markets that are privatizing, once state-owned enterprises are transitioning to more liberal market-based economies such as those on the African continent, governments establish as one of the conditions for approval their maintenance of an ownership position in local firms (Curwen and Whalley 2011; Portelli and Narula 2006; Rondinelli and Black 2000). In some African countries and other emerging economies, there are often concerns about political stability, corruption within government ranks, enforcement of laws, and other aspects of the political

governance structure (Erhun et al. 2005; Ernst and Young 2012; Triki and Chun 2011; Wang et al. 2014). When the focal government in a host country has an ownership position in the target firm these concerns may be elevated as government officials seek participation in the decision-making process and benefits from providing the acquiring firm with a license to operate in their country (Brockman et al. 2013). Such factors can hinder an acquirer's ability to create value, thus negatively affecting its overall performance. Conversely, it is possible that a government owning a stake in the post-deal entity (either the acquiring firm purchasing the stake or the target firm retaining a stake) may provide an avenue for avoiding some political risks present in the country or for helping to strengthen local value chains and related private sector firms, thereby facilitating value creation (Portelli and Narula 2006; Rondinelli and Black 2000). Government involvement may influence other deal characteristics such as ownership type. In particular, acquiring firms may be prevented from engaging in a full acquisition so the government can retain a stake in the local target firm (Curwen and Whalley 2011; Portelli and Narula 2006).

About 10% of the M&As had government involvement as denoted by the government owning a stake in either firm. Government involvement was on both the buyer and the seller side of the transaction. Moreover, these deals occurred in 17 of the top 20 target nations listed in Table 7.2, Panel B, and in 12 of the top 15 target industry sectors highlighted in Table 7.3. In addition, the deals included domestic, intra-African, and foreign acquirers (45%, 12%, and 43% respectively, which is consistent with the figures reported in Table 7.1). Given these attributes of M&A activity in Africa, this seems to represent a context in which our understanding of the role of government involvement in M&As can be greatly enhanced. One obvious question is: what are the implications of the local government maintaining a stake in the firm as a condition of approving the M&A on factors such as deal structuring, human resource integration, and knowledge transfer between the firms? Studies examining if continued local government involvement as an equity stakeholder affects the ability of acquiring firms to create value, and how so, would definitely make a contribution to the broad M&A literature.

Given its inclusion in a vast range of M&A studies, we also considered *deal relatedness*. Building on diversification theory and the "synergy hypothesis," M&As involving firms that operate in related industries, typically assessed by comparing the two firms' standard industrial classification (SIC) codes, are posited to outperform unrelated deals (King et al. 2004; Seth 1990a). By combining business operations of firms that produce similar or complementary products and services, related M&As offer the potential for performance improvements linked primarily to economies of scale, market power, and economies of scope (Haleblian et al. 2009; Larsson and Finkelstein 1999). These sources of value creation are viewed as superior to those associated with unrelated deals (Seth 1990b).

Consistent with existing studies, we classified the relatedness of deals in our sample based on SIC code matches (Ellis et al. 2011; King et al. 2004; Larsson and Finkelstein 1999). As shown in Fig. 7.3, 33% of the firms in our sample had the exact same four-digit primary SIC code, hence referred to as horizontal. Another 21% of the deals were classified as related, given their operations in either the same two-digit primary SIC code or a four-digit SIC code match among their secondary operations (i.e. non-primary lines of business). In their study, Triki and Chun (2011) combined these two categories and reported that 48% of the M&As made by US acquiring firms in Africa were considered to be related deals.

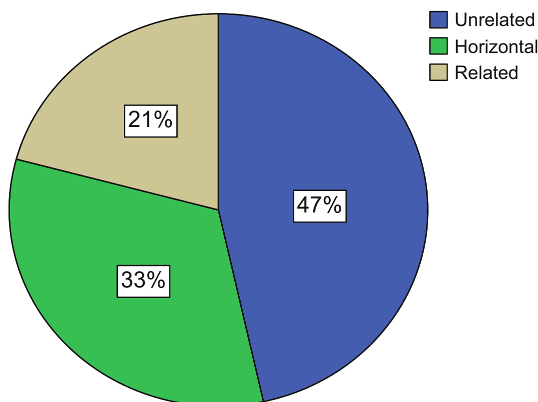

Fig. 7.3 Relatedness type

The African context may provide a few qualities that influence the effects of relatedness on M&A decisions and outcomes in ways different from existing studies, thus placing the boundary conditions of established theoretical models. First, building on arguments presented by Ellis et al. (2011), it is possible that perceived surface-level similarities in the product markets of the two firms based on SIC codes may mask deep underlying differences between the two firms' business operations that adversely affect longer-term value creation. Supporting this view are several studies based on in-depth case analyses of M&As by foreign acquirers of local firms in select industries and/or Africa countries (Curwen and Whalley 2011; Erhun et al. 2005; Portelli and Narula 2006). These studies document difficulties encountered by foreign acquirers of African targets operating in the same primary industry, some of which can be linked directly to the two firms' primary operations. Differences were noted in terms of customer adoption and uses of products/services, distribution channels being utilized, stage of technology and processes in use, and industry regulations/standards which often hamper longer-term value creation. Second, with regard to unrelated deals it may be useful to consider the M&A activity involving investment firms and funds which accounted for 46%—almost half—of this deal type. Of particular interest may be the nations in which these investment entities are located and the top individuals or investors associated with these entities. In particular, M&A practitioners suggest that both global and pan-African private equity funds are becoming more active in the Africa M&A landscape (Clifford Chance 2015). Also, there is anecdotal evidence that Africans who currently live abroad are very active in some of these equity and investment funds/firms. M&A studies examining this specific acquirer type are limited and, with noted differences among them in the African context, this seems to present an opportunity to contribute to the broader M&A literature.

Many theories used to predict different M&A decisions and outcomes posit that *deal size* (or transaction value) influences the amount of managerial attention given to the focal acquisition. In particular, large deals are posited to demand more time, consideration, and involvement of an acquirer's top managers and place more operating pressures on them, thus more directly affecting firm-level actions and performance outcomes (Hayward and Hambrick 1997; Narayan and Thenmozhi 2014). Large

deals are more likely to garner the attention of firms' boards of directors and regulatory agencies (Holburn and Vander Bergh 2014). Conversely, small deals often are managed at the unit or subsidiary level and have limited effects on the firm's overall performance (Kitching 1967).

As shown in Table 7.5, the largest single deal size category for M&As based on the number of deals comprises a range from US$1 to US$49 million and the smallest category represents deals valued between US$500 and $999 million. It is noteworthy that the deals valued at US$1 billion and higher accounted for less than 2% of the deals for which a transaction value was reported, but over 55% of the total value of M&As in Africa during the five-year period of our study.

A traditional criterion used to classify an M&A as large is US$100 million (Hayward and Hambrick 1997; Ellis et al. 2011). Less than 10% of the deals in the full sample and 20% of those in the sub-sample reporting transaction values meet this criterion. Instead, the vast majority of the deals taking place in Africa are less than US$100 million (42% based on the full sample and 81% based on the sub-sample of deals reporting a transaction value). These facts, when combined with the small volume of deals in general (average of 356 per year in our study) and the even fewer that disclose a transaction value, create some challenges for researchers examining M&A activity in this region. For example, traditional theories used in the M&A literature, such as agency theory and managerial hubris theory, may have limited relevance in this context given the small deal sizes.

Table 7.5 Deal size categories

Size	Frequency	% based on full sample	Total value per category ($)
$1 billion and up	26	1.5	64,554.87
$500–$999 million	23	1.3	15,192.42
$250–$499 million	38	2.1	12,464.18
$100–$249 million	80	4.5	12,469.88
$50–$99 million	80	4.5	5,511.39
$1–$49 million	541	30.4	6,670.81
Less than $1million	123	6.9	55.71
Undisclosed	870	48.8	—
			116,919.26

Payment type, or consideration paid, is another commonly studied deal attribute in the M&A literature. Basic arguments assert that acquiring firms use cash to finance acquisitions when they believe their firms are undervalued or they are confident in their ability to create value in the target firm (Haleblian et al. 2009; King et al. 2004). As such, cash payments are posited to result in positive or less negative market returns, usually short-term in nature, for the acquiring firms. However, results are equivocal with regard to the relationship between cash payment and market-based measures of M&A performance. Only a few studies theorize the effects of cash payments on other indicators of M&A value creation (Narayan and Thenmozhi 2014). Yet, it is probable that the signaling and confidence inferred by the payment method also influences how acquirers interact with target firm members, thereby affecting their willingness to engage in actions critical to achieving deal outcomes.

In our sample, 79% of the acquiring firms used only cash as the method of payment, as noted in Fig. 7.4. This is comparable to a study of US acquirers in Africa which reported that 82% of the deals were financed by cash only (Triki and Chun 2011). An explanation for this can be found in a study of cross-country determinants of M&As which reports that the likelihood of an all-cash bid decreases with the level of shareholder protection in the acquirer nation (Rossi and Volpin 2004). Thus, it is reasonable to infer that weak shareholder/investor protection

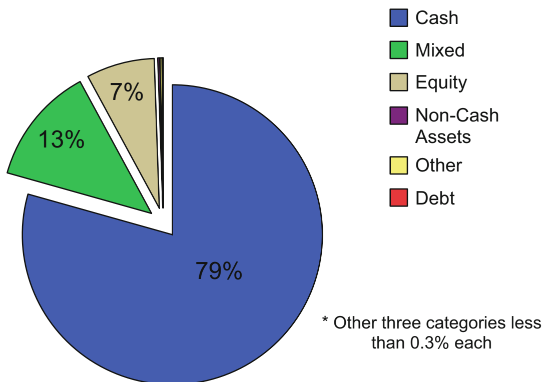

Fig. 7.4 Consideration paid

in most African nations involved in the intra-continental and domestic deals may largely explain the high percentage of all-cash bids observed in our sample.

Certainly, the typical preferences of large foreign investors, for example seeking sizable investments, proven investment managers, and diversification across Africa, may cause them to disregard some attractive—and growing—country and sector lucrative business opportunities. Hence, multinationals seeking enhanced value might find it economically viable to pursue mid-size African firms as M&A targets in order to take advantage of the mismatch between rapidly growing opportunities and relatively inadequate investments to meet them (cf. Green et al. 2014). In addition, these large foreign investors (e.g. intercontinental acquirers) are also likely to have better investor protection in their home countries than their African target counterpart, which has usually poorer investor protection and thus employs the cross-border deal as a governance mechanism to improve the level of investor protection within the acquired firm (Rossi and Volpin 2004).

How Do Intra-African Heterogeneities Impact on M&A Activity?

By deal volume, African companies are the most active deal makers within the continent. However, the wide heterogeneities among and within countries in the continent is also very revealing when it comes to the pattern of M&A activity at the local, national, and regional levels. Understanding the heterogeneities among the countries in the continent is a vital starting point for posing essential research questions on M&A activity. Investors already engaged in economic activities understand the heterogeneous nature of the region and recognize that political conflicts and other uncertainties can be very country specific, just as each African economy will carve its own unique growth path.

Heterogeneities in this context can be explicated along many lines, but in this study we focus on areas that may provide useful information to dealmakers and researchers interested in conducting and understanding M&A activity in the continent. Intra-continent growth disparity is one of the variables determining the direction of M&A activity. Although

the economic structures and challenges are broadly similar across the African continent, only a few countries really account for the majority of its growth. A 2009 GDP growth average for Africa revealed that only five countries (i.e. Algeria, Egypt, Morocco, Nigeria, and South Africa) account for 60% of its growth (BCG 2010). Thus, assessing growth potential across a heterogeneous continent using average values, especially in the case of Africa, can be misleading. A McKinsey Global Institute research report, for instance, suggests that segmentation of the various countries on the basis of their level of diversification and export per capita will help us to understand better the different growth paths and, hence, offer a framework based on four broad classifications: diversified economies, oil exporters, transition economies, and pre-transition economies (Roxburgh et al. 2010). The latter authors argue that the framework will help in the assessment of growth potential across this heterogeneous continent and thus may impact on the direction and magnitude of M&A activity as one of the growth vehicles, for example within a specific country's sector in the continent.

Besides, cultural heterogeneities are pervasive and have long been a major distinguishing variable across all layers of the continent, that is local, national, and regional levels (Zoogah et al. 2015). In some countries within the continent, local and national disparities may be quite blurring as opposed to others which may be very glaring. For example, consider the country Nigeria, where a single major state (i.e. at the local level) such as Lagos—with a population greater than all Scandinavian countries combined—may have wide variations ranging not only from the level of the exertion of power of local and divisional leaders—e.g. in a scramble for certain business/economic projects under their local/divisional municipalities (cf. Hofstede 2001)—but also deeply rooted differences in individual beliefs, customs, and traditional practices, as lifestyles may influence M&A activity (cf. Gomes et al. 2012). Some of these cultural differences, often driven by tribal antagonisms, can even be much greater across states or between rural and urban areas (i.e. at the national level) and oftentimes be the root cause of unhealthy competition and social unrest (Zoogah et al. 2015). A recent merger case within the Nigerian banking sector supports some of our assertions about cultural differences on the basis that employees from the northern part of the country perceived their southern counterparts as not trustworthy,

while the southerners also see the northerners as incompetent in banking practices (Gomes et al. 2012). This deeply rooted intra-country cultural heterogeneity can easily destroy the expected value of an M&A.

Furthermore, at the regional level, not only are these differences based on language and religious beliefs, but also constructed along perceived colonial lines of thought. For example, it may not be surprising that most North African investors who are seeking value through M&As within the region are more likely to begin their search for target(s) and/or targets' leaders who share the same religious belief with them, especially if the disparity between expected economic rents is not too wide. Related to the Nigeria bank merger finding concerning employees from the north and south (see Gomes et al. 2012), similar views can also be observed among regional blocs within the continent. For example, some countries in North Africa prefer to work closely with the Arab League rather than the African Union. These actions may directly influence the pattern of M&A activity within the region. In a nutshell, intra-African heterogeneities not only influence the pattern of M&A activity within the continent, but also have significant implications for value creation (as discussed in the following section).

What Is the Source of Value Creation in African M&A Deals?

The context in which M&As take place matters when assessing value creation (i.e. different means may generate different ends of value). Building on several recent studies examining the complexity of capturing value creation associated with M&As (i.e. Cording et al. 2010; Meglio and Risberg 2011; Zollo and Meier 2008), it is important to consider seriously how we assess value in terms of measurements (i.e. financial or non-financial performance domain; firm-level or country-level of analysis) and for whom the value is appropriated (i.e. shareholders or other stakeholders; acquiring firm/nation or target firm/nation perspective). The synergy hypothesis has been well established in the M&A literature as a fundamental driver of enhanced value for the combined firms, principally measured in financial terms (Haleblian et al. 2009; Seth 1990a, b). This focus has been driven by the assumption that post-M&A value is derived

primarily from combining the firms' internal resources and capabilities (Amit and Zott 2001) with the intention of creating various synergistic benefits that maximize shareholder worth (Haleblian et al. 2009). This view is supported by several theoretical perspectives on value creation dating back to the 1930s, such as transaction cost theory (Coase 1937), the theory on innovation (Schumpeter 1934), and the resource-based perspective of the firm (Penrose 1959). However, traditional financial measures (i.e. stock-market-based returns, profitability ratios, sales growth, etc.) are only one side of how value is created following M&As and thus limiting in scope (Meglio and Risberg 2011). Hence, what seems quite clear is that value can neither be measured solely on the basis of financial or accounting indicators, nor solely derived from the combination of the two firms' internal resources and capabilities (Zollo and Meier 2008).

Several unique characteristics of M&A activity in Africa provide a suitable setting to expand our traditional views to consider the influence of other factors on post-deal value creation. In particular, the diverse nature of African deals (i.e. domestic, intra-continent, and inter-continent), the limited number of publicly traded African acquirers, the smaller transaction sizes, and the higher propensity to purchase varying equity positions as compared to those in more developed markets, suggest that taking a pluralist view on value creation seems more appropriate. Given these and other contextual conditions present in emerging markets of the African continent, we posit that value can take different forms and be created in other places besides the combined firms' internal architecture, thereby necessitating the consideration of non-financial performance measures (Meglio and Risberg 2011). Also, initial evidence exists that M&As in the African context affect other external stakeholders beyond the acquiring firm's shareholders (Abdelaziz and Bilel 2012; Portelli and Narula 2006) and have significant influence on national-level economic growth and societal development (Emeni and Okafor 2008; Curwen and Whalley 2011; Nwankwo 2013). Consequently, our chapter advocates two specific non-financial drivers of post-deal value creation that place greater emphasis on the external stakeholder perspective of the value proposition.

In line with the uniqueness of the African deals, we suggest, among other things, that value is created (and perhaps destroyed) through *government involvement* (i.e. government as an equity stakeholder of either the

acquiring or target firm) in the deals. This deal attribute, which can have a significant effect on value creation in M&As observed in the African context, is largely uncommon to the traditional M&A literature. As such, there might be boundary conditions on established theoretical models, including the relatedness thesis (see Prabhu et al. 2005; Swaminathan et al. 2008) or the "strategic fit" hypothesis (see Cartwright and Schoenberg 2006; Meyer and Altenborg 2008), which are typically linked to financial performance measures. Government minority equity stake, particularly in intra- and inter-continent deals, could help lower the liability of foreignness concerns (cf. Athow and Banton 2002; Zaheer 1995), lower potential fears among the indigenous population regarding foreign domination, facilitate the development of ties with government, and help minimize regulatory hurdles for investing firms. Each of these factors can have a critical impact on the acquiring firm's ability to realize intended deal benefits and thus be a source of post-deal value creation. Additionally, government involvement as a source of value creation may manifest in the form of providing added stimulus for the acquiring firm to enhance its development programs and commence other initiatives of social relevance in the host nation. The realization of the created value, for example improved economic and social development for the host nation through government involvement in the focal deal, should not be conceived of as self-interested and one-sided, though the acquiring firm's value is equally enhanced via improved corporate social responsibility and favorable reputational benefits in the host nation.

Second, we observe *contextual heterogeneity* as a major source of value in African M&A transactions. According to Michailova (2011: 130) context is a "dynamic array of factors, features, processes or events which have an influence on a phenomenon that is examined." Indeed, as can be observed from Table 7.1 on the three categorization of M&A activity into domestic, intra-continent, and inter-continent, and their respective growth patterns, the African context is seldom uniform, but rather quite multidimensional and multifaceted in nature (see Johns 2006). As firms establish operations within multiple country markets of highly complex and dynamic contexts, they are more suitably positioned to learn the rules of the game, and thus achieve value as a result of its institutional familiarity. The benefits of such familiarity combined with perceived similarities

across the African countries should facilitate quick adaptation to sources of contextual heterogeneity, thereby positioning the acquiring firm to create different types of value for multiple stakeholders. In contrast, those acquiring firms which engage in M&A activity in relatively homogeneous and more stable contexts are likely to lack this institutional familiarity/maturity and only see surface-level similarities. For example, Ellis et al. (2011) argue that perceived surface-level similarities in the organizational cultures of the two firms may mask deep underlying differences between the two firms' operating philosophies, thus negatively influencing post-deal value creation. Such may also be the case when firms undertaking M&As primarily in South Africa attempt to transfer experiences gained in this country to deals within other African nations. Though aspects of the countries' institutional markets seem similar, countries to the north of South Africa are often viewed as less developed and more volatile (Curwen and Whalley 2011). This can have significant implications on how M&A activity affects multiple stakeholders within a given African country. Such effects in turn can influence the role government plays in the M&A process and drive concerns about changes to societal welfare along with overall national economic development after the deal.

Thus, examining M&A activity in Africa offers an opportunity to answer recent calls in the literature to enhance our understanding of value creation. In particular, conditions in this context require researchers to study the effects of M&As on multiple stakeholders, thus expanding the consideration of value creation beyond the firms' shareholders (Cording et al. 2010). Also, the African context facilitates the utilization of approaches to assess value creation that are not linked to traditional financial indicators such as profitability ratios and stock market returns (Haleblian et al. 2009; Meglio and Risberg 2011).

A Look Ahead at African M&A Deals

In this section, we provide conclusions, pose questions, and re-echo the need for M&A academic research in this context. Africa is the world's second-fastest-growing economic region and a home to eight of the world's 15 fastest-growing economies between 2000 and 2013 (Leke et al. 2014).

Indeed, GDP growth has been steady and stronger than in developed countries and thus generates enthusiasm from international investors seeking high value to engage in M&A deals. With the burgeoning middle class, discretionary spending across the African continent is expected to increase and thus generate a solid, viable consumer industry for future M&A activity. For inbound acquirers who seek international growth and enhanced value in the consumer-facing sectors (e.g. retail, telecommunications, and banking), African firms are attractive targets to pursue. Moreover, a recent McKinsey publication notes that Africa provides a higher rate of return on FDI—of which M&As constitute a huge portion—than most emerging economies (Leke et al. 2014). Conversely, as shown earlier in the chapter, African firms as targets in an M&A deal often negotiate a partial acquisition of their assets by foreign firms. This may in turn allow African firms to gain experience from acquirers' headquartered outside of Africa (some from emerging markets like India, China, and Latin America) in managing the M&A process to build a global network and then take the lessons learned to launch an M&A program or strategy outside of the African continent.

Although academic research lags behind practitioner publications on the subject matter (Ellis et al. 2015), scholars need to recognize that M&A activity is still at its infant stage on the continent, and it is critical for them to lead the way in developing conceptual/theoretical insights and ask relevant questions about African M&A activity in order to generate an understanding for prospective dealmakers and advance the M&A research literature. Some fundamental questions of interest include: Is the nature of M&As occurring on the African continent unique? If so, in what ways and how can this uniqueness help advance our knowledge and theory of M&As in general? What mindset is driving the main actors of M&A transactions in this region? Do intra-African and foreign actors share a similar or have a different mindset on the African M&A trajectory? What are the primary motivations of these two key groups of acquirers and how do they influence the M&A process and subsequent value creation? What opportunities or threats do intra-African heterogeneities pose to M&A activity in Africa? What are the most appropriate ways to assess post-M&A value creation, especially in light of the complex interactions between and involvement of multiple stakeholders, small deal sizes, and other deal factors in this context?

These are just few of the myriad questions in urgent need of theoretical understanding and explanation from future scholarly studies as M&A activity in this context rapidly evolves. Certainly, identifying factors such as primary actors, key deal characteristics, diversity within the continent, as well as emphasizing the growth potential in this study, is a good starting point, but future research has to move further to theorizing/developing frameworks, determining how best to operationalize core constructs, and empirically testing hypothesized linkages. We cannot afford to let practitioner-oriented publication outlets and reports by institutional agencies assume this academic role. Hence, our study is a microcosm of the tremendous scholarly works that can be achieved as scholars nurture future research in this direction to help advance knowledge in the M&A and international business fields. For practitioners, this work provides a glimpse of factors influencing the value enhancing potential Africa offers with respect to M&A activity. As succinctly stated by Scott Nelson of ENSafrica (a leading law firm), "the opportunities, growth and returns on the continent are arguably the most exciting of any market in the world and investors are waking up to this" (Mergermarket 2013: 25). Our work together with other studies (Krüger and Strauss 2015; Leke et al. 2014; Richards and Nwanna 2010) support the assertion that Africa's long-term economic prospects are strong, although each national economy will follow its own unique growth path owing to the inherent heterogeneity within the continent.

We believe that the discussion in this chapter with the accompanying descriptive statistics, tables, and figures provides general insight to business executives and investors developing M&A strategies for the continent. Moreover, we trust that our initial observations and questions will serve as an impetus for management scholars interested in developing new theoretical models or identifying boundary conditions of existing theoretical perspectives to explain various M&A decisions and outcomes in the African context.

References

Abdelaziz, H., & Bilel, K. (2012). Can bank mergers and acquisitions favour the credit availability for Tunisian firms? *International Journal of Business and Management, 7*(15), 61–69.

African Development Bank. (2012). Mergers and acquisitions in Africa. http://www.afdb.org/en/blogs/afdb-championing-inclusive-growth-across-africa/post/mergers-and-acquisitions-in-africa-10163/

Aklamanu, A., Degbey, W.Y. and Tarba, S.Y. (2015). The role of HRM and social capital configuration for knowledge sharing in post-M&A integration: A framework for future empirical investigation. *International Journal of Human Resource Management*, 1–33.

Amit, R., & Zott, C. (2001). Value creation in e-business. *Strategic Management Journal, 22*(6–7), 493–520.

Athow, B., & Blanton, R. G. (2002). Colonial style and colonial legacies: Trade patterns in British and French Africa. *Journal of Third World Studies, 19*(2), 219–241.

Bauer, F., & Matzler, K. (2014). Antecedents of M&A success: The role of strategic complementarity, cultural fit, and degree and speed of integration. *Strategic Management Journal, 35*(2), 269–291.

Bloomberg. (2013). Annual mergers and acquisitions global financial advisory rankings. http://www.bloomberg.com/professional/files/2014/01/M-and-A-2013.pdf

Boston Consulting Group. (2010). The African challengers. http://www.bcg.com/documents/file44610.pdf

Brockman, P., Rui, O. M., & Zou, H. (2013). Institutions and the performance of politically connected M&As. *Journal of International Business Studies, 44*(8), 833–852.

Brouthers, K. D., & Hennart, J. F. (2007). Boundaries of the firm: Insights from international entry mode research. *Journal of Management, 33*(3), 395–425.

Calipha, R., Tarba, S., & Brock, D. (2010). Mergers and acquisitions: A review of phases, motives and success factors. In S. Finkelstein & C. Cooper (Eds.), *Advances in mergers and acquisitions* (pp. 1–24). Bradford: Emerald Group Publishing Ltd.

Cartwright, S., & Schoenberg, R. (2006). Thirty years of mergers and acquisitions research: Recent advances and future opportunities. *British Journal of Management, 17*, S1–S5.

Chatterjee, S., Lubatkin, M.H., Schweiger, D.M. and. Weber, Y. (1992). Cultural differences and shareholder value in related mergers: Linking equity and human capital, *Strategic Management Journal*, 13(5): 319–334.

Chen, S.-F. (2008). The motives for international acquisitions: Capability procurements, strategic considerations, and the role of ownership structures. *Journal of International Business Studies, 39*(2), 454–471.

Clifford Chance. (2013). Our insights into M&A trends: Global dynamics. http://globalmandatoolkit.cliffordchance.com/cover.aspx/Our-Insights-into-MandA-Trends

Clifford Chance. (2015). Insights into M&A trends 2015: Global dynamics. http://www.cliffordchance.com/briefings/2015/02/clifford_chance_sinsightsintomatrends2015.html

Coase, R. H. (1937). The nature of the firm. *Economica, 4*(16), 386–405.

Cording, M., Christman, P., & Weigelt, C. (2010). Measuring theoretically complex constructs: The case of acquisition performance. *Strategic Organization, 8*(1), 11–41.

Curwen, P., & Whalley, J. (2011). The restructuring of Africa mobile telecommunications provision and the prospects for economic development. *Emerald Group Publishing Limited, 13*(2), 53–71.

Datta, D. K. (1991). Organizational fit and acquisition performance: Effects of post-acquisition integration. *Strategic Management Journal, 12*(4), 281–297.

Degbey, W. Y. (2015). Customer retention: A source of value for serial acquirers. *Industrial Marketing Management, 46*, 11–23.

Degbey, W. and Pelto, E. (2013). Cross-border M&A as a trigger for network change in the Russian bakery industry. *Journal of Business & Industrial Marketing, 28*(3), 178–189.

Degbey, W. Y., & Pelto, E. (2015). Uncovering different forms of customer network changes in M&A. *Management Research Review, 38*(11), 1191–1212.

Du, M., & Boateng, A. (2012). Cross-border mergers and acquisitions by emerging market firms: A review and future direction. *ACRN Journal of Entrepreneurship Perspectives, 1*(2), 24–54.

Ellis, K. M., Reus, T. H., Lamont, B. T., & Ranft, A. L. (2011). Transfer effects in large acquisition: How size-specific experience matters. *Academy of Management Journal, 54*(6), 1261–1276.

Ellis, K. M., Reus, T. H., Lamont, B. T., & Faifman, L. (2015). Mergers and acquisitions in Africa: A review and an emerging research agenda. *Africa Journal of Management, 1*(2), 137–171.

Erhun, W. O., Demehin, A. I., & Erhun, M. O. (2005). The impact of global pharmaceutical mergers and acquisitions on the Nigerian pharmaceutical industry. *Journal of Medical Marketing, 5*(4), 370–382.

Ernst and Young. (2012). M&A in a two-speed world: Assessing risks and opportunities in rapid-growth markets. http://emergingmarkets.ey.com/wp-content/uploads/downloads/2012/07/MA-Brochure-2012_final_new6-LR2.pdf

Emeni, F. K., & Okafor, C. A. (2008). Effects of bank mergers and acquisitions on small business lending in Nigeria. *African Journal of Business Management, 2*(9), 146–156.

Gleason, K. C., Gregory, D. W., & Wiggins III, R. A. (2002). Wealth effects of US acquisitions in the Pacific Rim. *Journal of Business and Economic Studies, 8*(2), 28–47.

Gomes, E., Angwin, D., Peter, E., & Mellahi, K. (2012). HRM issues and outcomes in African mergers and acquisitions: A study of the Nigerian banking sector. *International Journal of Human Resource Management, 23*(14), 2874–2900.

Gomes, E., Angwin, D. N., Weber, Y., & Tarba, S. Y. (2013). Critical success factors through the mergers and acquisitions process: Revealing pre- and post- M&A connections for improved performance. *Thunderbird International Business Review, 55*(1), 13–35.

Green A., Kehoe, C. and. Sedjelmaci F. (2014). Uncovering hidden investment opportunities in Africa, *McKinsey Quarterly*, 1, 1–2.

Haleblian, J., Devers, C. E., McNamara, G., Carpenter, M. A., & Davison, R. B. (2009). Taking stock of what we know about mergers and acquisitions: A review and research agenda. *Journal of Management, 35*, 469–502.

Haspeslagh, P. C., & Jemison, D. B. (1991). *Managing acquisitions: Creating value through corporate renewal*. New York: Free Press.

Hayward, M. L. A., & Hambrick, D. C. (1997). Explaining the premiums paid for large acquisitions: Evidence of CEO hubris. *Administrative Science Quarterly, 42*(1), 103–127.

Hofstede, G. (2001). *Cultural dimensions for international business: Institutions, and organizations across nations*. Thousand Oaks: Sage.

Holburn, G. L., & Vanden Bergh, R. G. (2014). Integrated market and nonmarket strategies: Political campaign contributions around merger and acquisition events in the energy sector. *Strategic Management Journal, 35*(3), 450–460.

Ji-Yub (Jay) Kim, & Finkelstein, S. (2009). The effects of strategic and market complementarity on acquisition performance: Evidence from the US commercial banking industry, 1989–2001. *Strategic Management Journal, 30*(6), 617–646.

Johns, G. (2006). The essential impact of context on organizational behavior. *Academy of Management Review, 31*(2), 386–408.
Johanson, J., & Vahlne, J.-E. (1977). The internationalization process of the firm: A model of knowledge development and increasing foreign market commitments. *Journal of International Business Studies, 8*(1), 23–32.
Kalinova, B., Palerm, A. and Thomsen, S. (2010). OECD's FDI Restrictiveness Index: 2010 update. *OECD Working Papers on International Investment*, 2010/03. OECD. http://dx.doi.org/10.1787/5km91p02zj7g-en
Kengelbach, J., Klemmer, D. C., Schwetzler, B., & Sperling, M. O. (2011). *An anatomy of serial acquirers, M&A learning, and the role of post-merger integration* (Working paper). http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1946261. Retrieved on 6 Jan 2012.
Kitching, J. (1967). Why do acquisitions miscarry? *Harvard Business Review, 45*(6), 84–101.
King, D. R., Dalton, D. R., Daily, C. M., & Covin, J. G. (2004). Meta-analyses of post-acquisition performance: Indications of unidentified moderators. *Strategic Management Journal, 25*(2), 187–200.
Krüger, R., & Strauss, I. (2015). Africa rising out of itself: The growth of intra-African FDI. *Columbia FDI Perspectives, 139*, 1–3.
Larsson, R., & Finkelstein, S. (1999). Integrating strategic, organizational and human resource perspectives on mergers and acquisitions: A case survey of synergy realization. *Organization Science, 10*(1), 1–26.
Leke, A., Lund, S., Manyika, J., & Ramaswamy, S. (2014). *Lions go global: Deepening Africa's ties to the United States* (pp. 1–11). Washington, DC: McKinsey & Company.
Lord, M. D., & Ranft, A. L. (2000). Organizational learning about new international markets: Exploring the internal transfer of local market knowledge. *Journal of International Business Studies, 31*(4), 573–589.
Meglio, O., & Risberg, A. (2011). The (mis)measurement of M&A performance: A systematic narrative literature review. *Scandinavian Journal of Management, 27*(4), 418–433.
Mergermarket. (2012). *Deal drivers Africa*: *A comprehensive review of African M&A.* http://mergermarketgroup.com/publication/deal-drivers-africa/#.Ucx4Ldh0Y7c
Mergermarket. (2013). Deal drivers Africa. http://mergermarketgroup.com/wp-content/uploads/2013/12/Deal_Drivers_Africa_2013.pdf
Meyer, C. B., & Altenborg, E. (2008). Incompatible strategies in international mergers: The failed merger between Telia and Telenor. *Journal of International Business Studies, 39*(3), 508–525.

Michailova, S. (2011). Contextualizing in international business research: Why do we need more of it and how can we be better at it? *Scandinavian Journal of Management, 27*(1), 129–139.

Narayan, P. C., & Thenmozhi, M. (2014). Do cross-border acquisitions involving emerging market firms create value: Impact of deal characteristics. *Management Decision, 52*(8), 1451–1473.

Nayyar, D. (2008). The internationalization of firms from India: Investment, mergers and acquisitions. *Oxford Development Studies, 36*(1), 111–131.

Nwankwo, O. F. (2013). Impact of pre- and post- bank consolidation on the growth of the Nigerian economy. *International Journal of Business and Management, 8*(13), 73–82.

Penrose, E. T. (1959). *The theory of the growth of the firm*. New York: Wiley.

Portelli, B., & Narula, R. (2006). Foreign direct investment through acquisitions and implications for technological upgrading: Case evidence from Tanzania. *European Journal of Development Research, 18*(1), 59–85.

Prabhu, J. C., Chandy, R. K., & Ellis, M. E. (2005). The impact of acquisitions on innovation: poison pill, placebo, or tonic? *Journal of Marketing, 69*(1), 114–130.

Richards, D., & Nwanna, G. (2010). Sustaining ECOWAS in the dynamic confluence of regional market constraints. *International Business & Economics Research Journal, 9*(9), 133–140.

Rondinelli, D. A., & Black, S. S. (2000). Multinational strategic alliances and acquisitions in Central and Eastern Europe: Partnerships in privatization. *Academy of Management Executive, 14*(4), 85–98.

Rossi, S., & Volpin, P. F. (2004). Cross-country determinants of mergers and acquisitions. *Journal of Financial Economics, 74*(2), 277–304.

Roxburgh, C., Dörr, N., Leke, A., Tazi-Riffi, A., Van Wamelen, A., Lund, S., Chironga, M., Alatovik, T., Atkins, C., Terfous, N., & Zeino-Mahmalat, T. (2010). Lions on the move: The progress and potential of African economies. *McKinsey Global Institute*, 1–8.

Schumpeter, J. A. (1934). *The theory of economic development: An inquiry into profits, capital, credit, interest, and the business cycle* (Vol. 55). London: Transaction publishers.

Seth, A. (1990a). Value creation in acquisitions: A reexamination of performance issues. *Strategic Management Journal, 11*, 99–115.

Seth, A. (1990b). Sources of value creation in acquisitions: An empirical investigation. *Strategic Management Journal, 11*, 431–446.

Shimizu, K., Hitt, M. A., Vaidyanath, D., & Pisano, V. (2004). Theoretical foundations of cross-border mergers and acquisitions: A review of current

research and recommendations for the future. *Journal of International Management, 10*, 307–353.

Stahl, G. K., & Voigt, A. (2008). Do cultural differences matter in mergers and acquisitions? A tentative model and meta-analytic examination. *Organization Science, 19*, 160–176.

Swaminathan, V., Murshed, F., & Hulland, J. (2008). Value creation following merger and acquisition announcements: The role strategic emphasis alignment. *Journal of Marketing Research, 45*(1), 33–47.

Thomson Reuters. (2012). Mergers & acquisitions review: Financial advisors. http://dmi.thomsonreuters.com/DealsIntelligence/QuarterlyReviews

Triki, T. and Chun, O.M. (2011). *Does good governance create value for international acquirers in Africa: Evidence from US acquisitions?* (African Development Bank Group working paper series). http://www.afdb.org/en/documents/document/working-paper-143-does-good-governance-create-value-for-international-acquirers-in-africa-evidence-from-us-acquisitions-25600

UNCTAD. (2006). Measuring restrictions on FDI in services in developing countries and transition economies. http://unctad.org/en/docs/iteiia20061_en.pdf

Vermeulen, F., & Barkema, H. (2001). Learning through acquisitions. *Academy of Management Journal, 44*(3), 457–476.

Wang, S. L., Luo, Y., Lu, X., Sun, J., & Maksimov, V. (2014). Autonomy delegation to foreign subsidiaries: An enabling mechanism for emerging-market multinationals. *Journal of International Business Studies, 45*(2), 111–130.

Weber, Y., Shenkar, O., & Raveh, A. (1996). National and corporate cultural fit in mergers and acquisitions: An exploratory study. *Management Science, 42*, 1215–1227.

Zaheer, S. (1995). Overcoming the liability of foreignness. *Academy of Management Journal, 38*(2), 341–364.

Zollo, M., & Winter, S. G. (2002). Deliberate learning and the evolution of dynamic capabilities. *Organization Science, 13*(3), 339–351.

Zollo, M., & Meier, D. (2008). What is M&A performance? *The Academy of Management Perspectives, 22*(3), 55–77.

Zoogah, D. B., Peng, M. W., & Woldu, H. (2015). Institutions, resources, and organizational effectiveness in Africa. *Academy of Management Perspectives, 29*(1), 7–31.

8

The Role of Trust in Value Creation: The Case of a Cross-Border Acquisition in Russia

Elina Pelto

Introduction

During the past few decades, the amount of mergers and acquisitions (M&As) has increased dramatically in the global marketplace. At the same time, the share of cross-border acquisitions in the total value of global M&As has also grown significantly (Bertrand and Betschinger 2012; Stahl et al. 2012), indicating that they have been gaining ground as a preferred mode of internationalization (UNCTAD 2007). Simultaneously, there has been a clear shift of foreign direct investment (FDI) flows to developing and transition economies, and especially to the so-called BRIC countries (i.e. Brazil, Russia, India, and China), which have attracted the attention of multinational corporations (UNCTAD 2010, 2014). Indeed, in 2010 approximately one-third of global M&As (both in value

E. Pelto (✉)
Department of Marketing and International Business, Turku School of Economics, Rehtoripellonkatu 3, 20500 Turku, Finland
e-mail: elina.pelto@utu.fi

© The Editor(s) (If applicable) and the Author(s) 2017
S. Marinova et al. (eds.), *Value Creation in International Business*,
DOI 10.1007/978-3-319-30803-6_8

and number of deals) took place in emerging markets (Bertrand and Betschinger 2012). However, M&As in the context of the BRIC countries have received relatively little interest in academic research (Bertrand and Betschinger 2012). Furthermore, in comparison with other major emerging markets (such as China and India), Russia has seldom been presented in international business research, even though the country has emerged as an important international business location during the past two decades (Tretyak 2013). This can also be seen in the large share of foreign participation in Russian M&A deals (Radygin 2010).

The aim of M&As is to create value (Colman and Lunnan 2011). Seth (1990a) sees the concept of value creation in acquisitions as synonymous to that of synergy, which "exists in acquisitions when the value of the combined entity exceeds the sum of the values of the two combining firms" (Seth 1990a: 432). In M&As, the combination of the specialized resources (e.g. production, technology, finance, marketing, human resources) of the two merging parties, coupled with environmental opportunities and constraints, provides the basis for value creation (Seth 1990b). In M&As, value can thus be generated through organizational renewal and knowledge transfer (Birkinshaw et al. 2000; Vermeulen and Barkema 2001; Colman and Lunnan 2011). However, measuring value creation in M&As is not a simple task, and prior research has used a number of different metrics (Schoenberg 2006). Depending on the discipline, these include objective metrics, such as share price movements and accounting data, as well as subjective measures like managers' self-reports (Schoenberg 2006). In the case study presented in this chapter, the assessment of value creation is based on the subjective views of managers of both the acquiring and acquired company regarding the success of the acquisition. Indeed, Seth (1990b) argues that when evaluating value creation in acquisitions, acquiring and target firms should always be considered together as a single entity, instead of focusing on either of them separately.

However, no matter what measurement is used, acquisitions do not always manage to create the anticipated value (Schoenberg 2006). Indeed, despite the popularity of M&As, in general, their performance has often been disappointing (King et al. 2004; Björkman et al. 2007; Stahl et al. 2012). It has even been claimed that as much as 50% of

acquisitions fail (Angwin and Savill 1997; Lees 2003; Dauber 2012). Cross-border acquisitions encounter additional challenges to domestic ones, which are related to linguistic barriers and differences in national culture, legal systems, and administrative practices (Stahl and Voigt 2005; Gomes et al. 2013). Although empirical research evidence on the matter has been mixed (Stahl and Voigt 2005; Chakrabarti et al. 2009), it is easy to see why managers often consider cross-border acquisitions riskier than domestic ones (Angwin and Savill 1997; Krug and Nigh 2001). In the Russian context, this may be especially true as the business climate is characterized by weak market institutions, poor rule of law, corruption, unpredictable legal and regulative regimes, and a low level of information transparency, especially concerning governance structures (Goltsblat 2010; Bertrand and Betschinger 2012). This makes the due diligence process more difficult, and—together with a lack of professional intermediaries for the execution of transactions or post-deal integration (Radygin 2010)—suggests that Russia may be a particularly challenging environment for M&As. Hence, there is a need for more insight into the factors that contribute to the success of acquisitions in the Russian context.

In general, factors affecting the success of M&As have interested researchers increasingly during the past few decades (Stahl and Sitkin 2010; Stahl et al. 2013). Whereas traditionally the attempts to explain the success and failure of acquisitions concentrated on strategic and financial factors, more recently socio-cultural and human resource issues have been attracting attention (Schraeder and Self 2003; Gomes et al. 2013). However, significant research gaps still remain in explaining the success of acquisitions (Gomes et al. 2013), one of the dimensions of which is often associated with the role of trust (Stahl and Sitkin 2010; Stahl et al. 2012, 2013).

Although the concept of trust is prominent in the alliance literature, research on trust in the context of acquisitions remains scant (Stahl et al. 2006; Graebner 2009; Stahl and Sitkin 2010; Stahl et al. 2013). Furthermore, when trust has been studied conceptually or empirically in the context of M&As, the focus has mostly been on the development of trust between the acquirer and the acquired organization (e.g. Stahl and Sitkin 2010; Stahl et al. 2012), and not on the external relationships of the acquired firm. Indeed, M&A research has usually concentrated on

the dyad between the actors directly involved in the acquisition process, the acquirer and the target, neglecting the importance of external network relationships with, for example, suppliers and customers (Rezende and Duarte 2004; Kato and Schoenberg 2014; Degbey 2015). However, research following the business network approach has shown how M&As can have a significant effect on the acquired firm's external relationships, that is with its customers and suppliers (e.g. Havila and Salmi 2000; Anderson et al. 2001; Öberg et al. 2007; Degbey and Pelto 2013), and the way in which these relations are influenced may have a substantial or even decisive effect on the acquisition outcome (Anderson et al. 2001; Kato and Schoenberg 2014; Degbey and Pelto 2015).

Furthermore, M&A research has also been criticized for being fragmented in its scope of analysis concerning the acquisition phase (Cartwright and Schoenberg 2006; Gomes et al. 2013; Bauer and Matzler 2014). According to Gomes et al. (2013) and Bauer and Matzler (2014), research has often focused on either pre- or post-merger issues, leading to a rather isolated view that disregards the interdependencies of the whole M&A process (Haspeslagh and Jemison 1991), although there is evidence that M&A success depends on both pre-merger and post-merger issues (Bower 2001; Barkema and Schijven 2008; Stahl and Voigt 2008; Gomes et al. 2013). Hence, this chapter aims to answer the call for developing a more holistic understanding of acquisitions and their outcomes by focusing on both pre- and post-merger issues in its case illustration and analysis. More specifically, it explores the role of trust in value creation in a cross-border acquisition in the Russian context.

Indeed, the Russian context plays an important role in the focal study, although traditionally, in the hope of more generalizable results, international business research has seldom considered country context as an important factor for the phenomenon under study (Michailova 2011). However, quite recently, the need for more contextualization in international business and management research has been emphasized (e.g. Michailova 2011; Welch et al. 2011; Poulis et al. 2013). Thus, the aim of this chapter is not to generalize the research findings to other contexts, but rather to offer a contextualized explanation (cf. Welch et al. 2011) on the role of trust in M&A outcomes in Russia. With a case illustration of a Finnish multinational corporation's acquisition of a Russian company,

the importance of trust in the Russian M&A context is discussed not only between the acquiring and acquired company but also in connection with other network relationships and stakeholders.

The rest of the chapter is structured as follows. First the issue of trust in connection with M&As and also with the Russian business environment is discussed. After describing the case study methodology, the illustrative case example is introduced and discussed, based on the extant literature. Finally, concluding remarks are offered.

Theoretical Background

The Concept of Trust

Trust is a complex and multidimensional construct that has been studied in many disciplines following various theoretical orientations (see e.g. Blomqvist 1997; Seppänen et al. 2007; Maurer 2010). Consequently, it is not surprising that researchers have not come to an agreement on the nature and precise definition of the concept of trust (Hosmer 1995; Blomqvist 1997; Rousseau et al. 1998; Seppänen et al. 2007). However, according to Maurer (2010: 630), most researchers seem to agree that "at its core trust is an expectation concerning the intentions or behaviour of others." For business contexts, Blomqvist (1997: 282) suggests that trust can be defined as "an actor's expectation of the other party's competence and goodwill." In the field of inter-organizational relationships, the expectations of an actor predominantly refer to a partner's competence to meet obligations as well as to his or her intent to do so (Maurer 2010).

In research on inter-organizational trust, the analysis has most often been carried out at the firm level. However, trust has also been conceptualized at the individual, dyadic, and group level, and as a multilevel phenomenon (see e.g. Das and Teng 1998; Currall and Inkpen 2002; Stahl and Sitkin 2010; Stahl et al. 2012, 2013). In this chapter, trust is seen as a multilevel phenomenon. Although the case illustration focuses mostly on the firm level, it is acknowledged that the concepts of interpersonal and inter-organizational trust are related: interpersonal trust leads to higher inter-organizational trust, and vice versa (Zaheer et al. 1998; Currall and Inkpen 2002; Galford and

Drapeau 2003; Stahl et al. 2013). Furthermore, interfirm trust with a high level of institutional resource commitment enhances the movement of trust from firms to groups and to persons (Doz 1996; Currall and Inkpen 2002).

Regardless of the level of analysis, the notions of reliance, risk, and vulnerability are central to the definition of trust (Currall and Inkpen 2002; Stahl and Sitkin 2010). By reliance, an actor permits its faith to be determined by another (Currall and Inkpen 2002). In the absence of risk, trust becomes irrelevant. It is not needed, because without risk there is no vulnerability (Das and Teng 1998; Rousseau et al. 1998; Stahl and Sitkin 2010). Rousseau et al. (1998: 395) offer a rather detailed definition of trust, which has also been used in previous studies on trust in the context of M&As (e.g. Stahl et al. 2006; Stahl and Sitkin 2010): "trust is a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behavior of another." Consequently, distrust can be defined as negative expectations of the intentions or behavior of another (Stahl and Sitkin 2010).

Trust in the Context of Cross-Border M&As

The turbulence following the announcement of a merger or an acquisition has been found to create a breeding ground for distrust: the unpredictability of the situation may lead to rumors, misinterpretation, and feelings of vulnerability by the members of the merging organizations (Krug and Nigh 2001; Galford and Drapeau 2003; Hurley 2006; Graebner 2009; Stahl et al. 2012). Cultural differences have also been claimed to be a source of distrust between the members of the merging parties (e.g. Olie 1990; Krug and Nigh 2001; Stahl and Voigt 2005). In this respect, cross-border acquisitions face even more challenges due to the need for "double layered acculturation" (Barkema et al. 1996), meaning that not only different corporate cultures but also different national cultures need to be combined. Profoundly different values, goals, and beliefs about the constitution of appropriate organizational practices may lead to conflicts and limit the potential for building trust between the merging parties (Olie 1990; Stahl and Voigt 2005; Dauber 2012).

However, building trust in M&As is as important as it is challenging. According to Stahl (2004), it is not poor strategic fit but poor execution—

characterized, for instance, by lack of trust and communication—that most often causes acquisitions to fail. Indeed, trust has been found to facilitate more open communication, cooperation, information sharing, innovativeness, and conflict management (Seppänen et al. 2007; Ellonen et al. 2008). It has also been recognized as a critical factor in leadership effectiveness, employee satisfaction, and commitment (Shockley-Zalabak et al. 2000; Dirks and Ferrin 2001; Tyler 2003; Auvinen et al. 2013). Consequently, trust has been identified as a potential source of competitive advantage (e.g. Barney and Hansen 1994; Seppänen et al. 2007).

The level of trust between the members of the acquired firm and the management of the acquirer is considered to be a key factor for the success of the acquisition (Stahl et al. 2006). Stahl and Sitkin (2010) suggest that target firm members' trust in the acquiring firm's management is influenced by a number of status variables related to the acquirer–target relationship at the time of the takeover, as well as process variables connected to the integration process. These are presented in more detail in Fig. 8.1.

The model presented in Fig. 8.1 suggests that factors related to the relationship history of the merging parties, the interfirm distance, as well as the integration approach applied by the acquirer all have an effect on the perceived trustworthiness of the acquiring firm's management, which in turn has an influence on the target firm employees' attitude and behavior (Stahl and Sitkin 2010). Indeed, the study by Stahl et al. (2006) showed that members of the target firm tend to have greater trust in the acquirer's management when: the takeover is friendly (as opposed to hostile); there is higher national cultural similarity (i.e. when it is a domestic rather than a cross-border acquisition); there is an interaction history between the merging firms; the acquirer is likely to allow the acquired firm to retain its own culture and much of its autonomy; and the acquiring firm's HR policies are perceived as attractive. The latter was clearly the most powerful predictor of trust. The friendliness of the acquisition was another key factor influencing the acquired firm members' trust towards the management of the acquirer; on the other hand, cultural similarity had the least effect on target firm members' trust (Stahl et al. 2006).

However, even when cultural differences do not always have a negative effect on post-acquisition performance and other integration outcomes (e.g. Morosini et al. 1998; Chakrabarti et al. 2009), they often have an impact on the expectations about the behavior of others and provide

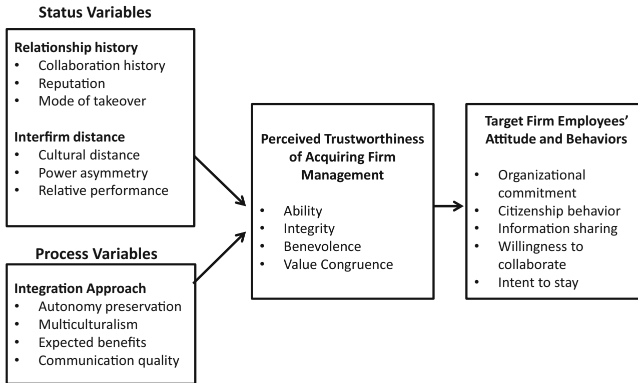

Fig. 8.1 Model of trust dynamics in acquisitions (*Source*: Adapted from Stahl and Sitkin (2010, p. 55))

a frame for interpreting their trustworthiness (Stahl et al. 2012). For instance, in individualist cultures (see e.g. Hofstede 1980), perceptions of the acquiring manager's trustworthiness may be based on his or her demonstration of professional competence and open dialogue, whereas in collectivist cultures, they may be rooted in behavioral consistency and concern for the welfare of the acquired firm's employees (Stahl et al. 2012). Indeed, the study by Stahl et al. (2012) indicated that trust antecedents in M&As vary across different cultural contexts. Compared to an individualist culture, employees in collectivist cultures seemed to emphasize the history of collaboration between the target and acquirer, and tended to distrust acquirers with whom they had no prior collaboration. Hence, national cultural background is likely to influence trust development between the merging parties in cross-cultural acquisitions.

External Relationships, Trust, and M&A Outcome

The outcome of an acquisition does not only depend on the integration and trust between the merging organizations, but it also relies on the external stakeholder relationships (e.g. Anderson et al. 2001; Kato and Schoenberg 2014; Degbey and Pelto 2015). Indeed, stakeholder theory

argues that, in order to understand business performance best, one should examine the relationships between the firm and all the groups that affect or are affected by it (Parmar et al. 2010; Kato and Schoenberg 2014). It is generally acknowledged that key stakeholder groups for business firms include customers, suppliers, communities, employees, managers, and financiers (Parmar et al. 2010). However, empirical research on factors influencing M&A outcomes has mostly concentrated on internal firm issues; less attention has been paid to how M&A activities affect external stakeholders, including customers and suppliers (Anderson et al. 2001; Kato and Schoenberg 2014). Anderson et al. (2001: 576) argue that "an acquisition influences and is influenced by not only the two merging companies, but also by their customer and supplier relationships." The way those relationships are affected may even determine the outcome of the acquisition (Anderson et al. 2001).

A number of studies that followed the business network approach have provided insight into how external relationships can be affected by M&As, which have even been recognized as potential triggers for significant change to the business relationships of the merging firms (e.g. Halinen et al. 1999; Havila and Salmi 2000; Öberg et al. 2007; Degbey and Pelto 2013). In their multiple case studies of 12 horizontal acquisitions, Bocconcelli et al. (2006) found that significant changes—including termination of existing relationships, emergence of new relationships, and replacement of existing with new ones—took place in the acquired firm's main supplier and customer relationships during the post-acquisition integration period. Many of the changes observed in the supplier and customer relationships of the acquired company were related to the increased level of formalization introduced by the acquirer, for instance, greater use of formal contracts and standardized procedures. This also led to a reduction in informal social and technical exchanges with suppliers and customers (Bocconcelli et al. 2006).

Hence, an acquisition may create a breeding ground for distrust not only among members of the target firm (Stahl et al. 2012) but also among the target firm's suppliers and customers (Anderson et al. 2001; Degbey 2015). For instance, Anderson et al. (2001) describe how customers' confidence in a supplier may be eroded after an acquisition. They observed that while some target firm's customers anticipated positive consequences

in the forms of simplified purchasing processes and extended product ranges, others were worried about potential price increases, constrained supply choice, and decreased commitment towards them (Anderson et al. 2001).

Indeed, trust and commitment are central features in the buyer–seller relationship, as they have been found to reduce transaction costs, increase cooperation, reduce conflicts, enhance satisfaction, and lead to more long-term and stable relationships between suppliers and customers (Morgan and Hunt 1994; Doney and Cannon 1997). The role of trust is eminent in both establishing a good customer relationship as well as in influencing the purchasing behavior of the customer (Fadol and Sandhu 2013). However, acquisitions, which are often connected with the redeployment of sales and marketing staff, may negatively affect the acquired firm's customer retention. Some of the acquired firm's salespeople are likely to leave; also the customer relationships based on personal bonds, experience, and trust may be lost (Degbey 2015). Thus, the acquirer should pay attention to maintaining and developing trust and commitment with the target firm's customers and suppliers during the turbulence following an acquisition, as it can be of the utmost importance for the outcome of the M&A. In cross-border acquisition, however, this could be even more challenging as trust development has been found to differ between different national cultural contexts (Doney et al. 1998; Stahl et al. 2012).

Trust in the Context of Russian Business Networks

Cultural and institutional differences between various markets often also lead to differences in the characteristics of business networks in them (Törnroos and Möller 1993; Johanson et al. 1998, Jansson et al. 2007). Due to its rapid economic transition from a planned to a market economy, the Russian business environment differs in many ways from the business environments of Western countries. The difference between Western and Russian business networks can also be seen in relation to trust.

Whereas Western institutions are generally built on the basis of trust in the government, regulatory agencies, the judicial system, and other formal institutions, these institutions are not fully developed in Russia

(Puffer et al. 2010). This, together with traditional distrust of formal institutions (Puffer et al. 2010), has led to low institutional trust in the Russian business environment (Welter et al. 2004; Oleinik 2005). Hence, the Western view of basic trust in formal institutions—and the belief that they will also support the trustworthy behavior of business actors—does not apply in Russia (Welter et al. 2004; Puffer et al. 2010). Instead, trust and security are sought in personal and social relationships (Michailova and Worm 2003; Puffer et al. 2010; Mattsson and Salmi 2013).

Consequently, the role of personal relationships is emphasized in Russia where business networks are largely built on social connections (Salmi and Bäckman 1999; Michailova and Worm 2003; Rehn and Taalas 2004; Mattsson and Salmi 2013). Although personal relationships and trust between individuals are more important than legal contracts, the establishment of relationships in Russia usually begins with an attitude of suspicion (Jansson et al. 2007). While in Western Europe the starting point in establishing relationships is that the counterpart is presumed honest, in a Russian business environment, the expectation is that one is likely to be cheated (Jansson et al. 2007; Johanson 2008). This lack of trust between companies together with a short-term orientation and reluctance to make relationship-specific investments makes the termination of relationships a common feature in Russian business networks (Jansson et al. 2007).

Although the importance of trust and honesty in business relationships has increased along with the economic transition from a planned to a market economy (Johanson 2008), in comparison to Western European business relationships, in Russia suspicion seems also to prevail in mature business relations, although it can be reduced by previous social relationships (Jansson et al. 2007). Indeed, Butler and Purchase (2008) found that new-generation Russian managers also tend to see the relationships developed in their personal network as most reliable and trustworthy for business purposes. As business relationships are often built on social ones, an acquisition (which often results in employee turnover) can easily have a negative effect on the external relationships of the target firm.

Indeed, Russians seem to have a dual standard of trust depending on whether the other party is a member of their personal network or an outsider of that group. Within personal networks that exist between family

members, friends, and colleagues, Russians usually demonstrate a high level of trust, whereas they tend to distrust individuals, groups, and organizations that fall outside their personal relations (Salmi and Bäckman 1999; Ayios 2004; Welter et al. 2004; Puffer et al. 2010). It is difficult to establish trusting relationships with outsiders (Puffer et al. 2010), which naturally creates challenges for foreign firms entering the market (cf. Weck and Ivanova 2013).

Indeed, the development of relationships across national boundaries is an especially time-consuming and resource intensive process that involves learning (Salmi 2000). Based on their study, Weck and Ivanova (2013) stress the importance of cultural adaptation in building trust in business relationships between Western and Russia companies. In the early phase of relationship development, understanding the counterpart's national culture is important for the initial development of trust, which, in turn, encourages interaction among the parties. Further trust development depends on experiential learning about the partner's culture and appropriate adaptation to it in later phases of the relationship development. In order to build a trusting business relationship in Russia, friendship is essential. During the development of the relationship, an acquaintance (*znakomy*) becomes a friend (*drug*), who is trusted and considered almost as a part of the family (Weck and Ivanova 2013), hence belonging to the inner circle of personal relationships (Ayios 2004; Puffer et al. 2010). For a foreign acquirer, this suggests a need to be patient in building personal relationships with Russian partners and to invest a considerable amount of time in the interaction.

Foreign acquirers should also be aware that, in addition to traditional buyer–seller relationships, there are several other important actors in Russian markets that are critical for the development of business activities. The importance of contacts with public officials, political decision makers, and banks has been emphasized in the Russian context (e.g. Puffer and McCarthy 2001; Heikkilä 2011). In order to overcome the liability of foreignness and legitimate its action in the host market (cf. Turcan et al. 2012), the acquirer may also need to build a good reputation in the Russian market in the eyes of local policy makers. Indeed, Butler and Purchase (2008) emphasize that reputation has lately become critical for developing trust with the public in the Russian market.

To sum up, in order to reach the best possible outcome for its cross-border acquisition in Russia, a foreign acquirer should be able to build trust not only among the managers and employees of the target firm, but also among its suppliers, customers, and other external stakeholders in Russia. However, compared to many Western European markets, building trust in Russia can be more time-consuming and require more cultural adaptation as trust is often based on personal relationships that develop only in interaction. This chapter will now proceed to illustrate the role of trust among various stakeholder groups for the success of a Finnish multinational firm's cross-border acquisition in Russia. Before the actual case illustration and discussion, the methodology of the case study is briefly described.

Empirical Case Illustration

Method

The empirical data presented in this chapter is based on a single case study of a cross-border acquisition where a Finnish multinational company (referred to as Alpha) acquired a Russian domestic firm (referred to as Beta). The study concentrated on the changes within the acquired firm and its business network following the acquisition. The case study strategy was chosen as it allows for the capture of causality between reasons and empirical outcomes, provides rich descriptions of the studied phenomenon (Yin 2003; Öberg 2013), and consequently enables contextualized explanations (Welch et al. 2011).

Although not originally a particular focus in the case study, the issue of trust and its importance came up in a number of interviews. Hence, the logic of reasoning behind this study could be called abductive as the observations in the empirical data led to the search for a new theory, which was then used in the further analysis of the empirical case (e.g. Haig 2005; Easton 2010; Welch et al. 2011). However, it should be noted that the case here is employed mainly for illustrative purposes. Thus, as suggested by Siggelkow (2007), the case serves as an additional but not sole justification for the theoretical arguments presented, and

the findings of the empirical case study are not meant to be generalized to any population but rather to theoretical propositions (Easton 1998; Yin 2003).

The case data was mainly collected by semi-structured interviews. A total of nine interviews (including eight face-to-face interviews and one email interview) were conducted among top and middle management (such as the senior vice president responsible for legal affairs and M&As, the director of international projects, the business controller, the general director, as well as managers). This included four interviewees from the acquirer company, Alpha; one from the target company, Beta; two from Beta's supplier companies; and two from Beta's customer companies. The interviews were conducted with the help of interview guides that varied depending on who was interviewed (e.g. a representative of the acquirer, target, or customer company). The interview guides covered predefined themes, such as company backgrounds, acquisition motives, acquisition process, integration, company networks, and acquisition consequences. In addition to the interview data, the analysis of the case was complemented with a vast amount of secondary data, such as annual reports, internal company documents, company websites, as well as newspaper articles. Thus, the trustworthiness of the study was enhanced by data triangulation (see e.g. Yin 2003).

As the case study focused on the motives, processes, and outcomes of the acquisition, it was inherently longitudinal. The case study relied on both retrospective and real-time data (e.g. Blazejewski 2011); however, the majority of the data was retrospective. The case study examined a ten-year period starting from 1997 when the acquisition took place, but the actual data collection was carried out from 2005 to 2007 and included some real-time data from the last few years. To facilitate a comprehensive analysis, all interviews were transcribed verbatim into literal form (cf. Miles and Huberman 1994) and the case data was coded according to a predetermined coding structure. As suggested by Halinen and Törnroos (1995) for the analysis of longitudinal qualitative data, the case data was first arranged in chronological order. This was followed by writing the case description by focusing on trust between the acquirer and target organization, as well as between the merging parties and the external network actors in Russia.

Case Description

Introduction of the Case Companies and the Acquisition

The acquirer company Alpha Bakeries (also referred to here as Alpha) belongs to a Finnish diversified group producer of food and other related products and services (referred to as Alpha Group). Alpha Group has bakery operations in six countries, mainly in the Baltic Sea Region, where it holds a leading market position. Alpha Bakeries entered the Russian market in St Petersburg via a friendly acquisition of a local bakery Beta in 1997. The acquisition took place gradually, partly due to the economic crisis in Russia in 1998. By the beginning of 2000, Alpha had become the majority owner of Beta, and has since further increased its ownership. Currently, Alpha owns over 90% of Beta's shares. Alpha also acquired three more Russian bakery companies during the first decade of 2000—with all three now organized under the Russian subsidiary Beta.

After acquiring Beta, Alpha gradually implemented major changes, for example in relation to Beta's organization, production machinery, product quality, product range, sourcing, marketing, and distribution. In terms of growth, the acquisition has proved to be successful for the merged companies. Whereas the market share of Beta prior to the acquisition in the St Petersburg market was approximately 15%, making it the second largest company in the market, it has since become a market leader, occupying almost 35% of the market in less than a decade after the M&A. At the same time, Russia has been Alpha Group's largest growth area with average annual growth of 37% over many years. Due to the increased importance of the Russian bakery business for the whole group, it was separated from Alpha Bakeries and became its own division, Alpha Russia in 2007. Hence, it is fair to say that the outcome of the cross-border acquisition has been successful.

Trust Between the Acquirer's and the Target's Managements in the Early Phases of the Acquisition Process

The beginning of the acquisition process was not without challenges. Alpha Bakeries made a decision to enter the Russian market in the

early 1990s, soon after the dissolution of the Soviet Union. The main motivation behind the investment decision was slow market growth, hard competition, and the strong position of the retail industry in the company's traditional markets. Thus, the newly opened Eastern markets were considered to offer potential profitable growth for the company. In 1994, Alpha Bakeries began to look for investment possibilities in St Petersburg. An acquisition was chosen as the entry mode from the outset, as it was considered to be easier to buy an existing market share than to start from scratch via a greenfield investment. However, finding the right target company was not easy initially, and the issue of trust had already became relevant at this point:

> We went [to St Petersburg] for the first time when privatization of the bakeries began, and there we visited almost all bakeries. And, in that situation, such a bakery as [referred to here as] Gamma Baker, was chosen as a first target because … at the time, it was in much better shape than the other units. We thought that we would start to develop cooperation with them. The CEO … had a positive attitude about us coming in, and we agreed that we would start to buy their shares, in different ways: For instance, they had this voucher-auction privatization model. Well, we bought 18% of the company's capital and 21% of the voting right. And for some reasons our partner, or candidate, changed his tune quite a lot. We had said from the beginning that we wouldn't start making any investment before we knew that we had 51%. That we must have, and then we will start. And then they said that they won't make any agreements with us unless we invest first. And this continued until early '97. We were there with our group's president at the time, meeting the company's management and we thought to discuss once more whether this would work out or not. And it turned out that there wasn't a starting point any more, after which we began a new round in St Petersburg bakeries. (Director, International Projects, Alpha Bakeries)

Hence, distrust between the partners at the pre-acquisition phase led Alpha to abandon the planned acquisition of Gamma Baker in early 1997. Instead, it began to look for a new partner, and Beta was considered the best option this time. As Beta's team of managers, who were

also its major owners, thought that finding a good foreign partner would be the best option for the development of the company, negotiations between the two were straightforward.

> It was an unusually fast negotiation process: we started the negotiations in March, in June we had the cooperation agreement and at the beginning of October the company decided on the share issue directed to us. (Director, International Projects, Alpha Bakeries)

Hence, the management of Beta seemed to have initial trust in the management of the acquirer Alpha. This could be partly due to the fact that the managers of the two companies had met and had discussions many times before when Alpha was looking for a suitable acquisition target for the first time in 1994. Thus, the managers of the companies were somewhat familiar with each other before the negotiations started. However, once again, this trust and commitment were tested when the economic crisis hit Russia in 1998. At this point, Alpha had invested slightly less than one-third of the contract price, but as Beta's managers warned of the coming crisis, the share issue was halted:

> Otherwise our monetary input would have soon diminished to being negligible, as the administrative process in Russia was so slow at the time. When you put foreign currency in there that had to be converted into roubles, it would have withered away to a negligible sum along the way. (Senior Vice President, Legal Affairs and M&A, Alpha Group)

Nevertheless, unlike many other foreign companies during the crisis, Alpha did not give up its intention to enter Russia, even though, due to the devaluation of the rouble, one-fourth of consumers' purchasing power had disappeared. However, the company changed its acquisition approach from one of directed issue to capital contribution, meaning that it received shares in return for machinery and equipment it gave to Beta. In this way, Alpha did not lose financially during the crisis, and as it showed commitment to continue the acquisition process during the difficult times, this built enormous trust among the target company managers towards the acquirer.

> Then we decided that we would make it in equipment, and the whole process took a bit longer but, at the same time, it created quite an amount of trust from our Russian partner, because many Western companies left Russia at that stage. (Senior Vice President, Legal Affairs and M&A, Alpha Group)

> And they did not change their long-term strategy despite the crisis. Together, we successfully lived through the crisis and became larger in the market. The basic resource was mutual trust, this is our common business and we make all efforts jointly. (General Director, Beta)

Hence, mutual trust between the partners has been the key for successful cooperation. In fact, cooperation between Alpha and Beta has been without conflicts. Although, during the negotiation phase, detailed partner agreements were made defining the use of voting power and the situation when consensus between the parties is required and when it is not, there has never been a need to rely on these agreements. Instead, Alpha and the management of Beta have had very similar ideas on the development of the company.

Trust Between Acquirer and Target Firm Members During the Post-acquisition Integration Phase

Even after significant trust between the acquirer's and target's managements had already been built during the early acquisition phase, a number of factors contributed to a further developing of trust between the members of the two firms. First of all, as often in Russia (e.g. Puffer et al. 2010; Weck and Ivanova 2013), personal relations were of the utmost importance for trust building between the managers of the parent and its subsidiary.

> [Our manager of international projects] has also used a lot of his free time on that. In Finland you think that there are working hours and leisure time, and you spend leisure time with your family or a particular circle of people. In Russia, you have to invest in these personal relations, which means that you spend this, your Finnish leisure time on that. … You either

> do it, build these [relationships] or otherwise, I would say, the possibilities to succeed are weaker. (Senior Vice President, Legal Affairs and M&A, Alpha Group)

Personal relationships between the members of the acquirer and target organizations have been developed through close contacts, as staff from Finland visited St Petersburg and vice versa almost every day at some level. The interaction was naturally closer at the beginning, when Alpha's Manager of International Projects spent two to three days a week in Russia, whereas a few years later this had diminished to approximately three days per month.

It is noteworthy that, despite the large number of changes following the acquisition, many of them were rather incremental. Developing the company was perceived as a long-term and ongoing process. Indeed, it seems that changes resulting from the acquisition were not experienced as "shock-therapy" by the members of the acquired company. Rather, in most cases, there seemed to be a common understanding between the acquirer and the acquired companies on the necessary changes.

> There is no problem in that [division of power in the board of directors], we always come to an agreement, and no conflicts have appeared. There is always good mutual understanding between the partners. It could be a different situation, like for instance in [a local brewery acquired by a foreign company] where the foreigners who came are not so loyal to the national management. (General Director, Beta)

In addition, Alpha never sent any expatriates to Russia; instead, Beta was run by its local managers during the integration phase. As suggested by Stahl et al. (2006) (also Stahl and Sitkin 2010), this sort of relative autonomy of the acquired company probably contributed to the perceived trustworthiness of Alpha's management by the members of Beta. Alpha also adjusted to the local, national and corporate culture, which is also assumed to increase trust towards the foreign acquirer (cf. Stahl et al. 2006; Stahl and Sitkin 2010):

> It is a question of culture; there [in Russia] the General Director has all the votes. … And we have thought, or realized, that we are way too small a

country and too weak to change the culture of that kind of country. It is better to accept it as such. If a country has a particular culture, succeeding is more likely if you act in the same way rather than starting to do things totally differently. A Russian needs a clear leader in front. (Director, International Projects, Alpha Bakeries)

It is very important for Russians that someone decides and leads. They don't sit much in meetings or do group work. It is changing little by little now that our culture has come to Beta, but it is still noticeable that they wonder about how we meet and do so-called team work, because in Russia the company culture is a bit different, and will remain so probably for a long time. (Senior Vice President, Legal Affairs and M&A, Alpha Group)

Hence, Alpha has not particularly tried to change the organizational culture of Beta although, with everyday contacts between the partners, Alpha's corporate culture might gradually become more familiar to Beta's staff.

In general, both Alpha's and Beta's management consider that the attitudes of Beta's staff towards the foreign investor company have been mainly positive. In fact, the foreign parent company has even been seen as a better employer than local companies that were struggling with financial issues during the crisis.

If you compare us with others, we are in that sense a better employer, because we are reliable and secure. Thus, when you have a large company, a market leader, backed up by a Western company, I think that it creates a certain feeling of security for the staff. (Business Controller, Alpha Bakeries)

It is important how the foreign investor relates to the working collective. In order to be successful, they have to have a good attitude towards the employees. … The good relationships between all involved are a big advantage of our cooperation. There was a situation for instance, when our employees were asking for help, they needed mortgages, … so they asked for assistance, and Alpha has always provided such assistance. Alpha has good relationships with their staff in Finland, thus it is a socially oriented firm. They have all sorts of programmes for their staff and they do the same

> in Russia. The working collective responds to you positively when you have such a social orientation. (General Director, Beta)

Indeed, previous studies have found that the attractiveness of the acquirer's HR policies is a major contributor to building trust among the target firm members (e.g. Stahl et al. 2006). Hence, in addition to offering competitive salaries, Alpha has offered other types of incentives for Beta's employees. For instance, Alpha has provided Beta's staff with help in acquiring apartments and also offered them interesting international career opportunities. These have helped Beta to retain better its educated personnel who often receive work offers from other employers, including foreign companies and local competitors.

> If you have the correct kinds of incentives, like helping them to get apartments—the prices of which are skyrocketing these days—then they commit themselves maybe more than before, they do not chase after money all the time but settle down. (Senior Vice President, Legal Affairs and M&A, Alpha Group)

> But Alpha is an international company and that motivates people as it is possible to move and work in Europe. We introduced the idea to Alpha that Russian managers would also be included in this rotation of jobs within the corporation. That is something that other companies cannot offer and it motivates people to stay with Beta. (General Director, Beta)

In addition to employee commitment and satisfaction, trustful relationships between the members of the acquisition parties have contributed to open information sharing and knowledge transfer between the partners (cf. Seppänen et al. 2007; Ellonen et al. 2008; Auvinen et al. 2013).

> It is nice that when I need some information about sales or markets or something else, I know that when I call or send an email, the information is in my inbox the next morning. So they answer faster than you get answers around here. (Director, International Projects, Alpha Bakeries)

> The impact [of Alpha] was mostly related to the quality improvements and introduction of new standards in production and sales, and technology. … At the same time, Beta is part of the success … of course the ability to understand the national market. … Market itself defines which products are the most tasty and successful, and Beta might know it better than Alpha. … The success was created by both partners. (General Director, Beta)

Indeed, Alpha's managers see the successful knowledge transfer from Finland to Russia that has taken place in training but, more importantly, in "hands-on cooperation" as a key to the success of the company's operations in Russia. Alpha has brought to Beta knowledge concerning distribution logistics, products and production technology, sales and marketing, as well as key account management. On the other hand, Beta has offered Alpha valuable market knowledge concerning consumer taste and purchasing behavior, and sees the success as a joint effort of the two partners.

Trust in Supplier and Customer Relationships of the Target Firm After the Acquisition

An acquisition is likely also to impact on the supplier and customer relationships of the acquired firm in ways that may influence the level of trust these companies have towards the acquisition partners (Anderson et al. 2001; Bocconcelli et al. 2006). However, as argued by Kale et al. (2009), keeping the familiar faces in the acquired company and not replacing them with expatriates, for example, has probably reduced the post-merger uncertainty not only among employees, but also among customers and suppliers. Indeed, even if an acquisition may worry the target firm's customers and suppliers, in this case the acquisition of Beta by Alpha was considered as a positive factor that increased the trust of some external partners. An excellent example of this is how the involvement of a Western company impacted on building trust with foreign machinery suppliers:

> About suppliers, they became more calm, less anxious and worried. … Before, they wanted 50% prepayment and a bank guarantee. Now they act as in the civilized developed world, from 10 to 15% in advance, no bank

> warranty; next we pay when delivery is complete and the last part when lines are installed and start working. Before it was difficult, and considered risky to supply to Russia. Of course, it is not only because of Alpha, it is the change in the overall economic situation in Russia. But when Alpha came, immediate changes took place: we needed to pay less in advance, and Alpha gave its own guarantee to the suppliers. (General Director, Beta)

Thus, although Russia's improved economic situation was an important factor in improving payment terms required by machinery suppliers, Alpha's role was also significant, especially at the very beginning of the cooperation.

Similar to Bocconcelli et al.'s (2006) study, Alpha imposed stricter quality requirements and introduced systematic quality control to Beta's local suppliers. This led to improved quality standards for the whole bakery industry in St Petersburg. Even though the new requirements set by the acquirer were seldom welcomed at first by the suppliers, the relationships with them have become closer.

> We try to engage our suppliers and customers in our production plans, so mainly we set the goals and requirements and how to meet them, it is their own task. But we want to share common goals and integrate suppliers and customers to the entire production process. … We have good relations inside Finland, and we can advise with whom to cooperate in order to solve problems, so together we try to find solutions and find companies in our network to help them. (General Director, Beta)

In general, relationships with raw material suppliers have become more long-term oriented and systematic. Whereas at the time of Alpha's entry into Russia, payment for all raw materials had to be made before receiving the deliveries, now relationships with suppliers are tighter and good payment terms are offered. Contracts with suppliers are now usually negotiated for a one-year period. A special characteristic of Russian operations is that many shorter contracts (e.g. three months) are also agreed and there is also spot trade; thus, for example, raw materials are sometimes bought at the day's spot price, regardless of whether there is a longer-term deal with some other supplier. This is not a preferred situation from the parent company's perspective as longer contracts are usually

more profitable in the long run. Buying outside the established contracts can lead to diminishing delivery reliability. Hence, little by little, Alpha has also integrated Beta's purchasing activities into the corporate level sourcing strategy. This has led to more formal contracts with suppliers. Whereas keeping contracts was not previously considered that important, today Beta sees trustworthiness as an important element in both customer and supplier relations.

> So changes towards customers [due to the acquisition]: they became sure that when Beta promises, the deliveries are punctual in time, price, quality, and quantity. Customers know that Beta fulfils agreements precisely. This is the case also with suppliers: they know Beta will pay on time and so on. So we came to more civilized relations with both input and output side partners. This is not only the achievement of Alpha but also of Beta and its staff; they have learnt to be more punctual and trustworthy. This has improved interactions with both customers and suppliers. It has been a joint effort between us and our partners. (General Director, Beta)

Indeed, since Alpha acquired Beta, it has implemented a number of changes aimed at improving Beta's reliability and trustworthiness in the eyes of retail stores and chains. In addition to improving sales and marketing functions and bringing knowledge to Beta, Alpha introduced major changes to Beta's distribution system. At the time of Alpha's entry, the products of all bakeries in St Petersburg were distributed by a monopolistic transport service provider. However, its performance, including the reliability of deliveries, was rather poor:

> And when we started to look at the situation and improve our activities, we noticed that distribution didn't work at all as it should. Of course, it is distribution that is the closest contact with every customer every day, and we figured out that we had to take care of it much better. … We figured that it was extremely inefficient and unhygienic and so on. (Director, International Projects, Alpha Bakeries)

Since the delivery company was reluctant to make any changes to improve its activities, Alpha decided to create its own distribution system for Beta in 1998. The redesign of the logistics system involved the

entire crate movement process, including such functions as returns from customers and cleaning. Beta's new logistics system enabled higher levels of customer service and instantly became the company's major competitive advantage. Hence, with its own distribution system, Beta tries to fulfill the modern retail sector's emerging requirements concerning the timeliness, quality, and accuracy of product deliveries. In addition, the company tries to establish partnership-type relationships including product information sharing and merchandising support with major retail chains.

> Concerning the relationships with the bigger chains, we have our aim: we want to become an influential partner for the chains, irreplaceable. … We can offer cooperation at all levels, in production, quality and so on. (General Director, Beta)

In sum, due to the acquisition, Beta has implemented changes to improve its reliability and trustworthiness, both towards its suppliers and customers. This has led to long-term partner-type relationships with both suppliers and customers, and consequently to quality improvements regarding the whole supply chain.

Trust in Relationships with Other External Stakeholders

A cross-border acquisition may also create distrust in external relationships outside the buyer–seller ones. For instance, when Alpha acquired Beta, rumors arose in the local market about the foreign acquirer's intentions:

> When Alpha first came, there were rumors in the yellow media and among the competitors, that foreigners will take out capital from the company, create a capital flight from Russia. This was a natural reaction from envious people and competitors. In reality, … since Alpha came, only once have dividends been paid out to the owners. In all other years, the profits have been reinvested in the company. (General Director, Beta)

In order to correct the negative rumors about the consequences of the cross-border acquisition, Beta even published an article in a local

newspaper about the positive effects of the acquisition. Indeed, the importance of reputation for building trust with the public in Russia (cf. Butler and Purchase 2008) is acknowledged by Alpha and Beta, and possible consumer complaints, for example, are always dealt with carefully.

The role of external stakeholders, such as local officials and policy makers, has been emphasized in the Russian context (e.g. Puffer and McCarthy 2001; Heikkilä 2011). Their importance has also been recognized by Alpha in its cross-border acquisition in Russia. Indeed, Alpha's entry required a lot of interaction with local authorities, for instance with the competition authority and customs. Working with the local authorities has sometimes, especially at the beginning, been slow and even problematic. However, in general, the relationship of Alpha and Beta with the authorities in St Petersburg are good.

> In general, the relationships [with authorities] are rather close. From the very beginning, the start of each new production line has been visited by the governors. All heads of the city have been at our plant: first Sobchak, then Yakovlev and Matveyenko. Moreover, bread is a social product and bread production is a socially oriented business. Thus, we have participated in special projects of the city administration, one of which was "a Social Product." It included a number of items, and was introduced by the city government when the price of bread was rising. … The project was aimed to support the poorest, socially weakest people in the city, and the majority of the population was poor during the crisis. When prices were increasing, the prices of these two products were fixed. … Other bakeries fixed the prices too because we said "yes" and they had no choice but to follow our example. So we influenced others to agree too. That is because we are the biggest, we are the fashion makers in the industry; thus, if we decide to take part in some programs, others follow. (General Director, Beta)

Hence, Beta, supported by Alpha, has done its best to build a reputation as a trustworthy and responsible actor in the market by, for instance, taking part in some social programs of the city government. The example set by the market leader has also encouraged other bakeries to participate in the projects. Being active in such projects clearly helps maintain good and trustful relationships with the city's administration. The good reputation of the company can also be seen by the acknowledgements

it has received. Beta received an award for being the best company in St Petersburg's food sector soon after the acquisition in 1999. Furthermore, the company received a national award in the Kremlin in 2004.

Summary of Case Findings

Alpha's acquisition of Russian Beta in 1997, hence during a severe economic crisis in Russia, turned out to be a success story. The acquired company increased its market share considerably during the following years, and at the same time the share of the Russian bakery business in Alpha Group's turnover and profits grew significantly. The acquired company Beta soon became a market leader and technological front-runner in its local market, and the company even received public awards for its actions in the Russian bakery market.

One of the key factors for such a successful outcome of the cross-border acquisition has been trust between the acquisition partners as well as between the partners and their external stakeholders. Fig. 8.2 summarizes the case study's results concerning factors affecting the development of trust between the case company and its various stakeholders.

In Fig. 8.2, the inner circle lists factors that have contributed to the development of trust towards the acquirer Alpha among the members of the target company Beta. These included, for instance, Alpha's management showing commitment towards the acquisition process during the early phase when the economic recession hit Russia. This created significant trust among Beta's management towards Alpha's management. Moreover, during the post-acquisition integration phase, further trust was developed by building close personal relationships with the managers of Beta. This was achieved by granting a relatively autonomous position for the acquired company and by implementing attractive HR policies in the acquired firm. In addition, adapting to Russian corporate culture was important in order to win the trust of Beta's staff members. The trustful relationships between the merging parties have contributed to open information sharing, knowledge transfer, and in general conflict-free cooperation.

The middle circle in the figure represents the factors affecting the development of trust between the acquired company Beta and its supplier and

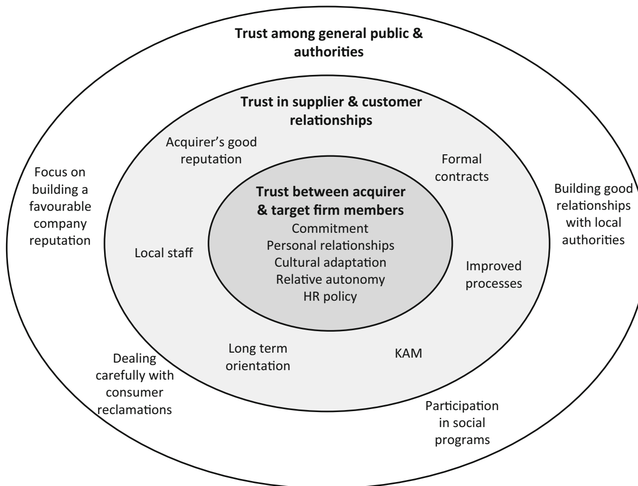

Fig. 8.2 Building trust among various stakeholder groups after an acquisition in Russia

customer companies after the acquisition. Although acquisitions have been found to cause concerns in suppliers and customers of the acquired firms, in this case the involvement of a foreign acquirer increased the machinery suppliers' confidence in Beta. When Alpha, with its good reputation, backed Beta's machinery purchases, it largely removed the concerns of foreign machinery suppliers about Beta's ability to pay for its purchases, even during the economic crisis in Russia. Alpha's influence on Beta's other supplier relations was demonstrated in the introduction of more formal contracts with a long-term orientation and desire to build partnership-type relationships with key suppliers. The trustworthiness towards customer companies was improved by a modern, more reliable, and convenient distribution system and key account management activities. In addition, continuing to have local staff managing supplier and customer relationships after the acquisition contributed to building and maintaining trust with supply chain members. Good relationships with both suppliers and customers have been an important factor for the operations of the whole supply chain.

In addition to relationships within the acquired company and with its direct business partners, there are also other stakeholders to be con-

sidered in acquisitions. Hence, the outer circle in Fig. 8.2 illustrates the relationships with the general public and authorities. Policy makers and local officials play an important role in Russian business networks, and winning their trust is important for legitimating the actions of a foreign investor. In the case study, the importance of good relationships with the local authorities was also emphasized. These relationships were built by inviting the city mayors to opening ceremonies of each new production line, and by actively participating in the city council's social programs during economic recessions. The trust of the general public and consumers has also been recognized as an important factor for the case companies. The acquirer Alpha has made significant improvements to Beta's production technology to offer consumers a wide range of consistently high quality products. In order to maintain consumers' trust in its products, Beta pays careful attention to how occasional consumer complaints are dealt with. Indeed, with its local brand name, the company has managed to build a strong and reliable brand image and reputation among the Russian public. This has undoubtedly contributed to the company's success in the local market.

Discussion and Conclusions

Until recently, trust had not been given much attention in the research on M&As (Graebner 2009; Stahl and Sitkin 2010; Stahl et al. 2013), although it has been argued (e.g. Stahl 2004) that trust between the merging organizations' members is an important factor for the acquisition outcome. Furthermore, research following the industrial network approach has shown that M&As do not only affect the merging parties but also their external relationships, and the way those relationships are affected may have a significant influence on value creation (e.g. Anderson et al. 2001; Bocconcelli et al. 2006; Degbey and Pelto 2013). Thus, *it is argued in this chapter that in the context of M&As, studying trust should not be limited to the merging organizations, but it should also be studied in connection with other stakeholders*. Furthermore, it is suggested here that *studying trust in M&As should not be limited to the post-acquisition integration phase*. Indeed, the illustrative case study shows that trust—or

the lack of it—at the pre-acquisition phase may have a decisive effect on the outcome of an acquisition, especially in the Russian context, where suspicion is common at the beginning of business relationships (Jansson et al. 2007).

Hence, it is argued here that the *country context should be taken more into account in studies concerning the factors affecting M&A outcomes*. This study has emphasized the importance of cultural adaptation for building trust in cross-border acquisitions. Indeed, in prior studies, the development of trust has been found to differ between various national cultural contexts (e.g. Doney et al. 1998; Stahl et al. 2012). The illustrative case study in the context of Russia supports the earlier notions (e.g. Michailova and Worm 2003; Puffer et al. 2010; Mattsson and Salmi 2013) about *the importance of personal relationships in trust building in the Russian business environment*. Thus, based on the case study presented here, the members of the foreign acquirer should be ready to invest their (leisure) time to build friendships with the members of the target firm in order to win their trust (see also Weck and Ivanova 2013).

The findings of the case study also suggest that *cultural adaptation in the post-acquisition phase* is important for trust development, at least in the Russian context. The acquirer should not try to make the target firm adapt to its leadership style and corporate culture but rather vice versa. Furthermore, the target firm's feeling of autonomy seems to have contributed to the trustful relationships between the merging parties. Hence, the case study suggests that in order to build trust and, consequently, create value in cross-border acquisitions, fast integration may not be the best strategy. Indeed, the case study supports the suggestions of Kale et al. (2009) that *allowing acquisitions to retain autonomy and their top management teams* facilitates better acquisition outcomes. In other words, partnering (see Kale et al. 2009) with the acquired firm rather than integrating it seemed to work effectively in the acquisition case presented here.

As suggested by previous research (e.g. Seppänen et al. 2007; Ellonen et al. 2008) and also in this case, *trust between the merging parties seems to have led to open communication*, *information sharing*, *knowledge transfer, and even innovation.* The successful knowledge transfer from the acquirer to the target firm about production technology as well as sales and marketing practices, combined with the target's knowledge of local market

characteristics and consumer preferences, seems to be the key for the acquisition's success. As value creation in acquisitions ultimately results from increases in expected cash flow (Seth 1990a), *in the end*, *the success of an acquisition is determined by the market*. Therefore, relationships with the members of the whole supply chain are of the utmost importance. Even if acquisitions are said to cause concern among suppliers and customers of the target firm (e.g. Anderson et al. 2001; Bocconcelli et al. 2006), in the empirical case study the acquisition seems to have contributed positively to the reliability of the target firm in the eyes of its network partners, and consequently led to closer and longer-term relationships with key partners.

The case illustration presented in this chapter has also recognized *the importance of other stakeholders for the acquisition outcome in the Russian context*. Indeed, it has been noted earlier (e.g. Puffer and McCarthy 2001; Heikkilä 2011) that local officials and policy makers are influential actors in Russian business networks. Hence, the firms in the empirical case study actively built a good reputation as a trustworthy and responsible actor in the eyes of local officials and the public, for instance by taking part in various social programs of the city.

To sum up, the empirical case illustration of a successful cross-border acquisition by a Finnish company in Russia *emphasized the role of trust in both pre- and post-merger phases*, *and in connection to both internal and external stakeholders*. However, the study has its limitations, as it is based on a single case in a particular industry, which represents a rather unique acquisition in the context of Russia's transitional economy. Hence, the findings of the case illustration cannot be generalized directly to other contexts. Furthermore, the importance of trust in the case study came up inductively during the research interviews, and it was not the original focus of the data collection. Consequently, the discussion of trust in the case analysis was on a rather general level. Thus, deeper insights and more detailed descriptions of the role of trust at various organizational levels and at different acquisition phases could be achieved by studies focusing solely on the issues of trust in M&As. Nevertheless, the case findings of this study support the notion of the importance of trust in cross-border acquisitions, and the study offers some insight into the development of trust in the Russian M&A context.

As more and more M&As are taking place outside the developed markets, there is an increasing need for more M&A research in the emerging markets context. In addition, further research is also needed to enhance our understanding of the influence of trust on value creation in acquisitions. In future studies, the role of trust in M&As should be studied in different country contexts, at different acquisition phases, and not only between the acquirer and target firms but also between the various actors that are affected by the acquisition.

References

Anderson, H., Havila, V., & Salmi, A. (2001). Can you buy a business relationship? On the importance of customer and supplier relationships in acquisitions. *Industrial Marketing Management, 30*(7), 575–586.

Angwin, D., & Savill, B. (1997). Strategic perspectives on European cross-border acquisitions: A view from top European executives. *European Management Journal, 15*(4), 423–435.

Auvinen, T., Aaltio, I., & Blomqvist, K. (2013). Constructing leadership by storytelling: The meaning of trust and narratives. *Leadership and Organization Development Journal, 34*(6), 496–514.

Ayios, A. (2004). *Trust and Western-Russian business relationships*. Aldershot: Ashgate.

Barkema, H. G., & Schijven, M. (2008). How do firms learn to make acquisitions? A review of past research and an agenda for the future. *Journal of Management, 34*(3), 594–634.

Barkema, H. G., Bell, J., & Pennings, J. M. (1996). Foreign entry, cultural barriers and learning. *Strategic Management Journal, 17*(2), 151–177.

Barney, J.B. and Hansen, M.H. (1994, Winter). Trustworthiness as a source of competitive advantage. *Strategic Management Journal, 15*(Special Issue): 175–190.

Bauer, F., & Matzler, K. (2014). Antecedents of M&A success: The role of strategic complementarity, cultural fit and degree and speed of integration. *Strategic Management Journal, 35*(2), 269–291.

Bertrand, O., & Betschinger, M.-A. (2012). Performance of domestic and cross-border acquisitions: Empirical evidence from Russian acquirers. *Journal of Comparative Economics, 40*(3), 413–437.

Birkinshaw, J., Bresman, H., & Håkanson, L. (2000). Managing the post-acquisition integration process: How the human integration and task integration processes interact to foster value creation. *Journal of Management Studies, 37*(3), 395–425.
Björkman, I., Stahl, G. K., & Vaara, E. (2007). Cultural differences and capability transfer in cross-border acquisitions: The mediating roles of capability complementarity, absorptive capacity, and social integration. *Journal of International Business Studies, 38*(4), 658–672.
Blazejewski, S. (2011). When truth is the daughter of time: Longitudinal case studies in international business research. In R. Piekkari & C. Welch (Eds.), *Rethinking the case study in international business and management research* (pp. 251–276). Cheltenham: Edward Elgar.
Blomqvist, K. (1997). The many faces of trust. *Scandinavian Journal of Management, 13*(3), 271–286.
Bocconcelli, R., Snehota, I., & Tunisini, A. (2006). Network relationships and corporate acquisitions outcomes. *The IMP Journal, 1*(2), 3–19.
Bower, J. L. (2001). Not all M&As are alike—and that matters. *Harvard Business Review, 79*(3), 92–102.
Butler, B., & Purchase, S. (2008). Use of social capital among Russian managers of a new generation. *Industrial Marketing Management, 37*, 531–538.
Cartwright, S., & Schoenberg, R. (2006). Thirty years of mergers and acquisitions research: Recent advances and future opportunities. *British Journal of Management, 17*(S1), S1–S5.
Chakrabarti, R., Gupta-Mukherjee, S., & Jayaraman, N. (2009). Mars-Venus marriages: Culture and cross-border M&A. *Journal of International Business Studies, 40*(2), 216–236.
Colman, H. L., & Lunnan, R. (2011). Organizational identification and serendipitous value creation in post-acquisition integration. *Journal of Management, 37*(3), 839–860.
Currall, S. C., & Inkpen, A. C. (2002). A multilevel approach to trust in joint ventures. *Journal of International Business Studies, 33*(3), 479–495.
Das, T. K., & Teng, B.-S. (1998). Between trust and control: Developing confidence in partner cooperation in alliances. *Academy of Management Review, 23*(3), 491–512.
Dauber, D. (2012). Opposing positions in M&A research: Culture, integration and performance. *Cross-Cultural Management: An International Journal, 19*(3), 375–398.

Degbey, W. (2015). Customer retention: A source of value for serial acquirers. *Industrial Marketing Management, 46*, 11–23.

Degbey, W., & Pelto, E. (2013). Cross-border M&A as a trigger for network change in the Russian bakery industry. *Journal of Business and Industrial Marketing, 28*(3), 178–189.

Degbey, W., & Pelto, E. (2015). Uncovering different forms of customer network changes in M&As. *Management Research Review, 38*(11), 1191–1212.

Dirks, K. T., & Ferrin, D. L. (2001). The role of trust in organizational settings. *Organization Science, 12*(4), 450–467.

Doney, P. M., & Cannon, J. P. (1997). An examination of the nature of trust in buyer-seller relationships. *Journal of Marketing, 61*(2), 35–51.

Doney, P. M., Cannon, J. P., & Mullen, M. R. (1998). Understanding the influence of national culture on the development of trust. *Academy of Management Review, 23*(3), 601–620.

Doz, Y. L. (1996). The evolution of cooperation in strategic alliances: Initial conditions or learning processes? *Strategic Management Journal, 17*(Summer), 55–84.

Easton, G. (1998). Case research as a methodology for industrial networks: A realist apologia. In P. Naudé & P. Turnbull (Eds.), *Network dynamics in international marketing* (pp. 73–87). The Netherlands: Pergamon Press.

Easton, G. (2010). Critical realism in case study research. *Industrial Marketing Management, 39*(1), 118–128.

Ellonen, R., Blomqvist, K., & Puumalainen, K. (2008). The role of trust in organizational innovativeness. *European Journal of Innovation Management, 11*(2), 160–181.

Fadol, Y. Y., & Sandhu, M. A. (2013). The role of trust on the performance of strategic alliances in a cross-cultural context: A study of the UAE. *Benchmarking: An International Journal, 20*(1), 106–128.

Galford, R., & Drapeau, A. S. (2003). The enemies of trust. *Harvard Business Review, 81*(2), 88–95.

Goltsblat. (2010). *A new dawn in dealmaking: A report on Russian M&A activity*. Goltsblat BLP. www.mergermarket.com

Gomes, E., Angwin, D. N., Weber, Y., & Tarba, S. Y. (2013). Critical success factors through the ergers and acquisitions process: Revealing pre- and post-M&A connections for improved performance. *Thunderbird International Business Review, 55*(1), 13–35.

Graebner, M. E. (2009). Caveat venditor: Trust asymmetries in acquisitions of entrepreneurial firms. *Academy of Management Journal, 52*(3), 435–472.

Haig, B. D. (2005). An abductive theory of scientific method. *Psychological Methods, 10*(4), 371–388.

Halinen, A., & Törnroos, J.-Å. (1995). The meaning of time in the study of industrial buyer-seller relationships. In K. Möller & D. Wilson (Eds.), *Business marketing: An interaction and network perspective* (pp. 493–529). Boston: Kluwer Academic Publishers.

Halinen, A., Salmi, A., & Havila, V. (1999). From dyad to changing business networks: An analytical framework. *Journal of Management Studies, 36*(6), 779–794.

Haspeslagh, P. C., & Jemison, D. B. (1991). *Managing acquisitions: Creating value through corporate renewal*. New York: The Free Press.

Havila, V., & Salmi, A. (2000). Spread of change in business networks: An empirical study of mergers and acquisitions in the graphic industry. *Journal of Strategic Marketing, 8*(2), 105–119.

Heikkilä, K. (2011). A business-network view on managing MNC relationships with state actors: Russian public officials in Finnish MNC business networks, *Series A*-10/2011, Turku School of Economics, Turku.

Hofstede, G. (1980). *Culture's consequences: International differences in work related values*. Beverly Hills: Sage.

Hosmer, L. T. (1995). Trust: The connecting link between organizational theory and philosophical ethics. *Academy of Management Review, 20*(2), 379–403.

Hurley, R. F. (2006). The decision to trust. *Harvard Business Review, 86*(9), 55–62.

Jansson, H., Johanson, M., & Ramström, J. (2007). Institutions and business networks: A comparative analysis of the Chinese, Russian and West European markets. *Industrial Marketing Management, 36*(7), 955–967.

Johanson, M. (2008). Institutions, exchange and trust: A atudy of the Russian transition to market economy. *Journal of International Management, 14*(1), 46–64.

Johanson, M., Polsa, P. and Törnroos, J.-Å. (1998). *Business networks in different cultural contexts: Western–Russian–Chinese*. EMAC conference proceedings, Berlin, 1998.

Kale, P., Singh, H., & Raman, A. P. (2009). Don't integrate your acquisitions, partner with them. *Harvard Business Review, 87*(12), 109–115.

Kato, J., & Schoenberg, R. (2014). The impact of post-merger integration on the customer–supplier relationship. *Industrial Marketing Management, 43*(2), 335–345.

King, D. R., Dalton, D. R., Daily, C. M., & Covin, J. G. (2004). Meta-analysis of post-acquisition performance: Indications of unidentified moderators. *Strategic Management Journal, 25*(2), 187–200.

Krug, J. A., & Nigh, D. (2001). Executive perceptions in foreign and domestic acquisitions. *Journal of World Business, 36*(1), 85–105.

Lees, S. (2003). *Global acquisitions: Strategic integration and the human factor*. Basingstoke: Palgrave Macmillan.

Mattsson, L.-G., & Salmi, A. (2013). The changing role of personal networks during Russian transformation: Challenges for Russian management. *Journal of Business and Industrial Marketing, 28*(3), 190–200.

Maurer, I. (2010). How to build trust in inter-organizational projects: The impact of project staffing and project rewards on the formation of trust, knowledge acquisition and project innovation. *International Journal of Project Management, 28*(7), 629–637.

Michailova, S. (2011). Contextualizing in international business research: Why do we need more of it and how can we be better at it? *Scandinavian Journal of Management, 27*(1), 129–139.

Michailova, S., & Worm, V. (2003). Personal networking in Russia and China: Blat and Guanxi. *European Management Journal, 21*(4), 509–519.

Miles, M. B., & Huberman, A. M. (1994). *Qualitative data analysis*. Thousand Oaks: Sage.

Morgan, R. M., & Hunt, S. D. (1994). The commitment-trust theory of relationship marketing. *Journal of Marketing, 58*(3), 20–38.

Morosini, P., Shane, S., & Singh, H. (1998). National cultural distance and cross-border acquisition performance. *Journal of International Business Studies, 29*(1), 137–158.

Öberg, C. (2013). Network imitation to deal with sociocultural dilemmas in acquisitions of young, innovative firms. *Thunderbird International Business Review, 55*(4), 387–403.

Öberg, C., Henneberg, S. C., & Mouzas, S. (2007). Changing network pictures: Evidence from mergers and acquisitions. *Industrial Marketing Management, 36*(7), 926–940.

Oleinik, A. (2005). A distrustful economy: An inquiry into foundations of the Russian market. *Journal of Economic Issues, 34*(1), 53–74.

Olie, R. (1990). Culture and integration problems in international mergers and acquisitions. *European Management Journal, 8*(2), 206–215.

Parmar, B. L., Freeman, R. E., Harrison, J. S., Wicks, A. C., Purnell, L., & De Colle, S. (2010). Stakeholder theory: The state of the art. *Academy of Management Annals, 4*(1), 403–445.

Poulis, K., Poulis, E., & Plakoyiannaki, E. (2013). The role of context in case study selection: An international business perspective. *International Business Review, 22*(1), 304–314.

Puffer, S. M., & McCarthy, D. J. (2001). Navigating the hostile maze: A framework for Russian entrepreneurship. *Academy of Management Executive, 15*(4), 24–36.

Puffer, S. M., McCarthy, D. J., & Boisot, M. (2010). Entrepreneurship in Russia and China: The impact of formal institutional voids. *Entrepreneurship: Theory and Practice, 34*(3), 441–467.

Radygin, A. (2010). The Russian mergers and acquisitions market: Stages, features, and prospects. *Problems of Economic Transition, 52*(10), 65–95.

Rehn, A., & Taalas, S. (2004). Znakomstva i Svyazi (Acquaintances and connections)—Blat, the Soviet Union, and mundane entrepreneurship. *Entrepreneurship and Regional Development, 16*(3), 235–250.

Rezende, S. F. L., & Duarte, R. G. (2004). Post-acquisition changes beyond the dyad: Power at the net level in cross-border acquisitions. *Brazilian Administration Review, 1*(1), 67–80.

Rousseau, D. M., Sitkin, S. B., Burt, R. S., & Camerer, C. (1998). Not so different after all: A cross-discipline view of trust. *Academy of Management Review, 23*(3), 393–404.

Salmi, A. (2000). Entry into turbulent business networks: The case of a Western company on the Estonian market. *European Journal of Marketing, 34*(11/12), 1374–1390.

Salmi, A., & Bäckman, J. (1999). Personal relations in Russian business: Two circles. In R. Kosonen & A. Salmi (Eds.), *Institutions and post-socialist transition* (pp. 139–168) (HeSE Print). Helsinki: Helsinki School of Economics and Business Administration, B-22.

Schraeder, M., & Self, D. R. (2003). Enhancing the success of mergers and acquisitions: An organizational culture perspective. *Management Decision, 41*(5), 511–522.

Seppänen, R., Blomqvist, K., & Sundqvist, S. (2007). Measuring interorganizational trust: A critical review of the empirical research in 1990–2003. *Industrial Marketing Management, 36*(2), 249–265.

Seth, A. (1990a). Sources of value creation in acquisitions: An empirical investigation. *Strategic Management Journal, 11*(6), 431–446.

Seth, A. (1990b). Value creation in acquisitions: A re-examination of performance issues. *Strategic Management Journal, 11*(2), 99–115.

Shockley-Zalabak, P., Ellis, K., & Winograd, G. (2000). Organizational trust: What it is, why it matters. *Organization Development Journal, 18*(4), 35–48.

Schoenberg, R. (2006). Measuring the performance of corporate acquisitions: An empirical comparison of alternative metrics. *British Journal of Management, 17*(4), 361–370.

Siggelkow, N. (2007). Persuasion with case studies. *Academy of Management Journal, 50*(1), 20–24.

Stahl, G. K. (2004). The leadership challenge of mergers and acquisitions. *Leadership in Action, 24*(5), 3–6.

Stahl, G. K., & Sitkin, S. B. (2010). Trust dynamics in acquisitions: The role of relationship history: Interfirm distance, and acquirer's integration approach. *Advances in Mergers and Acquisitions, 9*, 51–82.

Stahl, G. K., & Voigt, A. (2005). Impact of cultural differences on mergers and acquisition performance: A critical research review and an integrative model. *Advances in Mergers and Acquisitions, 4*, 51–82.

Stahl, G. K., & Voigt, A. (2008). Do cultural differences matter in mergers and acquisitions? A tentative model and examination. *Organization Science, 19*(1), 160–176.

Stahl, G. K., Chua, C. H., & Pablo, A. L. (2006). Antecedents of target firm members' trust in the acquiring firm's management: A decision-making simulation. *Advances in Mergers and Acquisitions, 5*, 69–89.

Stahl, G. K., Chua, C. H., & Pablo, A. L. (2012). Does national context affect target firm employees' trust in acquisition? A policy-capturing study. *Management International Review, 52*(3), 395–423.

Stahl, G. K., Angwin, D. N., Very, P., Gomes, E., Weber, Y., Tarba, S. Y., et al. (2013). Sociocultural integration in mergers and acquisitions: Unresolved paradoxes and directions for future research. *Thunderbird International Business Review, 55*(4), 333–356.

Törnroos, J.-Å., & Möller, K. E. (1993). The cultural factor and the formation of international business relationship in industrial markets. *Advances in International Marketing: Industrial Networks, 5*, 107–121.

Tretyak, O. (2013). Inter-firm relationships in Russia: Responding to new challenges. *Journal of Business and Industrial Marketing, 28*(3), 163–166.

Turcan, R. V., Marinova, S. T., & Rana, M. B. (2012). Empirical studies on legitimation strategies: A case for international business research extension. *Advances in International Management, 25*, 425–470.

Tyler, T. R. (2003). Trust within organizations. *Personnel Review, 32*(5), 556–568.

UNCTAD (2007). *World Investment Prospects Survey 2007–2009*. New York: United Nations.

UNCTAD (2010). *World Investment Report 2010: Investing in a low-carbon economy*. New York: United Nations.

UNCTAD (2014). *World Investment Report 2014: Investing in the SDGs: An action plan*. New York: United Nations.

Vermeulen, F., & Barkema, H. (2001). Learning through acquisitions. *Academy of Management Journal, 44*(3), 457–476.

Weck, M., & Ivanova, M. (2013). The importance of cultural adaptation for the trust development within business relationships. *Journal of Business and Industrial Marketing, 28*(3), 210–220.

Welch, C., Piekkari, R., Plakoyiannaki, E., & Paavilainen-Mäntymäki, E. (2011). Theorising from case studies: Towards a pluralist future for international business research. *Journal of International Business Studies, 42*(5), 740–762.

Welter, F., Kautonen, T., Chepurenko, A., Malieva, E., & Venesaar, U. (2004). Trust environments and entrepreneurial behaviour: Exploratory evidence from Estonia, Germany and Russia. *Journal of Enterprising Culture, 12*(4), 327–349.

Yin, R. K. (2003). *Case study research* (3 ed.). Thousands Oak: Sage.

Zaheer, A., McEvily, B., & Perrone, V. (1998). Does trust matter? Exploring the effects of interorganizational and interpersonal trust on performance. *Organization Science, 9*(2), 141–159.

9

Antecedents of Cross-Border Acquisition Performance: Implementation Issues

Daojuan Wang, Hamid Moini, and John Kuada

Introduction

Numerous waves of mergers and acquisitions (M&As) have led to substantial industrial restructuring in different parts of the world (DePamphilis 2012:18). Since the beginning of the 1990s, an increasing share of M&As has taken the form of cross-border acquisitions (CBAs) (Bertrand and Betschinger 2012). Paralleling with their popularity and practical importance, in both monetary and strategic terms, however, a majority of research findings show that the performance of

D. Wang (✉) • J. Kuada
Department of Business and Management, Aalborg University, Fibigerstraede 4, 9220—Aalborg East, Aalborg, Denmark
e-mail: daw@business.aau.dk

H. Moini
University of Wisconsin-Whitewater, 34 Siskiwit Circle, Madison, WI 53719, USA

© The Editor(s) (If applicable) and the Author(s) 2017
S. Marinova et al. (eds.), *Value Creation in International Business*,
DOI 10.1007/978-3-319-30803-6_9

M&A deals has not significantly improved over these decades (King et al. 2004; Martynova and Renneboog 2008). Other studies (Larimo and Pynnönen 2008; Kallunki et al. 2001), on the other hand, have concluded that, on average, foreign direct investment has significant value creating effects for investing firm shareholders. The researchers continue to be bewildered by the unpredictable nature of M&As, concluding their studies with: "a huge portion of variance remains unexplained" (Stahl and Voight 2004). According to Meglio and Risberg (2010), "one has not learnt very much about how the M&A process unfolds over time, how to measure M&A performance, and what makes an acquisition succeed." Based on their experience with 70 M&As, Marks and Mirvis (2001) argue that the process through which the deal is conceived and executed is at the core of many failed combinations. Hence, an important question is not simply what to acquire, but also how to acquire. In order to develop a deeper understanding of the consequences of acquisitions, greater attention must be paid to the process that acquirers use to seize value from acquisitions (Haspeslagh and Jemison 1991; Haleblian et al. 2009).

Therefore, this study takes a process perspective and focus on the main acquisition implementation actions with the purpose specifically of investigating how the international acquirers from the Nordic countries implement CBAs and how these critical implementation activities during the acquisition process—which are planning, due diligence, premium/overpayment, integration extent, coordination, temporal lag, retention of key employees, and acquisition experience—impact on the final CBA performance. Taken individually, these implementation variables have been mentioned and discussed in the previous literature, but with mixed findings for most of them. Besides, there are few studies that put them together and examine their relative importance and joint effect on the success of CBA.

According to the literature, the existing research on acquisitions are largely confined to the USA, the UK, and large continental European countries (Martynova and Renneboog 2011), while M&As from small but advanced countries that are located in the Nordic region have been rarely researched. Furthermore, CBAs largely remain under-explored compared to domestic acquisitions (Bertrand and Betschinger 2012).

Literature Review

Planning

An acquisition process starts with pre-merger planning. A number of scholars (e.g. Ansoff et al. 1970; Datta 1991; Epstein 2005) suggest that systematic planning can significantly improve the probabilities of acquisition success. Shrallow (1985) prescribes a detailed plan to provide guidance and direction for the post-closing operations. Pre-combination preparations towards strategic and psychological issues are thoroughly discussed by Marks and Mirvis (2001), and they emphasize the importance of planning using the examples of some active acquirers' practice. Critchlow et al. (2001) also points out that inadequate integration planning and execution is one of the five root causes of M&A failure.

Some researchers are doubtful of the existence of a positive relationship between planning and acquisition performance because of *ex ante* incomplete information. Haspeslagh and Farquhar (1994:417), for example, claim that "a planning/implementation focus takes no account of incomplete information available in the pre-acquisition planning period, nor does it address the fact that post-acquisition management itself influences outcomes, ignoring thereby the issue of organizational capacity for learning and adaptation over time." However, a recent empirical study by Colombo et al. (2007) reports that merger planning has a positive impact on both organizational and operational integration, thus confirming that a plan can be helpful at least in defining the problem. Other empirical research shows that strategic planning has a stronger impact on performance in turbulent environments (Grant 2003). It is thus reasonable to assume that strategic planning should be considered in the CBA process. Therefore, we propose the following hypothesis:

Hypothesis 1
The greater the acquirer's planning efforts, the higher the performance of cross-border acquisitions.

Due Diligence

Due diligence is a process through which a potential acquirer evaluates a target firm for acquisition: "successful acquirers know what they are looking

for and conducting a thorough due diligence to ensure that they get what they want" (Marks and Mirvis 2001). The acquirers need to devote efforts to due diligence in order to ensure that there are no disruptive surprises in the integration process, and ensure that the potential deal can succeed in implementing the proposed strategic vision.

Hunt (1990) reports that very successful acquirers are able to gather extensive data on the seller, not just financial data but market intelligence about the seller's strengths and weaknesses. Inadequate target evaluation can be a factor of low performance (Hitt et al. 1998). Due diligence is also described as one of the six determinants of a successful merger by Epstein (2005). However, in 2002, Bain & company surveyed 250 international executives with M&A responsibilities, half of whom said their due diligence process had failed to uncover major problems, and half found that their targets had been dressed up to look better for the deals (Sudarsanam 2010). In light of the above discussion, we posit the following hypothesis:

Hypothesis 2
Due diligence is positively associated with the performance of cross-border acquisition.

Premium/Overpayment

Acquisition premium and goodwill are often-mentioned variables that are associated with high prices paid for a target company. According to Hayward and Hambrick (1997:103), acquisition premium is defined as "the ratio of the ultimate price paid per target share divided by the price prior to takeover news."

Generally, compared to other internal growth investment, the distinctive characteristic of acquisition investment is that the acquirers usually pay a premium over the target's current market value. Managers often justify the payment of premiums based on the potential synergies from the combination of the two firms. However, price matters when large premiums are paid to the acquired firms, and creating the needed synergy becomes more challenging as the costs of making the acquisition hardly

cover the higher returns required (Krishnan et al. 2007). Some empirical studies reveal that the main reasons of high premium/overpayment are overvaluation (Critchlow 2001), over-confidence (Hayward and Hambrick 1997), or managerial entrenchment (Ismail 2011). Following the above arguments, we make the following hypothesis:

Hypothesis 3
Premium/overpayment is negatively associated with the performance of cross-border acquisitions.

Coordination

Post-acquisition integration can be viewed as the amalgamation of resources and capabilities rooted in two distinct workforces (Reus and Lamont 2009). In general, it is described as the most important and difficult stage of acquisition management (Haspeslagh and Jemison 1991). According to Olie (1990) international mergers and acquisitions frequently fail in the integration phase, with cultural differences a major contributory factor. Cultural differences can be a source of value creation and learning, but they also tend to bring about stress, anxiety, and conflict, resulting in employees' "merger syndrome" (Marks and Mirvis 1985), which is a fusion of uncertainty and the likelihood of change, both favorable and unfavorable, that produces stress and ultimately affects perceptions and judgments, interpersonal relationships, and the dynamics of the combination itself. Great coordination efforts from the acquirer, such as communication, multiculturalism, and transition teams, can help mollify the effects of "cultural difference" and "merger syndrome," and realize successful integration and cooperation (Colombo et al. 2007; Stahl et al. 2011), especially in the international environment where there are greater sources of diversity, volatility, and obstacles which are not only firm specific (or industry specific), but also unique to the cross-national situation.

Many authors have highlighted the role of communication through rich media during acquisition integration and its effect on acquisition. The positive use of communication can reduce employees' anxiety and

uncertainty (Colombo et al. 2007), significantly influence the adoption of a new culture and the change process itself (Appelbaum et al. 2000), and allow for greater cross-cultural learning, the development of trust and commitment in the newly combined firm, and hence enhance the synergetic benefits and acquisition performance (Reus and Lamont 2009).

Multiculturalism embodies another aspect of the acquirer's coordination efforts. This refers to "the degree to which an organization values cultural diversity and is willing to tolerate and encourage it" (Nahavandi and Malekzadeh 1988:83). And they suggest that cultural differences will be less of a problem when the buying firm is multicultural. A uni-cultural acquirer usually emphasizes conformity and adherence to a unique organizational ideology and is therefore likely to impose its culture on the target firm. Such cultural insensitivity or even arrogance can trigger feelings of resentment, anger, and hostility among target firm members (Jemison and Sitkin 1986), resulting in perceived value incongruence and in attitudes polarized toward distrust (Stahl et al. 2011), which thus affects the ability to create a coherent organizational identity for the merged firms (Weber and Drori 2011).

Obtaining the involvement of the target managers in the integration process also reflects the acquirer's coordination effort. The involvement of the management team should be able to mediate between the two organizations and to create a sort of "transformational leadership" (Colombo et al. 2007). The above discussion leads to the following hypothesis:

Hypothesis 4
The acquirer's coordination efforts reflected in these three aspects (that is, rich communication, multiculturalism, and involvement of the target managers) are positively related to the performance of cross-border acquisitions.

Temporal Lag

Temporal lag refers to the time span between the deal closing time and the start of the integration process, which has rarely been explored. A longer temporal delay may be reasonable in some acquisitions because they

aim to create the right atmosphere (Moeller and Schlingemann 2005). However, a rapid start to integration can help reduce the stress, uncertainties, and conflicts among the employees, given that the two organizations have high expectations immediately after closing the deal. If the integration is problematic, managers should exploit the negotiation phase as much as possible to increase the knowledge base and to plan the integration activities. Every delay could be considered as evidence of a lack of a clear integration design (Colombo et al. 2007). Therefore, an early start to integration can be a reflection of the acquirer's efficiency and sufficient preparation beforehand, which also enables them to reap the potential synergies and benefits earlier. Hence, we make the following assumption:

Hypothesis 5
Temporal lag is negatively related to the performance of cross-border acquisitions.

Integration Extent

The integration extent, or the level of integration, is defined by Pablo (1994:806) as "changes in the functional activity arrangements, organizational structures and systems, and cultures of combining organizations to facilitate their consolidation into a functioning whole." A critical factor for acquisition success is generally acknowledged to be the post-acquisition integration process (Haspeslagh and Jemison 1991:105), and they argue that, "not until the two firms come together and begin to work toward the acquisition's purpose can value be created."

Although a high level of integration is challenging, it may disrupt the pre-existing resources and routines in both firms (Marks and Mirvis 1985), create conflicts between the top managers (Weber 1996), and require time and managerial attention to be dedicated to the implementation. Without any integration, resource redeployment and exploitation as well as the elimination of redundant resources are not feasible (Cording et al. 2008). Economies of scale/scope, coordination, and knowledge transfer cannot be realized. Resource dependence and organizational learning

offer theoretical justification for this premise—to capture the benefits of a resource one must control that resource (Saxton and Dollinger 2004). In the language of the synergy literature, the performance of M&As depends not only on the synergy potential identified before and during the M&A process but also on whether the synergy can actually be realized in the post-merger stage. In order to take advantage of unique synergistic effects, an acquirer must exercise some control over the target firm's operations (Chatterjee 1992). Hence, we propose the following hypothesis:

Hypothesis 6
The greater the integration extent, the higher the performance of cross-border acquisitions.

Retention of Key Employees

"Key employees' retention refers to the extent to which the acquirer, during the integration process, retains organization members from the acquired unit who are crucial to potential resource advantages" (Reus and Lamont 2009:1301). Most studies focus and emphasize the importance of retaining a top management team, arguing that their retention can help secure post-acquisition stability and that successful acquisition integration (Jemison and Sitkin 1986) has a significant positive effect on acquisition performance (Saxton and Dollinger 2004). Their turnover can be detrimental because valuable human and social resources are lost (Zollo and Singh 2004). However, "important employees can be elsewhere in the organization—those who possess critical individual expertise and skills or those with valuable team- or group-based capabilities, that are critical for determining the overall success of the acquisition" (Ranft and Lord 2000:297). Therefore, in this study we empirically investigate the role of "retention of key employees" in determining the result of CBAs. We expect "retention of key employee" will contribute to the success of CBAs and suggest the following hypothesis:

Hypothesis 7
Retention of key employees is positively related to performance of cross-border acquisitions.

Acquisition Experience

Marks and Mirvis (2010) identified three types of approaches to gain acquisition experience and knowledge that the acquirers can use. These are: (1) periodic learning events; (2) a focus on refining combination methods and processes; and (3) a "stepping stone" approach by first making small acquisitions and moving up to larger ones. The acquirer's acquisition experience can help identify promising targets, and avoid the problematic ones, picking up the valuable information during due diligence, making sufficient preparation for negotiation, conducing efficient post-acquisition integration, and becoming more capable in solving administrative problems (Dikova and Rao 2013). Drawing on their own "example" acquisition cases or the experience/knowledge learned from other companies, the experienced acquirers also have the capacity to overcome the challenges of overloading information, strict time constraints, and the need to recognize the long-term strategic implications of potential acquisitions (McDonald et al. 2008). However, there are mixed findings about the effect of acquisition experience on the performance of acquisitions, ranging from no relationship (Ravenscraft and Scherer 1987), to a positive one (Barkema et al. 1996), to an insignificant one (Zollo and Singh 2004), to a U-shaped one (Haleblian and Finkelstein 1999), to an inverted U-shaped one (Hayward 2002), to a negative one (Uhlenbruck et al. 2006).

Usually, acquisition experience is measured indirectly by using the number of M&A deals, which were made several years before this focal acquisition. Nevertheless, it is not thought to be a good proxy. Whether historical M&As can become the acquirer's experience depends on their attitude towards these deals and if there is a learning process. Therefore, in this study, we measure the acquisition experience by using a four-item composition, in which three items are used to assess directly the acquisition experience related to due diligence, integration, and the acquisition process, and one item is used to measure acquisition experience indirectly by using the number of acquisitions the acquirers have completed during the five years prior to this focal acquisition. We expect such measured experience to help the acquirers achieve better acquisition performance, especially in the cross-border environment, therefore we propose:

Hypothesis 8
The more acquisition experience the acquirers have, the higher the performance of cross-border acquisitions they can achieve.

Methodology

Survey Instrument

The research reported in this study was carried out through an online survey of 802 Nordic international acquirers. Each company in the sample was sent an email, identifying a Danish university as the sponsor, requesting their participation in the study.

Baker and Mukherjee (2007) reported that "investment decisions and practices" are the top finance issues that would benefit the most from survey-based research. The survey method's strengths are: (1) it can produce data unavailable from other sources, and therefore complement the other approaches and yield additional insights; (2) survey responses can suggest new avenues for future research; (3) direct responses from decision makers add value; and (4) sometimes there is no other way to answer a research question. Most large-sample research concerning acquisitions focuses on publicly traded larger firms and acquisitions, typically relying on publicly available financial and structural data (Anand et al. 2005). To a large degree, archival-based methodologies are a consequence of data availability (Haleblian et al. 2009). This research hence lacks the fine-grained information related to acquisition implementation, and privately owned acquirers have been under-investigated, such as most Nordic firms (89 % of international acquirers in Nordic countries are privately owned firms). Therefore, we survey top managers to overcome such limitations and collect extensive information related to acquisition behavior. Moreover, the perceptual nature of most variables investigated in this study (such as retention of key employees, pre- and post- acquisition performance) do not lend themselves to a study using secondary (archival) data. Survey data collection is therefore most appropriate.

Sample and Data Collection

This study is based on CBAs completed by Nordic firms in the period from January 2005 to December 2010. We selected the acquisitions that occurred in this period because the construction of our performance measures requires financial data three years after the deal completion. Several researchers have suggested that three years is a sufficient amount of time for changes to be observed in acquisition performance (Lubatkin et al. 2001). Shorter time frames, even two years, may not be long enough to capture how acquisitions contribute to an acquiring firm's performance (Saxton and Dollinger 2004; Cording et al. 2008). In addition, our sample doesn't include the acquisitions made between financial institutions. We use the Zephyr database to identify these transactions. By using the above mentioned search criteria, we obtained 5236 cross-border deals conducted by 1023 companies. Due to the fact that some of these companies have been acquired by other companies, or have gone bankrupt or have little contact information available on the Internet or in the database, the final mailing sample was reduced to 802 companies.

Based on a comprehensive literature review, we developed the hypotheses and measures for the investigated variables, most of which are measured by using multi-item composition. The details of measurement will be introduced in the next part. Initially the questionnaire was widely discussed with scholars from different research fields due to the multidisciplinary nature of CBA. The revised questionnaire was then pre-tested by face-to-face interviews with CFOs, CEOs, or M&A experts from seven companies who had substantial experience of domestic and cross-border acquisitions. According to their suggestions, we modified the questionnaire.

The final version of the questionnaire was sent through the SurveyXact system to senior executives, whose functional responsibilities were overseeing acquisitions, to enable them to provide accurate descriptions regarding the variables of interest. We used a single informant at the acquirer for information collection due to practical problems, such as the informants had to be knowledgeable about their companies, the competitive environment, and the acquisition implementation process. As the data quality was highly dependent on the informant's competence, we designed several questions

to test their competence in our survey, which are their position, tenure, and involvement in the acquisition process. Almost all the informants were CEOs, CFOs, or held equivalent positions. Ninety-three percent of them had been working in the company for five or more years, and 75% of them had participated in the whole acquisition process from target selection to post-acquisition integration. Furthermore, we required them to reply to the questions based on a "most recent" acquisition completed during 2005–2010—on the one hand to reduce the problem of decayed memory, on the other hand to avoid the bias that they might choose only the acquisition that performed well. In addition, the respondents were required to reply to the questions based on an international acquisition in which they took controlling ownership, as integration is likely to happen in these acquisitions, the acquirers tend to have more influence on the acquired firms, and it makes sense to assess the combined firms' performance.

We undertook considerable efforts to collect as many responses as we could. After three reminder emails and a phone call, we received 113 replies, representing a response rate of 14.1%. Such a response rate can be considered satisfactory, taking into account challenges such as: (1) the questionnaire contains some sensitive topics; (2) most of the respondents are top managers, who tend to be busy; or (3) the people who have been involved in the acquisitions have left the company or retired. The response rate is good compared with some other survey researches in the M&A area (for example, 11.6% in Zaheer et al. 2013). Ten responses were eliminated due to missing data on key variables, leaving a final sample of 103 acquisitions to be included in the analysis.

Measurement of the Variables

In developing the measurements, we followed the advice of King et al. (2004) that "future M&A researchers would be well advised to build on past research models and not simply create new models." For this reason, we mainly selected applicable and already tested measurement models from a literature review. The initial measurement of these variables are presented as follows. In the process of testing these multi-item composite variables, some items were removed to improve reliability and validity, resulting in the final measurement construction presented in Table 9.1.

Table 9.1 Measurement of the multi-item composite variables

Construct	Items	Scales
Planning	Plan1: Pre-acquisition (before purchase) planning	1(minor)…2…3…4…5…6...7(extensive)
	Plan2: Formal discussion about possible post-acquisition impediments	1 ... 7
	Plan3: Formal discussion about whether CBA is the best strategy (e.g., strategic alliance)	1 ... 7
	Plan4: Post-acquisition (after purchase) planning	1 ... 7
Due diligence	Duedil1: The amount of information related to the realistic value of the target firm obtained from due diligence	1(very low)…2…3…4…5…6...7(very high)
	Duedil2: The accuracy of the valuation assumptions	1 ... 7
	Duedil3: The knowledge/experience for identifying potential value of the acquired firm at that time	1 ... 7
	Duedil4: The percentage of due diligence time spent on the cultural and human resource aspects	1 ... 7
Premium	Prem1: Evaluation of the goodwill in comparison to the enterprise value	1(very low)…2…3…4…5…6...7(very high)
	Prem2: EBIT (earnings before interests and tax) multiple paid in comparison to industry EBIT multiple average	1 ... 7
	Prem3: Evaluation of acquisition premium	1 ... 7
Coordination	Coor1: Exchange of information took place frequently, formally, informally, and/or in a timely manner	1(strongly disagree)…2…3…4…5…6...7(strongly agree)
	Coor2: We had frequent face-to-face planning/communication during integration	1 ... 7
	Coor3: Employees were provided with some information that might help them deal with changes, uncertainties and anxiety	1 ... 7
	Coor4: Involvement of the managers from the acquired firm	1(very low)…2…3…4…5…6...7(very high)
	Coor5: To what extent your company prefers a unique organizational culture (multiculturalism)	1 ... 7

(*continued*)

Table 9.1 (continued)

Construct	Items	Scales
Integration extent	Integ1: Integration of strategy formulation	1(no integration)…2…3…4…5…6...7(complete integration)
	Integ2: Integration of employees	1 ... 7
	Integ3: Integration of organizational culture	1 ... 7
	Integ4: Integration of R&D	1 ... 7
	Integ5: Integration of production operation	1 ... 7
	Integ6: Integration of marketing	1 ... 7
	Integ7: Integration of systems (e.g. financial and budget systems)	1 ... 7
	Integ8: Overall integration	1 ... 7
Acquisition experience	Compared with your competitor, your firm's acquisition experience in terms of:	1(much lower)…2…3…4…5…6...7(much higher)
	Exp1: The proven tools used in due diligence	
	Exp2: The existence of a procedure in use for the target company's integration	1 ... 7
	Exp3: The existence of a proven M&A process in use	1 ... 7
	Exp4: The number of CBAs completed by the acquirer five years before the focal acquisition	1 ... 7
Pre-acquisition performance of the acquirer and the target firm	Compared with industry average performance in terms of:	1(much lower)…2…3…4…5…
	Preperacquirer1: Profitability	6...7(much higher)
	Preperacquirer2: General management capabilities	1 ... 7
	Preperacquirer3: Marketing capabilities	1 ... 7
	Preperacquirer4: Technical advantage	1 ... 7
	Preperacquirer5: Overall performance	1 ... 7

Pre-acquisition performance of the target firm	Compared with industry average performance in terms of:	1(much lower)…2…3…4…5…6...7(much higher)
	Prepertarget1: Profitability	
	Prepertarget2: General management capabilities	1 ... 7
	Prepertarget3: Marketing capabilities	1 ... 7
	Prepertarget4: Technical advantage	1 ... 7
	Prepertarget5: Overall performance	1 ... 7
Post-acquisition performance of the combined firms	Perf1: R&D productivity	1 (greatly decline),...,4(no change),...,7(greatly increase)
	Perf2: New product development cycle	1 ... 7
	Perf3: Improvement of the product pipelines or portfolios	1 ... 7
	Perf4: Market shares	1 ... 7
	Perf5: Competitive positioning	1 ... 7
	Perf6: Sales growth	1 ... 7
	Perf7: Return on investment (ROI)	1 ... 7
	Perf8: Return on sales (ROS)	1 ... 7
	Perf9: Cost control	1 ... 7

Explanatory Variables

We grouped the explanatory variables into eight categories: (1) planning, (2) due diligence, (3) premium, (4) coordination efforts, (5) temporal lag, (6) integration extent, (7) retention of key employees, and (8) acquisition experience. Table 9.1 presents a detailed description of the variables used in this study and their measurement scales.

Planning
Ansoff et al. (1970) discuss two different types of acquisition planning behavior in their study. One is commonly described as "strategic" planning, which is to determine whether, and when, the firm should seek acquisitions. The second one is operational planning, which relates to the mechanism for acquiring, given that the firm has already decided that it is going to acquire. Colombo et al. (2007) define planning by using a construct of four indicators: a pre-acquisition plan; formal discussion about possible post-merger impediments; a detailed post-acquisition plan; and a pre-acquisition discussion on organizational structures and mechanism matching. These indicators can be classified into the second type of planning, that is, operational planning, as outlined in Ansoff et al. (1970). Based on their research and expert interviews, planning in this study is measured using the average of four items on a seven-point Likert-type scale, ranging from (1) "very low" to (7) "very high."

Due Diligence
Based on Rappaport and Sirower (1998) and the expert interviews, due diligence was measured as the average of four items on a seven-point Likert-type scale, ranging from (1) "very low" to (7) "very high."

Premium
According to Straub (2007:117), premium was measured as the average of three items on a seven-point Likert-type scale, ranging from (1) "very low" to (7) "very high."

Coordination Efforts
As discussed earlier, the acquirers' coordination efforts are embodied by rich communication, multiculturalism, and involvement of the managers

from the acquired firms. Hence, the measurement of coordination relates to these aspects, developed according to Chen and Paulraj (2004), Stahl et al. (2011), Colombo et al. (2007), and the advice from experts. Its value is calculated by the average of five items on a seven-point Likert-type scale, ranging from (1) "strongly disagree" to (7) "strongly agree."

Integration Extent
According to three studies (see Zaheer et al. 2013; Cording et al. 2008; Bauer and Matzler 2014), discussion with scholars, and interviews with experts, we measured integration extent with eight items concerning the extent to which different areas or activities had been combined from (1) "no integration" to (7) "complete integration." The average score across the scale of items is calculated to obtain a single composite measure of this variable.

Temporal Lag
Based on the discussion with scholars and experts, we measure this variable by asking the respondents "the time span between the closing to the start of the integration process (in months)" and recode their answers onto seven-point Likert scales ranging from (1) "less than a month" to (7) "more than ten months."

Retention of Key Employees
In this case we followed the measurement method adopted by Ahammad and Glaister (2011). Two dimensions were used: (1) the importance of retaining employees, on a Likert-type scale ranging from 1 "not important" to 7 "very important," based on the employees' position within the acquired firm; and (2) the extent of retention on a seven-point Likert scale ranging from 1 "no retention" to 7 "full retention." A composite measure of employee retention was calculated by multiplying the importance score of retaining employees with the extent score of retention.

Acquisition Experience
Acquisition experience is measured using a four-multi-item composition measurement according to Straub's (2007:115) study and advice from scholars and experts. Its value is calculated on a seven-point Likert-type scale, ranging from (1) "much lower" to (7) "much higher."

Control Variables

We control for various other factors that have been found to influence the performance of foreign acquisitions, which are bidding competition, attitude of the target firm, relative size, payment method, pre-acquisition performance of the acquirer, and the target firm. "Bidding competition" is measured by a dummy variable, with 1 representing there being some other buyers bidding for the targets at the time of acquisition, while 0 means no other buyers at all. Similarly, we used a dummy variable for "payment method." Payment with cash is assigned 1, and other payment methods are assigned 0. In terms of "attitude of the target firm," this is measured by using a single-item Likert scale from (1) "very resistant" to (7) "very friendly." The variable of "relative size" is measured by the average of the size of the acquired firm to the acquiring firm in terms of the number of employees and annual sales (see Zaheer et al. 2013). "Pre-acquisition performance of the acquirer and the target firm" are assessed according to the studies of Hunt (1990) and Anand et al. (2005), using five items respectively (see Table 9.1).

Dependent Variable

Post-acquisition performance of the combined firms, as a dependent variable, was measured by asking the respondents how the combined company had performed three years after the acquisition in terms of the following assessment criteria: R&D productivity (R&D output/expenditure), the new product development cycle (time to the market), improvement of the product pipeline or portfolios, market shares, competitive positioning, sales growth, return on investment (ROI), return on sales (ROS), and cost control. These criteria cover innovation, market, and accounting—three aspects of the combined firm's performance, which have been widely used by previous researchers (see Colombo et al. 2007; Richard et al. 2009; Desyllas and Hughes 2010). These criteria were assessed on a seven-point Likert-type scale, from (1) "greatly decline" to (7) "greatly increase." Meanwhile, the respondents were asked to assign the degree of importance of each criterion according to their objectives for making

this acquisition, as different acquisitions are usually conducted for different reasons. Therefore, it is reasonable and necessary to assess acquisition performance based on the acquirer's acquisition motives (Das and Kapil 2012). The importance scores were used to weight the performance scores to establish a weighted average "acquisition performance" index for each acquisition (see Datta 1991). In addition, we designed a separate question to ask the respondents about "overall acquisition performance." Correlation analysis shows that the two scores have a high significant correlation ($r = 0.882$) at the 0.01 level, suggesting consistency of response.

In this study, we used a perceptual performance measure because secondary data on the performance of acquisitions made in many different countries are not generally available, or are non-comparable across countries (Very et al. 1997), and also because most Nordic companies are privately owned with limited performance data available on the Internet. We also needed the respondents' perceptual importance of these assessment criteria to calculate the weighted average acquisition performance, through which acquisition performance is connected to the acquirer's objectives for making this acquisition. Furthermore, this method can overcome the problems the other objective performance measures bring, such as isolating the performance of the acquisition from the performance of other units and the impact of other events. Shareholders' abnormal gains (used in event studies) only reflect the security markets' a priori expectations of final acquisition performance rather than the realized performance. Therefore, a perceptual measure by knowledgeable managers is likely to assess the performance, which is much closer to reality (Datta 1991).

Analysis and Findings

Reliability and Validity

In behavioral science, researchers frequently examine theoretical constructs that cannot be observed directly—such as acquisition experience and coordination efforts in our study. We therefore need to define the specific variables operationally in a way that reflects or represents them,

and which can be measured at the same time. In our study, we have nine variables that are measured using multi-item scales. As the nature of such scales is doubtful (Brosius 2002), it is necessary to determine the degree to which they are reliable and valid. Three types of validity were considered: content validity, convergent validity, and discriminant validity. The emphasis of validity is on what is being measured, while reliability stresses how it is measured.

In this study several methods were employed to enhance the reliability and validity of the data. For example:

1. The initial questionnaire was discussed with scholars, and pre-tested through on-site interviews with top managers who have rich acquisition experience.
2. Multiple items were used to measure a particular construct. Several questions were then cross-checked to determine whether or not they showed a consistent response.
3. Most of the measures used in this study were drawn from previous research and were proven to be reliable. This was to make sure that what was measured was what was intended to be measured.

Statistically, the most common measure of scale reliability in social science is Cronbach's Alpha (Churchill 1999). According to Nunnally (1978), Alpha values greater than 0.7 are considered indicators of sufficient reliability, and a value above 0.8 means strong reliability. The multi-item constructs in this study are tested for Cronbach's Alpha by means of SPSS 20.0. The results are presented in Table 9.2.

As can be seen from Table 9.2, eight constructs, that is, planning, due diligence, coordination efforts, integration extent, acquisition experience, pre-acquisition performance of the acquirer and the target firm, and post-acquisition performance, have very good Cronbach's Alphas ranging from 0.769 to 0.88, showing sufficient reliability. The Cronbach's Alpha value (0.65) for the construct of premium is just acceptable according to DeVellis (1991). In the constructs of planning, due diligence, coordination efforts, and pre-acquisition performance of the target firm, one item had to be dropped to improve its overall reliability.

Table 9.2 Reliability analysis

Construct	Items	Cronbach's Alpha if item deleted	Cronbach's Alpha
Planning	Plan1	0.772	0.838
	Plan2	0.716	
	Plan4	0.836	
Due diligence	Duedil1	0.639	0.769
	Duedil2	0.628	
	Duedil3	0.783	
Premium	Prem1	0.573	0.646
	Prem2	0.591	
	Prem3	0.485	
Coordination	Coor1	0.784	0.849
	Coor2	0.777	
	Coor3	0.796	
	Coor4	0.868	
Integration extent	Integ1	0.878	0.88
	Integ2	0.851	
	Integ3	0.854	
	Integ4	0.869	
	Integ5	0.874	
	Integ6	0.869	
	Integ7	0.876	
	Integ8	0.848	
Acquisition experience	Exp1	0.733	0.843
	Exp2	0.776	
	Exp3	0.723	
	Exp4	0.948	
Pre-acquisition performance of the acquirer	Preperacquirer1	0.853	0.852
	Preperacquirer2	0.788	
	Preperacquirer3	0.818	
	Preperacquirer4	0.869	
	Preperacquirer5	0.769	
Pre-acquisition performance of the target	Prepertarget1	0.83	0.863
	Prepertarget2	0.837	
	Prepertarget3	0.840	
	Prepertarget5	0.794	

(*continued*)

Table 9.2 (continued)

Construct	Items	Cronbach's Alpha if item deleted	Cronbach's Alpha
Post-acquisition performance of the combined firms	Perf1	0.85	0.848
	Perf2	0.837	
	Perf3	0.838	
	Perf4	0.818	
	Perf5	0.821	
	Perf6	0.826	
	Perf7	0.83	
	Perf8	0.819	
	Perf9	0.849	

Note: Overall Cronbach's Alpha (the reliability of all above constructs/items together): 0.855

Factor analysis was employed for the validation of the model. In the first step, factor analysis for each construct was separately conducted to verify the extent to which the relevant items (or measures) and the underlying construct corresponded/converged (see Table 9.3). Secondly, we factor analyzed all the constructs together to see whether the expected constructs/factors could be extracted, and whether the corresponding items had cross-loadings on other constructs to ensure discriminant validity (see Table 9.4).

The factor analysis results indicate its general validity, as the Kaiser–Meyer–Olkin measure of sampling adequacy range from 0.646 to 0.844, which are well above the threshold of 0.5 (Kaiser 1974), and Bartlett's test of sphericity is significant (0.000). Factor analysis was then applied to summarize the items for measuring these nine variables. In the factor analysis for each construct separately, Kaiser's recommendation of eigenvalues over one and scree plot were used together to determine the number of factors to be retained. Three items were deleted due to no significant correlation with many of the other variables in the construct of post-acquisition performance. Finally, only one factor was extracted in every construct and the entire load is on this single factor (total variance accounted for by the extracted single factor ranges from 57.09 to 75.84%), which suggests convergent validity and that it is justified to use the relevant items to represent the corresponding

Table 9.3 Factor analysis on each multi-item construct separately

Construct	Items	Component	Kaiser–Meyer–Olkin	Bartlett's test of sphericity	Eigen value	Total variance explained (%)
Planning	Plan2	0.905	0.704	0.000	2.275	75.836
	Plan1	0.875				
	Plan4	0.831				
Due diligence	Duedil2	0.865	0.669	0.000	2.060	68.655
	Duedil1	0.859				
	Duedil3	0.757				
Coordination	Coor2	0.882	0.78	0.000	2.775	69.371
	Coor1	0.872				
	Coor3	0.853				
	Coor4	0.713				
Integration extent	Integ8	0.923	0.844	0.000	4.567	57.085
	Integ2	0.863				
	Integ3	0.835				
	Integ4	0.729				
	Integ6	0.691				
	Integ5	0.657				
	Integ7	0.654				
	Integ1	0.638				
Premium	Prem3	0.806	0.646	0.000	1.772	59.055
	Prem1	0.759				
	Prem2	0.739				
Acquisition experience	Exp1	0.951	0.756	0.000	2.924	73.111
	Exp3	0.949				
	Exp2	0.915				
	Exp4	0.531				

(*continued*)

Table 9.3 (continued)

Construct	Items	Component	Kaiser–Meyer–Olkin	Bartlett's test of sphericity	Eigen value	Total variance explained (%)
Pre-acquisition performance of the acquirer	Preperacquirer5	0.929	0.762	0.000	3.247	64.938
	Preperacquirer2	0.888				
	Preperacquirer3	0.808				
	Preperacquirer1	0.725				
	Preperacquirer4	0.646				
Pre-acquisition performance of the target	Prepertarget5	0.898	0.802	0.000	2.858	71.445
	Prepertarget2	0.842				
	Prepertarget3	0.822				
	Prepertarget1	0.816				
Post-acquisition performance of the combined firms	Perf6	0.875	0.755	0.000	3.663	61.051
	Perf4	0.840				
	Perf5	0.814				
	Perf7	0.810				
	Perf8	0.792				
	Perf3	0.490				

Note: Extraction method: principal component analysis; rotation method: Oblimin with Kaiser Normalization

Table 9.4 Factor analysis on all multi-item constructs together

	1	2	3	4	5	6	7	8	9
Integ5	0.832	−0.048	0.081	0.121	0.057	−0.033	−0.076	−0.063	0.366
Integ8	0.818	−0.096	0.07	−0.052	−0.19	0.007	0.09	−0.044	−0.004
Integ4	0.791	−0.059	−0.024	−0.004	0.108	−0.049	−0.075	0.02	−0.078
Integ2	0.768	0.038	−0.063	−0.085	−0.084	−0.082	0.114	0.137	−0.175
Integ3	0.722	0.106	−0.061	−0.02	0.006	−0.048	0.186	0.024	−0.202
Integ6	0.616	−0.084	−0.077	0.063	−0.043	0.036	0.103	−0.064	0.029
Integ7	0.515	−0.038	0.019	−0.12	−0.011	0.301	0.226	−0.07	−0.1
Integ1	0.442	−0.026	−0.042	0.099	−0.225	−0.133	0.128	0.168	−0.235
Preperftarget5	−0.134	0.854	0.058	−0.038	−0.032	0.057	0.004	−0.082	0.062
Preperftarget2	0.022	0.84	−0.126	0.064	−0.111	−0.019	0.055	0.026	0.012
Preperftarget1	−0.024	0.827	−0.028	0.073	0.019	0.072	0	0.053	−0.05
Preperftarget3	0.041	0.817	0.031	−0.066	−0.014	−0.03	0.016	−0.052	0.036
Perfacquirer5	−0.021	−0.017	0.918	−0.027	−0.049	−0.066	0.043	0.001	0.011
Perfacquirer2	0.063	−0.001	0.844	0.12	−0.141	−0.01	0.106	−0.071	0.11
Perfacquirer3	−0.115	−0.064	0.782	0.124	−0.046	−0.011	0.085	0.08	−0.12
Perfacquirer1	−0.064	0.024	0.72	0.011	0.13	−0.106	0.057	−0.174	−0.001
Perfacquirer4	0.074	0.005	0.675	−0.09	−0.037	0.14	−0.083	0.211	0.024
Exp3	0.041	0.051	0.001	0.947	0.006	0.033	−0.007	−0.026	0.01
Exp1	0.043	0.008	0.01	0.944	−0.015	0.094	0.009	−0.043	0.044
Exp2	0.033	−0.058	0.035	0.887	−0.146	0.023	−0.101	−0.103	0.015
Exp4	−0.093	0.162	0.145	0.469	0.322	−0.115	−0.031	0.152	−0.314
Coor2	0.052	−0.065	0.052	0.022	−0.812	−0.049	0.041	−0.03	−0.094
Coor4	−0.119	0.077	0.042	0.151	−0.765	0.055	0.001	−0.088	0.239
Coor3	0.182	0.152	0.097	−0.085	−0.761	−0.033	−0.113	0.027	−0.231
Coor1	−0.024	0.057	−0.027	−0.005	−0.75	−0.09	0.117	−0.09	−0.173
Prem2	−0.12	−0.043	−0.121	0.103	−0.126	0.799	0.198	0.118	0.19

(*continued*)

Table 9.4 (continued)

	1	2	3	4	5	6	7	8	9
Prem3	−0.007	0.041	0.07	−0.01	0.071	0.733	−0.221	−0.143	−0.104
Prem1	0.017	0.08	0.011	0.017	0.122	0.723	−0.04	0.084	−0.156
Perf5	0.141	0.142	0.093	0.007	0.094	−0.071	0.825	−0.02	0.052
Perf6	0.044	0.013	0.117	−0.084	−0.101	0.004	0.791	0.01	0.119
Perf4	0.133	0.038	−0.056	−0.112	0.069	0.006	0.773	−0.138	0.023
Perf7	0.097	−0.038	0.172	0.019	0.019	0.085	0.679	−0.127	−0.062
Perf3	−0.086	−0.166	−0.252	0.14	−0.097	−0.155	0.542	0.119	−0.082
Perf8	−0.092	−0.08	0.224	−0.125	−0.176	0.142	0.539	−0.05	−0.209
Duedil1	0.03	0.043	−0.008	0.028	−0.136	−0.035	−0.047	−0.809	0.109
Duedil2	−0.142	0.124	−0.053	0.075	−0.044	−0.18	0.103	−0.752	−0.106
Duedil3	0.054	−0.055	0.011	0.065	0.054	0.127	0.129	−0.65	−0.226
Plan2	0.022	−0.053	0	0.061	−0.21	0.108	0.017	−0.208	−0.722
Plan1	0.227	−0.045	0.01	0.075	−0.099	0.1	0.038	−0.241	−0.56
Plan4	0.252	0.035	0.063	0.134	−0.254	0.015	0.02	−0.255	−0.398
Eigen value	8.097	4.57	3.238	2.787	2.269	2.055	1.811	1.474	1.204
% of variance explained (total 68.761%)	20.243	11.425	8.096	6.967	5.672	5.137	4.528	3.684	3.01

Notes: Extraction method: principal component analysis; rotation method: Oblimin with Kaiser Normalization; Kaiser–Meyer–Olkin =0.739; Bartlett's test of sphericity=0.000

concepts. As anticipated, the relevant items load relatively higher on their corresponding constructs, and there are no cross-loadings on other constructs, thus discriminate validity was also ensured. Combined with their relevant Cronbach's Alpha in Table 9.2, in general, it is suggested that the corresponding items for each construct in this table can be used together to create a composite variable.

Non-response Bias

The possibility of non-response bias is always the drawback of survey studies. We employed an extrapolation technique discussed by Oppenheim (1966) and Armstrong and Overton (1977) to detect different characteristics in the waves of responses, which have been used by a number of prior researchers (see Datta 1991; Zaheer et al. 2013). We compare the selected dimensions which tend to be the reasons for non-response, such as relative size of the acquired firm to the acquirer, legal form, industry type, acquisition experience, and perceived post-acquisition performance, among the "early" and "late" respondents. The assumption behind this test for non-response bias (Oppenheim 1966) is that the "late" respondents (those responses received after the second mailing) are very similar to non-respondents, given that they would be grouped into that category if a second set of questionnaires had not been mailed. As illustrated in Table 9.5, the t-tests of mean differences were insignificant, confirming no systematic differences between the "early" and "late" respondents across these five aspects, providing evidence that there is no non-response bias.

Sample Description

Descriptively, the acquirers in the study mainly come from Sweden, followed by Denmark and Norway, while Finland takes the smallest portion (see Table 9.6). We further checked the whole population and found that, during 2005–2010, CBAs in Sweden account for 47% of all Nordic deals, while transactions from Denmark and Norway take part in 22%

Table 9.5 Non-response bias analysis of 42 early respondents and 33 late respondents

	Identity	N	Mean	Std. Deviation	t	Sig. (2-tailed)
Legal form	Early	42	0.900	0.297	1.054	0.296
	Late	33	0.820	0.392		
Industry type (high- vs low- tech)	Early	42	0.600	0.497	0.946	0.347
	Late	33	0.480	0.508		
Industry type (manufacturing vs service)	Early	42	0.430	0.501	−1.530	0.130
	Late	33	0.610	0.496		
Relative size	Early	42	20.288	20.813	1.483	0.142
	Late	33	14.189	12.554		
Acquisition experience	Early	42	4.222	1.508	−1.584	0.117
	Late	33	4.717	1.097		
Perceived performance	Early	42	4.188	1.185	1.655	0.103
	Late	33	3.699	1.333		

and 21% respectively, and Finland only has 10%. Therefore, we think the country composition in our sample can represent the population. Regarding the original country of the target firms, European countries take up 71.5%, and 98% of the acquired firms are from developed countries, as is evident in Table 9.6. Therefore, we can say that the findings from this study can be more generalized to the acquisitions performed between developed countries than emerging countries. In terms of the legal form of our respondents, 85% of them are privately owned companies, since 89% of international acquirers in Nordic countries are of this type. Almost half of the respondents are from high-tech industry and the other half come from low-tech industry; the same goes for the manufacturing and service firms. Most transactions were conducted in 2010 because we asked the respondents to answer the questions based on a recent CBA performed during 2005–2010.

Regression Analysis

The data were screened to check for outliers, missing data, and the assumption of normality and homoscedasticity by univariate statistics

Table 9.6 Sample description

Acquirer's country	%	Target's country	%	Year of acquisition	%	The acquirer's industry	%	Legal form of the acquired firm	%	Acquisition type	%
Finland	4.9	Nordic countries	49.5	2005	4.9	High-tech	45.6	Public-listed	14.6	Conglomerate acquisition	5.8
Norway	24.3	Other European countries	32.0	2006	6.8	Low-tech	54.4	Privately owned	85.4	Backward vertical acquisition	8.7
Denmark	29.1	USA & Canada	10.7	2007	13.6	Manufacturing	49.5			Forward vertical acquisition	8.7
Sweden	41.7	Australia & Switzerland	5.8	2008	15.5	Service	50.5			Horizontal acquisition	76.7
		Other countries	2.0	2009	13.6						
				2010	45.6						

and scatter plots of the residuals. Variance inflation factors (VIF < 10) show that there is no significant multicollinearity. Table 9.7 shows the descriptive statistics and correlations for each of the variables used in the analyses that have been introduced before.

Table 9.8 presents the tested hypotheses using a multiple regression on weighted average post-acquisition performance. In Model 1, only control variables are included, while Model 2 includes both control and explanatory variables. Our analysis and presentation of the findings focus on Model 2. The adjusted R^2 of 36.2 for Model 2 shows its explanatory power of acquisition performance (see the R^2 of 25 in Cording et al. 2008), suggesting that the variables considered in our theoretical discussion are meaningful and relevant to the explanation of CBA performance.

The regression of the weighted post-acquisition performance shows a significant and positive coefficient on due diligence, integration extent, retention of key employees, and temporal lag, and a significant and negative coefficient on premium and acquisition experience. However, we couldn't find the significant impact of planning and coordination on post-acquisition performance.

In the case of the control variables, the coefficients on acquisition performance show that bidding competition has a significant positive influence, while the other control variables have no significant relationship with the performance.

Discussion

This study has examined the impact of the main implementation actions on the performance of CBAs. A summary of the hypotheses and relevant findings are reported in Table 9.9. Intriguingly, planning activities during the acquisition process have no impact on CBA success. This may be caused by the dynamic nature of acquisition process and *ex ante* incomplete information. A series of unexpected issues can appear when acquisitions unfold. Rigid plans made under the conditions of limited information may not prove viable. Probably, it is good to have an acquisition plan reflecting clear objectives and the basic steps to achieve

Table 9.7 Descriptive statistics and Pearson's correlations (n = 103)

	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Post-performance combined	3.28	1.09	1														
Planning	4.65	1.15	0.311**	1													
Due diligence	4.50	0.94	0.432**	0.414**	1												
Premium	3.97	0.98	−0.16	0.055	0.021	1											
Integration extent	4.94	1.17	0.372**	0.467**	0.074	−0.076	1										
Coordination	5.18	1.05	0.348**	0.479**	0.367**	−0.086	0.282**	1									
Temporal lag	1.65	1.12	−0.087	−0.103	−0.183	0.168	−0.191	−0.179	1								
Retention of key employees	3.08	1.28	0.238*	0.049	0.051	−0.015	0.099	0.409**	−0.208*	1							
Acquisition experience	4.21	1.27	−0.086	0.223*	0.228*	0.035	−0.057	0.08	−0.058	−0.007	1						
Bidding competition	0.50	0.50	0.178	.198*	0.151	0.02	0.06	0.046	−0.143	−0.232*	−0.066	1					
Attitude of the target firm	5.31	1.54	0.045	0.122	0.053	−0.064	−0.10	0.323**	−0.016	0.239*	0.198*	−0.099	1				
Relative size	18.03	15.22	0.134	0.03	0.113	0.017	0.116	0.079	0.137	0.224*	−0.216*	0.026	−0.105	1			
Pre-performance-target firm	3.76	1.02	0.065	0.083	0.250*	0.035	−0.194*	0.241*	−0.005	0.338**	0.172	0.028	0.304**	−0.001	1		
Pre-performance—acquirer	4.87	0.90	0.205*	0.147	0.116	0.06	0.055	0.113	0.04	0.134	0.11	−0.149	0.112	−0.310**	0.088	1	
Payment method	0.72	0.45	0.06	0.145	0.172	0.071	0.036	0.151	−0.216*	−0.037	0.092	0.145	0.085	−0.259**	0.084	0.061	1

S.D.=Standard deviation; *$^{**}p < 0.01$*; *$^{*}p < 0.05$*; *two-tailed test*

Table 9.8 OLS regression analysis on implementation issues and weighted post-acquisition performance

Dependent variable: weighted average post-acquisition performance of the combined firms

	Model 1			Model 2		
	Unstandardized coefficients	Standardized coefficients	t	Unstandardized coefficients	Standardized coefficients	t
Control variables						
Bidding competition	0.479	0.225**	2.262	0.448	0.210**	2.335
Attitude of the target firm	0.046	0.067	0.654	0.038	0.055	0.604
Relative size	0.016	0.233**	2.221	–0.001	–0.009	–0.090
Pre-acquisition performance of the target	0.296	0.061	0.598	–0.032	–0.029	–0.297
Pre-acquisition performance of the acquirer	0.066	0.248**	2.383	0.147	0.123	1.359
Payment method	0.175	0.074	0.729	0.045	0.019	0.215
Explanatory variables						
Planning				0.005	0.005	0.048
Due diligence				0.482	0.424***	4.179
Premium				–0.251	–0.227***	–2.665
Integration extent				0.250	0.276***	2.721
Coordination				–0.014	–0.014	–0.127
Retention of key employees				0.208	0.249**	2.316
Temporal lag				0.166	0.174*	1.858
Acquisition experience				–0.138	–0.164*	–1.847
Cons		0.712	0.903		–0.432	–0.471
Observations		103			103	
R-square		0.137			0.453	
Adj. R-squared		0.081			0.362	
F-statistics		2.450**			6.135***	

Notes: *N=103; ***p < 0.01; **p < 0.05; *p < 0.10*

Table 9.9 A summary of the hypotheses and regression findings

Dependent variable: performance of cross-border acquisition		
Explanatory variables	Hypotheses	Regression findings
Planning	+	NS
Due diligence	+	S
Premium	–	S
Coordination	+	NS
Temporal lag	–	+
Integration extent	+	S
Retention of key employees	+	S
Acquisition experience	+	–

Notes: "+" denotes positive impact, while "–"means negative impact. *NS* not supported, *S* supported

them, but it needs to be flexible enough to take into account unexpected impediments. Hence, Hypothesis 1 is not supported.

With respect to due diligence, as expected, it significantly contributes to CBA performance. It suggests that it is essential for the acquirers to collect extensive data related to the realistic value of the target firm before taking further steps. In terms of premium/overpayment, it is not surprising to find it has a negative effect on performance. This finding is in line with previous research (e.g. Sirower and Sahni 2006; Krishnan et al. 2007). Therefore, Hypotheses 2 and 3 are supported.

It is unexpected again that regression analysis found coordination efforts to have no effect on performance, providing no support for Hypothesis 4. This result may be due to the measurement of this variable, as these questions can reflect the reality of acquirers' coordination activities but may not be good enough to measure the quality of these activities. The employees from the acquired firm are thought to be better than the acquirers' top managers at offering such information, which might be a limitation of this study.

Meanwhile, it is interesting to find that temporal lag has a positive influence on performance, which goes against our hypothesis and the findings from Colombo et al. (2007). They reported that temporal lag had a strong negative impact on acquisition performance. One reason for this might be that the temporal lag is generally short among our respondents' acquisition practice, where the average lag was around three

months. Another possibility, as pointed out by Colombo et al. (2007), is that there could be a U-shape relationship between the temporal lag and performance. The acquiring firms need some time to understand the new business, markets, and cultural difference; however, this buffer period should be kept short to avoid nourishing stress, anxiety, or even conflict. This induction justifies further investigation. Hypothesis 5 is, therefore, rejected.

Another noteworthy finding is the significant positive impact of integration extent, which shows that the higher the level of integration, the better the post-acquisition performance. Hypothesis 6 is thus supported. It seems the benefits from a high level of integration can exceed the costs it will bring, such as the hazards of process complexity, organizational disruptions, as well as time and energy consumption.

Retention of key employees is found to contribute significantly to CBA performance, providing reasonable support for Hypothesis 7. This implies that key employees are the crucial human capital, and that they usually carry the valuable and intangible resources, such as knowledge, experience, techniques, and relationships, that are vital to post-acquisition performance. The acquirers therefore need to make efforts to avoid or reduce its loss. As mentioned, much of the existing research focuses on the acquired top management teams and emphasizes their importance. The findings from this study also reveal the significance of other important employees, such as R&D staff and marketing staff.

The findings show the negative impact of acquisition experience on acquisition performance at the significance level of 10 %, which is opposite to our hypothesis. It seems our findings tend to support the arguments about the negative experience effect, such as "negative experience transfer" (Barkema and Schijven 2008), "misapplying their irrelevant or non-similar acquisition experience" (Haleblian and Finkelstein 1999; Finkelstein and Haleblian 2002), "relying too heavily on their previous experience" (Colombo et al. 2007), and "CEOs' hubris" (Ismail 2008). However, experience in itself is not sufficient for development of acquisition capability because it does not necessarily imply that the lessons can be applied in the right place at the right time. Consequently, Hypothesis 8 was rejected.

Conclusion

Using a sample of 103 CBAs conducted by Nordic firms from 2005 to 2010, this study has investigated the impact of the main implementation activities on performance. Most of the investigated variables were measured by multi-item composition with the objective of catching their full meaning, cross-checking the consistency of the measures, and measuring these abstract concepts more accurately. In order to connect post-acquisition performance assessment to the acquirers' main objectives for doing this focal acquisition, the performance was measured by using the weighted average of several criteria regarding the three aspects of innovation, marketing, and accounting, with the importance of these criteria working as weights. These data were collected through an online questionnaire survey and the respondents were top managers (mainly CFO, CEO, and head of M&A projects) from the acquirers.

The findings from the multiple regression analysis indicate that due diligence, integration extent, and retention of key employees are significant positive determinants of CBA performance, which implies that it is essential and worthwhile for the international acquirers to pay more attention to and spend more efforts on these aspects. Notably, the result shows a positive relationship between temporal lag and post-acquisition performance. It reveals that starting integration immediately or in a very short time after closing the deal is not good for the success of acquisition. The firms need time to understand each other, digest their differences, and create the right atmosphere for integration. It is also notable that acquisition experience is not a panacea but can actually decrease performance. In terms of premium, as expected, we find its significant negative impact on performance, which can serve as a caution to practitioners to consider carefully whether they can earn back the money before investing it.

However, to our surprise, we didn't find support for the view that planning and coordination can help improve CBA performance. The complexity of their real relationship with CBA performance may be beyond the simple assumption of linearity, and some interaction with other factors may play a role. The effects of these practices call for future study.

Limitations and Future Research

Although we tried to reduce bias and overcome the limitations, as with any research, this study still has several limitations. The sample is not large enough, but the response rate is acceptable. One reason for this is that we focus on Nordic CBAs, therefore the number of international acquirers is limited. Another reason might be that the informants are top managers who are usually busy and difficult to approach. In addition, because this study relies on data from Nordic countries, generalization of the findings may be limited. However, using this area sampling is purposeful as CBAs in this area have been rarely investigated; also we wanted to control for the influence of high geographic variability. Pragmatic considerations based on time and cost constraints were another reason. Future research is greatly encouraged to overcome such limitations, to validate our findings, and to investigate these controversial variables. Especially for the variables of "planning" and "coordination," their function in determining the success of CBAs requires more empirical analysis. With respect to the variable of "acquisition experience," further study is necessary to confirm its effect (positive or negative) and reveal the underlying reasons, as well as to investigate how the acquirers manage their experience and apply it.

Additionally, this study focuses on the acquisitions in which the acquirers take controlling ownership. Future research may need to distinguish between full and partial acquisitions and investigate whether the share of ownership acquired exerts an influence, since several previous studies indicated that the decision making and integration of partial acquisitions is very problematic (see Kitching 1973; Larimo 1993) and that full acquisitions are supposed to create more value than partial ones (Larimo and Pynnönen 2008).

Finally, although the findings can be generalized to the acquisitions from any industry, since the studied sample incorporated the acquisitions from both manufacturing and service industries, as well as high and low-tech industries, more insights may be obtained if the industry type is considered.

References

Ahammad, M. F., & Glaister, K. W. (2011). Postacquisition management and performance of cross-border acquisitions. *International Studies of Management and Organization, 41*(3), 59–75.

Anand, J., Capron, L., & Mitchell, W. (2005). Using acquisitions to access multinational diversity: Thinking beyond the domestic versus cross-border M&A comparison. *Industrial and Corporate Change, 14*(2), 191–224.

Ansoff, H. I., Avner, J., Brandenburg, R. G., Portner, F. E., & Radosevich, R. (1970). Does planning pay? The effect of planning on success of acquisitions in American firms. *Long Range Planning, 3*(2), 2–7.

Appelbaum, S. H., Gandell, J., Yortis, H., Proper, S., & Jobin, F. (2000). Anatomy of a merger: Behavior of organizational factors and processes throughout the pre-during-post-stages (part 1). *Management Decision, 38*(9), 649–662.

Armstrong, J. S., & Overton, T. S. (1977). Estimating nonresponse bias in mail surveys. *Journal of Marketing Research, 14*(3), 396–402.

Baker, H. K., & Mukherjee, T. K. (2007). Survey research in finance: Views from journal editors. *International Journal of Managerial Finance, 3*(1), 11–25.

Barkema, H. G., & Schijven, M. (2008). How do firms learn to make acquisitions? A review of past research and an agenda for the future. *Journal of Management, 34*(3), 594–634.

Barkema, H. G., Bell, J. H. J., & Pennings, J. M. (1996). Foreign entry, cultural barriers, and learning. *Strategic Management Journal, 17*(2), 151–166.

Bauer, F., & Matzler, K. (2014). Antecedents of M&A success: The role of strategic complementarity, cultural fit, and degree and speed of integration. *Strategic Management Journal, 35*(2), 269–291.

Bertrand, O., & Betschinger, M. A. (2012). Performance of domestic and cross-border acquisitions: Empirical evidence from Russian acquirers. *Journal of Comparative Economics, 40*(3), 413–437.

Brosius, F. (2002). *SPSS 11*. Bonn: Mitp Verlag.

Chatterjee, S. (1992). Sources of value in takeovers: Synergy or restructuring–implications for target and bidder firms. *Strategic Management Journal, 13*(4), 267–286.

Chen, I. J., & Paulraj, A. (2004). Towards a theory of supply chain management: The constructs and measurements. *Journal of Operations Management, 22*(2), 119–150.

Churchill, G. A. (1999). *Marketing research: Methodological foundations*. New York: Harcourt.

Colombo, G., Conca, V., Buongiorno, M., & Gnan, L. (2007). Integrating cross-border acquisitions: A process-oriented approach. *Long Range Planning, 40*(2), 202–222.

Cording, M., Christmann, P., & King, D. R. (2008). Reducing causal ambiguity in acquisition integration: Intermediate goals as mediators of integration decisions and acquisition performance. *Academy of Management Journal, 51*(4), 744–767.

Critchlow, J., Gadiesh, O., Ormiston, C., & Rovit, R. (2001). The 'why' and 'how' of merger success. *European Business Journal, 3*(2), 187–193.

Das, A., & Kapil, S. (2012). Explaining M&A performance: A review of empirical research. *Journal of Strategy and Management, 5*(3), 1–41.

Datta, D. K. (1991). Organizational fit and acquisition performance: Effects of post-acquisition integration. *Strategic Management Journal, 12*(4), 281–297.

DePamphilis, D. M. (2012). *Mergers, acquisitions, and other restructuring activities: An integrated approach to process, tools, cases, and solutions* (6th ed.). New York: Elsevier.

Desyllas, P., & Hughes, A. (2010). Do high technology acquirers become more innovative? *Research Policy, 39*(8), 1105–1121.

DeVellis, R. F. (1991). *Scale development: Theory and applications*. Newbury Park: Sage.

Dikova, D., & Rao, S. P. (2013). Is cultural distance a bane or a boon for cross-border acquisition performance? *Journal of World Business, 48*(1), 77–86.

Epstein, M. J. (2005). The determinants and evaluation of merger success. *Business Horizons, 48*(1), 37–46.

Finkelstein, S., & Haleblian, J. (2002). Understanding acquisition performance: The role of transfer effects. *Organization Science, 13*(1), 36–47.

Grant, R. M. (2003). Strategic planning in a turbulent environment: Evidence from the oil majors. *Strategic Management Journal, 24*(6), 491–517.

Haleblian, J., & Finkelstein, S. (1999). The influence of organizational acquisition experience on acquisition performance: A behavioral learning perspective. *Administrative Science Quarterly, 44*(1), 29–56.

Haleblian, J., Devers, C. E., McNamara, G., Carpenter, M. A., & Davison, R. B. (2009). Taking stock of what we know about mergers and acquisitions: A review and research agenda. *Journal of Management, 35*(3), 469–502.

Haspeslagh, P. C., & Farquhar, A. B. (1994). The acquisition integration process: A contingent framework. In G. V. Krogh, A. Sinatra, & H. Singh (Eds.), *The management of corporate acquisitions* (pp. 414–447). New York: Macmillan.

Haspeslagh, P. C., & Jemison, D. B. (1991). *Managing acquisitions: Creating value through corporate renewal*. New York: Free Press.

Hayward, M. L., & Hambrick, D. C. (1997). Explaining the premiums paid for large acquisitions: Evidence of CEO hubris. *Administrative Science Quarterly, 42*(1), 103–127.

Hayward, M. L. (2002). When do firms learn from their acquisition experience? Evidence from 1990 to 1995. *Strategic Management Journal, 23*(1), 21–39.

Hitt, M., Harrison, J., Ireland, R. D., & Best, A. (1998). Attributes of successful and unsuccessful acquisitions of US firms. *British Journal of Management, 9*(2), 91–114.

Hunt, J. W. (1990). Changing pattern of acquisition behaviour in takeovers and the consequences for acquisition processes. *Strategic Management Journal, 11*(1), 69–77.

Ismail, A. (2008). Which acquirers gain more, single or multiple? Recent evidence from the USA market. *Global Finance Journal, 19*(1), 72–84.

Ismail, A. (2011). Does the management's forecast of merger synergies explain the premium paid, the method of payment, and merger motives? *Financial Management, 40*(4), 879–910.

Jemison, D. B., & Sitkin, S. B. (1986). Corporate acquisitions: A process perspective. *Academy of Management Review, 11*(1), 145–163.

Kaiser, H. F. (1974). An index of factorial simplicity. *Psychometrika, 39*(1), 31–36.

Kallunki, J. P., Larimo, J., & Pynnönen, S. (2001). Value creation in foreign direct investments. *Management International Review, 41*(4), 357–376.

King, D. R., Dalton, D. R., Daily, C. M., & Covin, J. G. (2004). Meta-analyses of post-acquisition performance: Indications of unidentified moderators. *Strategic Management Journal, 25*(2), 187–200.

Kitching, J. (1973). *Acquisitions in Europe. Causes of corporate successes and failures*. Geneva: Business International S.A.

Krishnan, H. A., Hitt, M. A., & Park, D. (2007). Acquisition premiums, subsequent workforce reductions and post-acquisition performance. *Journal of Management Studies, 44*(5), 709–732.

Larimo, J. (1993). *Foreign direct investment behaviour and performance. An analysis of Finnish direct manufacturing investments in OECD countries*, *Acta Wasaensia, 32*. Vaasa: University of Vaasa.

Larimo, J. and Pynnönen, S. (2008). Value creation in FDIs: Empirical evidence from foreign acquisitions by Finnish firms. In *Perspectives on Internationalization and International Management.* Proceedings of the University of Vaasa, Vaasa, 317–339.

Lubatkin, M., Schulze, W., Mainkar, A., & Cotterill, R. (2001). Ecological investigation of firm effects in horizontal mergers. *Strategic Management Journal, 22*, 335–355.

Marks, M. L., & Mirvis, P. H. (1985). Merger syndrome: Stress and uncertainty. *Mergers and Acquisitions, 20*(Summer), 50–55.

Marks, M. L., & Mirvis, P. H. (2001). Making mergers and acquisitions work: Strategic and psychological preparation. *Academy of Management Executive, 15*(2), 80–92.

Marks, M. L., & Mirvis, P. H. (2010). *Joining forces: Making one plus one equal three in mergers, acquisitions, and alliances* (2nd ed.). San Francisco: Jossey-Bass.

Martynova, M., & Renneboog, L. (2008). A century of corporate takeovers: What have we learned and where do we stand? *Journal of Banking and Finance, 32*(10), 2148–2177.

Martynova, M., & Renneboog, L. (2011). The performance of the European market for corporate control: Evidence from the fifth takeover wave. *European Financial Management, 17*(2), 208–259.

McDonald, M. L., Westphal, J. D., & Graebner, M. E. (2008). What do they know? The effects of outside director acquisition experience on firm acquisition performance. *Strategic Management Journal, 29*(11), 1155–1177.

Meglio, O., & Risberg, A. (2010). Mergers and acquisitions -time for a methodological rejuvenation of the field? *Scandinavian Journal of Management, 26*(1), 87–95.

Moeller, S. B., & Schlingemann, F. P. (2005). Global diversification and bidder gains: A comparison between cross-border and domestic acquisitions. *Journal of Banking & Finance, 29*(3), 533–564.

Nahavandi, A., & Malekzadeh, A. R. (1988). Acculturation in mergers and acquisitions. *Academy of Management Review, 13*(1), 79–90.

Nunnally, J. C. (1978). *Psychometric theory*. New York: McGraw-Hill.

Olie, R. (1990). Culture and integration problems in international mergers and acquisitions. *European Management Journal, 8*(2), 206–215.

Oppenheim, A. N. (1966). *Questionnaire design and attitude measurement*. London: Heinemann.

Pablo, A. L. (1994). Determinants of acquisition integration level: A decision-making perspective. *Academy of Management Journal, 37*(4), 803–836.

Ranft, A. L., & Lord, M. D. (2000). Acquiring new knowledge: The role of retaining human capital in acquisitions of high-tech firms. *Journal of High Technology Management Research, 11*(2), 295–319.

Rappaport, A., & Sirower, M. L. (1998). Stock or cash? The trade-offs for buyers and sellers in mergers and acquisitions. *Harvard Business Review, 77*(6), 147–158, 217.

Ravenscraft, D. J., & Scherer, F. M. (1987). *Mergers, sell-offs and economic efficiency*. New York: Brookings Institute.

Reus, T. H., & Lamont, B. T. (2009). The double-edged sword of cultural distance in international acquisitions. *Journal of International Business Studies, 40*(8), 1298–1316.

Richard, P. J., Devinney, T. M., Yip, G. S., & Johnson, G. (2009). Measuring organizational performance: Towards methodological best practice. *Journal of Management, 35*(3), 718–804.

Saxton, T., & Dollinger, M. (2004). Target reputation and appropriability: Picking and deploying resources in acquisitions. *Journal of Management, 30*(1), 123–147.

Shrallow, D. A. (1985). Managing the integration of acquired operations. *Journal of Business Strategy, 6*(1), 30–36.

Sirower, M. L., & Sahni, S. (2006). Avoiding the "synergy trap": Practical guidance on M&A decisions for CEOs and boards. *Journal of Applied Corporate Finance, 18*(3), 83–95.

Stahl, G. and Voight, A. (2004). *Meta-analyses of the performance implications of cultural differences in mergers and acquisitions*. Proceedings of the Annual Meeting of the Academy of Management, New Orleans, 11–15.

Stahl, G. K., Larsson, R., Kremershof, I., & Sitkin, S. B. (2011). Trust dynamics in acquisitions: A case survey. *Human Resource Management, 50*(5), 575–603.

Straub, T. (2007). *Reasons for frequent failure in mergers and acquisitions*: *A comprehensive analysis*. Springer Gaber Edition. Germany: Wiesbaden.

Sudarsanam, S. (2010). *Creating value from mergers and acquisitions* (2nd ed.). London: Prentice Hall.

Uhlenbruck, K., Hitt, M. A., & Semadini, M. (2006). Market value effects of acquisitions involving Internet firms: A resource-based analysis. *Strategic Management Journal, 27*(10), 899–913.

Very, P., Lubatkin, M., Calori, R., & Veiga, J. (1997). Relative standing and the performance of recently acquired European firms. *Strategic Management Journal, 18*(8), 593–614.

Weber, Y. (1996). Corporate cultural fit and performance in mergers and acquisitions. *Human Relations, 49*(9), 1181–1202.

Weber, Y., & Drori, I. (2011). Integrating organizational and human behavior perspectives on mergers and acquisitions. *International Studies of Management and Organization, 41*(3), 76–95.

Zollo, M., & Singh, H. (2004). Deliberate learning in corporate acquisitions: Post-acquisition strategies and integration capability in US bank mergers. *Strategic Management Journal, 25*(13), 1233–1256.

Zaheer, A., Castañer, X., & Souder, D. (2013). Synergy sources, target autonomy, and integration in acquisitions. *Journal of Management, 39*(3), 604–632.

10

Russian Oil and Gas MNEs Investing in China: The Role of Government in Value Creation

Andrei Panibratov

Introduction

The People's Republic of China (PRC) and the Russian Federation (RF) are the two fastest-growing economies in the world. Gazprom has internationalized into China as it has been developing very fast. Russian companies also consider the Chinese market to be very attractive for international expansion, especially in natural resource-based industries, such as oil and gas or metallurgy.

The last decade has been characterized by the impressive growth of foreign direct investment (FDI) made by companies from emerging countries, including China and Russia, which has led to a visible change in global investment flows and the creation of additional value to the results

A. Panibratov (✉)
Center for the Study of Emerging Market and Russian Multinational Enterprises, Graduate School of Management, Saint-Petersburg State University, Volkhovskiy pereulok, 3, 199004 Saint-Petersburg, Russia
e-mail: panibratov@gsom.pu.ru

© The Editor(s) (If applicable) and the Author(s) 2017

S. Marinova et al. (eds.), *Value Creation in International Business*,
DOI 10.1007/978-3-319-30803-6_10

of their internationalizing activities. Chinese and Russian firms have had ample opportunities for international expansion since the beginning of this century. A key role in this process belongs to the changes in the policies of both countries and for the public support given to their governments to invest abroad. Thus, Russian–Chinese bilateral trade volume, which amounted to US$15.8 billion in 2003, has increased more than six times over the last ten years, reaching US$95.3 billion in 2014 (RCIF 2015), growing at a much faster rate than China's trade with the United States or the EU. However, the investment cooperation between the two countries is clearly lagging behind, with China being the source of less than 2% of FDI in Russia, while for China the total inflow and outflow of FDI amounted to US$123.9 billion and US$101.0 billion in 2013. For Russia, the total FDI inflow and outflow amounted to US$69.2 billion and US$86.5 billion respectively in 2013 (WIR 2015).

China has been vigorously developing trade and economic relations with the United States, Europe, and Canada since the late 1970s, when Beijing launched a new policy of openness and reform, while significant trade with Russia began only ten years later and was mostly limited to small suitcase trade in the border provinces. Economic cooperation between the two countries, including FDI, has been mainly oriented towards the natural resource sectors, while the rest of the economy was largely ignored for a long time. The explanation for this is that both countries have significant experience in energy and the mining industries and, in addition, that the value creation opportunities are very high in these sectors. All these factors have played a huge role in the current state of investment projects by Russian firms in China.

One of the main reasons for such late cooperation is the lack of detailed and accurate information about the Chinese market and the absence of an understanding of how to invest in emerging markets, such as the PRC. Furthermore, many Russian companies would like to enter the Chinese market, but they don't know where to start. They do not have the slightest idea because they know very little about China in general or about the investment climate in particular. Nevertheless, a lot of companies have capital to invest and the motivation to explore new markets.

The role of government is very important for all emerging market firms that invest abroad. This becomes even more explicit when cooperation between emerging economies takes place. Local governments usually try convincing potential investors that they are reliable and efficient partners. Many officials and managers believe that the goals of governments and businesses are more cooperative and compatible than competitive, as they are involved in the creation of value for the company and the national economy through the process of the exchange of resources. These integrative ways of interaction in business lead to the expectation that the government is not only competent, caring, and effectively regulating industries, but also able to deliver a sufficient contribution regarding value creation by firms operating in the country. This suggests that common goals and the sharing of resources are important foundations for a successful partnership between governments and businesses in China, and possibly in other countries as well.

Only recently, the expansion of Russian firms has attracted the attention of researchers (see e.g. Kalotay and Sulstarova 2010; Mihailova and Panibratov 2012; Panibratov 2012, 2015), and the Chinese context for FDI is widely introduced in the literature (see e.g. Johnson and Tellis 2008; Luo 2000; Tse 2010; Wang et al. 2012). Vahtra and Liuhto (2006) have examined the operations of Russian firms with a focus on investment in the oil and gas industries and the motives for Russian outward FDI (OFDI). Panibratov and Kalotay (2009) have investigated the political interference in Russia's investments and founded that the country shows a significant difference in FDI patterns from other emerging economies since Russian firms seek to decrease the possible negative effects of domestic risks by means of establishing an immediate international presence. However, the topic of Russian expansion in China is in fact not discussed at all.

In this chapter, I try to fill this gap by studying the internationalization of Russian Multinational Enterprises (MNEs) in China. More specifically, I investigate the investments of two large Russian oil and gas companies in China and discuss the home government's role in the value creation of Russian MNE operations.

The Role of Government in the Internationalization of Firms

Both academics and policy makers are in accordance that governments influence the international operations of firms by means of various laws, regulations, and trade barriers. Moreover, specific government actions can directly discourage or prevent the growth of international business. To protect local businesses from foreign competition, governments may establish trade barriers, hence enforcing protectionism, which defines a government policy of protecting local or domestic industries from foreign competition (Dlabay and Scott 2006). Policies and politics play a key role in emerging market firms' decisions to invest overseas as well as in the modalities and location of their expansion.

Internationally available resources and capabilities are often considered by firms as a primary argument for internationalization (Anand and Delois 2002), which is of course important if there were not other determinants for internationalization, such as institutions. Formal institutions have a profound impact on the global strategy of business. They have a direct effect on how firms are able to formulate and implement their strategies (Peng et al. 2009). Institutions constitute the rules of the game in a society and they also shape firm strategies. Formal institutions enshrine laws, rules, and regulations, such as property rights, the judiciary system, business regulation, and investment laws. They are the regulatory pillar that administers individual and firm behavior. While such institutions, as norms, culture, and ethnic rules, belong to informal institutions, they also affect global strategies.

There are differences between emerging countries, which are determined by their current level of technological development, the availability of resources, the degree of economic liberalization, and access to world capital and credit markets, debt levels, and so on. These differences suggest different entry strategies and a variety of models for cooperation.

Specific government actions can directly develop and promote international business. Governments around the world encourage domestic industries to export by providing export advice and training, export insurance and export subsidies, and tax credits. In less developed economies,

governments view exporting as not only the tool for international integration, but also as an effective way to create jobs and foster economic prosperity in general (which is often the first priority for them). Governments encourage both inward and outward investment through a number of techniques: establishing free-trade zones; granting most favored nation status; establishing free-trade agreements; providing export insurance to exporters to guarantee against foreign commercial and political risks; providing free or subsidized export marketing assistance to exporters to help research foreign markets, promote their products overseas, and find foreign buyers; providing tax incentives for foreign companies to invest and to locate manufacturing plants in their countries; and reducing or eliminating trade barriers such as tariffs, import licenses, and quotas.

A government can also encourage international trade by granting most favored nation status to other countries. This status allows a country to export into the granting country under the lowest customs duty rates. Products imported from countries without most favored nation status are charged at a higher rate.

In addition, countries establish free trade agreements with each other. In these markets, members eliminate duties and other trade barriers, allow companies to invest freely in each member country, and allow workers to move freely across borders. Common market members also have a common external duty on products being imported from non-member countries.

In many countries, not only the central government but also local authorities play an active role in the economy, hence firms are usually tuned into government priorities and preferences. State support provides emerging market firms with privileged access to certain inputs, preferential financing, subsidies, and other support.

Government ownership leads to other opportunities for a company: it can solve the information asymmetric problem as a result of the imperfect information given to the investors about the value of the firm and can curb some of the agency problems where a government which owns shares in the companies has their representatives on board to monitor the management's activities (Najin and Rahman 2011). In addition, the government is able to obtain information from other sources and is

more likely to gain easier access to different channels of financing than non-state firms (Eng and Mak 2003). Scholars have also determined that government-linked companies are companies that have a primary commercial objective and in which the government of a country has a direct controlling stake through its agents (Omar and Bakar 2012).

In the process of internationalization the role of home and host governments is equally significant. Factors associated with the political and business environment can be divided into two types. The first concerns the application of government policies, regulations and, procedures related to the macroeconomic environment, international trade, domestic competition, taxes, bureaucratic procedures, and labor. The second type concern institutions and other aspects of the business environment related to finance, infrastructure, market conditions, law, and crime. The legal and political regulations in the home and host countries create a lot of pressure on the environment, which should be considered by firms. On the one hand, government regulation and restrictions may force firms to look abroad for growth; on the other hand, government encouragement and support will also contribute to the expansion of the activities of national and foreign firms.

The dual role of the state—as controlling (control and regulation of the private sector) and producing (directly created by taking the appropriate economic policy)—is very important for the economic performance of emerging economies (Wong and Govindaraju 2012).

Since over the last few decades the economic growth has increased at the firm, industry, and country level, the importance of each of these levels has proved to be different for countries with varying levels of national economic development. Hence, government policies to support the development of firms differ between developed and developing countries, which is often due to differences in the business context, the culture, and the level of industrialization.

These differences between the home and host country environment also cause a liability of foreignness, which is based on three factors: the exchange risk of operating in a foreign market, the local authorities' discrimination against entrant firms, and the firms' unfamiliarity with a foreign market (Hilmersson and Jansson 2012). Moreover, certain prejudices against foreign investors often exist due to asymmetric information about

the company, and generalizations arise based on previous experience with a particular country's firms and their image in the local market. This occurs when host country stakeholders try the products and services of the focal firm, or work with it (as in the case of outward investments or exports), or, vice versa, local customers deal with the products of international firms (as in the case of inward investments or imports) and build their opinion mostly on its intrinsic characteristics. This is the case of Russian technology-intensive firms, which enjoy a relatively positive country-of-origin image, in contrast to Russian MNEs in natural resource-based industries that are traditionally associated with a political motive based on Russian OFDI (Panibratov 2015).

Reasons Behind Choosing Russia as a Context for OFDI

Russia is a relatively young outward investor and the government policies towards OFDI are not clear yet. The investment climate and the administrative barriers are perceived to be more problematic in Russia than in the rest of the BRIC countries. Settles and Gurkov (2011) argue that the Russian state encourages firms to invest their surplus of capital in foreign business, attempting to improve the image of these firms, and to acquire greater experience in the international market.

At the end of the 2000s, Russia had the second largest stock of OFDI among the emerging economies (US$203 billion in 2008) (Panibratov and Kalotay 2009). The prototypes of Russian MNEs already existed at the time of the Soviet Union (i.e. the so called "red multinationals"), and the government exercised strict control upon these enterprises, which were all state owned. A majority of these firms were involved in supporting the country's exports (raw resource marketing, infrastructure support, banking, insurance). After the collapse of the USSR in the early 1990s, these companies were mostly privatized and restructured, and their assets were consolidated inside the country. These transformations created further interest in overseas expansion.

The second wave of internationalization of Russian firms started at the end of the 1990s, with cross-border M&As being the most popular

form. Large greenfield projects were also preferred. Compared to M&As, greenfield investments used by Russian firms were smaller in both size and scope (Kalotay and Sulstarova 2010).

Commonwealth of Independent States (CIS) and Eastern European countries were the regular destinations for Russian OFDI (Filippov 2011). Russian MNEs had the advantage of originating from a developing economy and operating in a familiar environment, which was to them more investment friendly than that of developed countries (Mihailova and Panibratov 2012). Western MNEs that have invested in Russia within the two last decades have been orientated towards high quality products and services, an effective and often aggressive marketing policy in Russia, and local partnerships (Panibratov 2009). Hence, benefits from their operations were not only financial, but also transferred some product and marketing knowledge that became available to Russian MNEs.

The motives for the internationalization of Emerging Market Multinational Enterprises (EMNEs) are considered to be the same as those for companies from developed economies, with market, labor, resource, and technology-seeking prevailing over the rest (Rasiah et al. 2010). In the case of Russia, resource and market-seeking motives are most often stated as the main ones, but with little respect to industry specifics (Panibratov and Verba 2011). OFDI from Russia is both an *exodus* and an *expansion* in terms of the role of both home-country factors that encourage firms to invest abroad and the attractiveness of foreign locations for Russian firms (Vahtra and Liuhto 2006).

An exodus was strong in the early 1990s (at the beginning of the transition), and the early studies of Russian FDI suggested that initial investment motives were primarily driven by a desire to diversify assets as a safeguard against poor domestic economic conditions and political instability (Sokolov 1991; Bulatov 1998; Andreff 2002) or to avoid excessive export duties and benefit from more favorable taxation abroad (Kalotay 2005). The escape motive diminished in the mid-1990s; but the crisis of 1998 prompted a rise in capital escape, and then normalization again; then the crisis of 2008 increased the motivation for an exodus once again.

The international expansion of Russian firms was closely connected with reforms implemented during the last two decades: privatization and attempts to implement industrial restructuring to catch-up with

technological developments are amongst the most important. In line with the established idea that the most beneficial OFDI policies are those that secure the acquisition of scarce resources abroad and foster a structural transformation of the domestic economy toward more technology-intensive industries (Caseiro and Maseiro 2014), the role of technology-oriented OFDI was also high in Russia in the last decade (Panibratov and Latukha 2014).

Nevertheless, sectoral development has not been even: while the state supported some industries, it left others without incentives and possibilities for growth. In Russia, mass privatization has led only to a gradual transformation of production networks. The core "technology" of privatization in Russia was the "corporatization" of large and medium-sized enterprises by converting them into joint stock companies prior to their restructuring. The aim was to make an enterprise independent of state administration, delimit the size of its ownership, and separate shareholders from management. In the privatization program, large and medium-sized enterprises have played a major role.

The government has played an important role in the emergence of Russian OFDI. State-owned enterprises possess a set of advantages (financial capabilities, access to loans from the central bank, administrative support) that facilitate their internationalization. At the same time, even in fully or partly privatized enterprises, state influence remains, sometimes directly (e.g. through residual ownership) and sometimes indirectly, significant (Panibratov 2012). However, government influence varies across industries, being particularly strong in the energy sector and taking only an indirect form in others through incentivizing their development.

Reasons Behind Choosing China as a Context for Inward FDI

There are several reasons for considering China as a context for inward investments. With 1.2 billion people, it has the largest population in the world. It is the second largest economy, adjusted for purchasing power, and is projected to become the largest by about 2020. The size of the country and its economic diversity make it an investment area in its own

right. The political economy of China is also very distinctive. It pursues its own mode of transition from socialism to a free market economy through policies and institutional arrangements that are largely unique. This transition involves progressive engagement in international business.

The scale of China and its increasing involvement in international business means that it cannot be ignored, despite the ideological and institutional differences between it and the other major economic powers. Lengthy negotiations on China's accession to the WTO bear witness to the problem. As an environment for foreign investment, China represents an unusual degree of complexity and uncertainty, which is not necessarily in favor of the strategy of companies applied elsewhere. Many firms are frustrated by the low profits that they have made on those investments and some of them have divested themselves from the Chinese market. At the same time, Chinese companies investing abroad often face difficulties. China's role in international business is therefore a challenge to both practice and theory.

In the last five years China has become more and more noteworthy: it not only hosted the Olympic Games in 2008, but also the World Expo in Shanghai in 2010. In this period, the country was also involved in a major reconstruction effort after the May 2008 earthquake in Sichuan province. The years 2008–2009 showed the interconnectedness of today's global economy, as the financial crisis, originating in developed countries, spread quickly throughout the world. China responded with a massive US$586 billion program that stabilized the economy.

Cooperation with Russia plays an important role for China. In both emerging markets, government controls many spheres in businesses and has a huge impact on them. Political relationships between the two countries have led to their mutually beneficial development. As a result of the signed Plan of Sino-Russian Investment Cooperation, with an emphasis on bilateral investment agreements, the mutual payments between China and Russia in national currencies has increased from 2% in 2013 to 18% in 2014 (Kalinovsky 2014).

Methodology

In this chapter, I use a case study method in order to examine the effect of the home government policy on selected Russian companies' internationalization results in China. The objective of the study is to investigate the influence of the home government on the investments of Russian oil and gas MNEs in China, with the following research questions posed:

- Which approaches and strategies add more value to Russian firms' investments in China?
- To what extent and how does the home government add/decrease value to the strategy of Russian MNEs in China?

As I aim in this study to understand Russian MNE investments in China and the role of the home government in it, I have mainly used descriptive research, where the main techniques were case studies, observations, and reviews of previous related studies and data. However, the explorative approach was also used, as there are no studies on the topic posing similar questions with reference to the Russia–China context.

According to Deloitte research (2008), there are "six big global players" from Russia concentrated in two industrial sectors which are related to natural resources expansion and processing. This is a traditional area of competitive advantage for Russian capital. Considering the importation of oil and gas needed for the growth of the Chinese economy, China has become more dependent on oil and other energy imports (Weede 2003). The choice of the oil and gas sector was also supported by the role it plays in the national economy: in 2014 alone, it accounted for 17% of Russian GDP (Zotin 2014).

In this chapter, I have investigated two cases of Russian oil and gas firms, which is, formally speaking, against the rules for the case based method, where a minimum of three (or, better, four) case companies should be selected. The main excuse here is that in Russia there are only two state-owned oil and gas companies—Rosneft and Gazprom—that

are strongly influenced and/or controlled by the state. Hence, in the oil and gas industry, which is number one in terms of combining successfully the economic and political perspectives, we simply cannot find a third firm in Russia. At the same time, the two firms are not only ideal case studies, but also the two largest firms in the oil and gas industry in Russia.

Case Studies

Oil and Gas Companies

The amount of natural gas in Russia is more than anywhere else in the world. The main consumer of Russian gas is Europe; however, Russia has an open path to the East. However, within a few years of negotiating on the construction of a gas pipeline from Eastern Siberia to the East, several projects presented problems as well as prospects. For example, the project ESPO (Eastern Siberia—Pacific Ocean) is expensive, but it allows the bringing of the pipeline to multiple users, thereby supporting a high price because of the rather high, and most importantly, competitive demand. However, the stumbling block in turning to the East is the price issue.

The gas prices Russia uses in its sales to Europe are firmly tied to oil prices and hence the gas price can go up or down with the changes in oil prices. However, Asian consumers, particularly China, are not ready for such costs. Since 2004, when China began importing gas, favorable agreements were concluded with Kazakhstan and Uzbekistan for gas supplies. Negotiations with Russian gas suppliers went on for a long time before Russia offered China a gas price equal to that charged to European consumers. But in the end China preferred to deal with Turkmenistan, Kazakhstan, and Uzbekistan, which offered a relatively lower price.

Oil also plays a key role in the world because it is vital for many industries. Moreover, international companies retain a significant influence over the global energy sector. The largest volume of petroleum industry products are fuel oil and gasoline. The petroleum industry in Russia is one of the largest in the world and is also the largest producer of oil. The Russian oil industry is, mainly, under the control of the government.

Gazprom

Company Background

Gazprom is one of the leading companies in Russia and in the world. It is a global vertically integrated energy corporation and one of the largest Russian firms in regard to foreign assets. It was established in 1989 by the Soviet Union Gas Ministry as part of the privatization program (Alon and Dwyer 2012). Today over 50% of Gazprom is owned by the Russian government as it keeps its controlling stake (Gazprom 2014).

Initially, Gazprom focused on domestic operations and regarded foreign countries only as a place for external sales or as transit territories. Nowadays, the company operates Russia's domestic gas pipeline network and delivers gas to countries in Central Asia and Europe. Additionally, it relies on exports to Western countries and primarily operates in Europe.

Gazprom is a reliable supplier of gas to Russian and foreign consumers. The company owns the world's largest gas transmission network—the Unified Gas Supply System of Russia, with a total length of more than 161,000 kilometers. It sells more than half of the produced gas to Russian consumers and exports the rest to countries inside and outside Russia.

The company is among the five largest oil producers and is the largest owner of power generating assets in the country. These assets make up for 17% of the total installed capacity in the national energy system.

Gazprom in China

In August 2002, Gazprom opened a representative office in Beijing. The office was established in order to develop a long-term and mutually beneficial cooperation with the Chinese oil and gas companies and organizations. The representative office is authorized to act on behalf of Gazprom in the Asia–Pacific countries. It increased cooperation with the state authorities and leading oil and gas companies of China, Japan, the Republic of Korea, Hong Kong, Singapore, Malaysia, Indonesia, Vietnam, Thailand, and other countries in the region. Moreover, this office has

established strong ties with leading Chinese oil and gas companies (i.e. CNPC, Sinopec, CNOOC, Sinochem). In addition, the Chinese oil and gas market is considered to be very powerful and important for sales of petrochemical products produced by Gazprom's subsidiaries. Thus, the representative office periodically monitors the national market of the petrochemical industry.

In October 2004, Gazprom and CNPC entered into an Agreement on Strategic Cooperation, which covered a wide range of activities, including the examination of issues relevant to the arrangement of natural gas supplies from Russia to China. In March 2006 Gazprom and CNPC signed a Protocol on Natural Gas Supplies from Russia to China, outlining the main accords on the gas supply schedule, the amounts and routes, as well as gas pricing principles.

So the representative office pursues the main objective of representing and protecting Gazprom's interests in China and other Asia–Pacific countries. The main activities of Gazprom's representative office in China are the following:

- maintaining regular contacts with state authorities and companies in China and other Asia–Pacific countries for mutually beneficial cooperation;
- shaping proposals on Gazprom's operations in the energy market of China and other countries in the Asia–Pacific region;
- searching for specific projects in China and other Asia–Pacific countries;
- assisting Gazprom experts working in China and other Asia–Pacific countries, as well as the delegations arriving to negotiate;
- providing comprehensive information to the company in a timely manner about the status of the oil and gas industry in China and other Asia–Pacific countries, the behavior of the oil and gas market, and the progress of joint projects;
- supporting the projects undertaken by Gazprom in China and other countries in the Asia–Pacific region;
- participating in managing the business of the companies set up by Gazprom in China and other Asia–Pacific countries;

– providing assistance to Gazprom Group's companies in the organization of exhibitions, conferences, and presentations in China and other Asia–Pacific countries.

In February 2009, the first Russian LNG plant was launched in Sakhalin. Gazprom joined the project Sakhalin-2, which led to powerful impetus for the completion of the major project in the field of energy supply in the Asia–Pacific region. In 2007, the Russian government was provided with the Development Program (the integrated gas production, transportation, and supply system for the Far East) that would achieve the set goals. Gazprom was appointed as the Program's executive coordinator.

Gazprom signed an agreement to build a gas pipeline called the "East Way" from Russia to China (supplying 38 billion cubic meters of gas per year). This opened up the ability to update quickly the agreement on gas supplies from Russia to China, which had been frozen in 2012 (Beijing's severe contract terms proposed to Moscow in the construction of the pipeline required the transportation of gas directly from Russia to China). It was expected that, in exchange for an agreement with Gazprom, the transmission of "blue gold" would increase to 60 billion cubic meters per year.

In April 2012, Chinese energy officials stated they wanted to deal with Gazprom directly and also made a new proposal to overcome the price impasse. After negotiations in March 2013, Gazprom and CNCP signed a Memorandum of Understanding on the cooperation between the two companies for the gas supplies to China via the eastern route. This was a long-term strategic document which established a 30-year contract.

Thus, in accordance with this memorandum starting from 2018, the Russian pipeline to China will transport 38 billion cubic meters of gas per year. The volume should gradually reach 60 billion cubic meters, which will help China in 2018 to overtake Germany in becoming the largest importer of Russian gas, which is the goal of Gazprom.

The Chinese and Russian governments have addressed a wide range of issues regarding joint operations. The contract between CNCP and Gazprom has led to a deeper cooperation between their two governments. Back in 2004, on October 14, the Agreement of Strategic Cooperation was signed, under which these corporations stated their intention to

Table 10.1

Gazprom timeline	*Russian government role*
August 2002: opened a representative office in Beijing October 2004: sealed an Agreement on Strategic Cooperation with CNCP March 2006: signed the Protocol on Natural Gas Supplies from Russia to China with CNCP 2007: the Development Program February 2009: the first LNG plant on Sakhalin Island June 2009: signed the Memorandum of Understanding for cooperation in the natural gas industry October 2009: inked in the framework agreement on the major terms and conditions for natural gas supply from Russia to China with CNCP December 2009: Agreement on Gas Supply from Russia to China March 2010: the agreement on developing the feasibility study for gas processing and gas chemical projects with CNCP 2011: signed an agreement to build a gas pipeline, the "East Way" March, 2013: signed a Memorandum of Understanding on the cooperation with CNCP about the project for pipeline gas supplies to China via the eastern route 2015: expected delivery of natural gas	*Reduction of the autonomy of Gazprom's management* In 2001–2003 Vladimir Putin actively reforms the management of Gazprom *Official international visits* Official visit of Vladimir Putin to PRC in October 2004, March 2006, and March 2013 Gazprom delegation visits China *Contracts and agreements supervised by the Russian President* 2011: Vladimir Putin personally instructed to study the gas pipeline project Memorandum (2013): Document signed in the presence of the Presidents (Russia and China) *Attraction of foreign investments* *Export laws* The Federal Law "On Gas Export", granting Gazprom a legal monopoly on gas exports *State policies and RF Industry and Energy Ministry Orders* End of 2005: it is legislated that the state cannot own less than 50% plus one share of Gazprom The September 2007 Order (approval of the Development Program) for an integrated gas production, transportation, and supply system in Eastern Siberia and the Far East State policy on the gas infrastructure development in Eastern Russia provided for by the Development Program for integrated gas production, transportation, and supply system in Eastern Siberia and the Far East The RF Industry and Energy Ministry Order No. 340 of September 3, 2007 *Tax incentives for the implementation of agreements on gas supplies* Exemption from tax on property Necessary measures of state support in the area of tax incentives (2015) Ensuring comparable tax treatment of offshore projects Establishment of incentives for the mineral extraction tax and export customs duties on oil and oil rims of the fields in the Far East and Eastern Siberia Exemption from tax on property of organizations of the coastal process systems (to ensure the shipment of hydrocarbons) *Political and economic influence of the state* October 2004: wide spectrum of joint businesses including scrupulous discussion of the issues related to the organization of Russian natural gas deliveries to China by Gazprom October 2009: favorable conditions for further cooperation deepening in the gas sector and for subsequent signing of a long-term contract for gas supply from Russia to China *Granted licenses and authorization* February 2009: RF government has authorized Gazprom to coordinate the Eastern Gas Program execution and Gazprom is granted licenses *Intergovernmental agreements on gas supplies*

Rosneft timeline	*Russian government role*
2007: signed a memorandum about the expanding cooperation in the upstream sector with CNCP October 2008: Sino-Russian joint venture; Rosneft has a 49% stake, CNPC 51% 2009: signed a contract under which the company was going to export 300 million tons of crude to China by 2030 2010: construction of an oil refinery in China jointly with CNPC September 2010: Chinese–Russian Eastern Petrochemical Company March 2013: signed agreements with Chinese companies in order to continue to strengthen its position in China 2015: the construction of the refinery with an annual capacity of 13 million tons and light products' yield of more than 80% will be completed	*Strengthening the position of Rosneft* 2006: government strategy of consolidation of the political system *Agreements between Russia and China* Agreement between the Government of the RF and the Government of the PRC on Cooperation in Construction and Operation of the Tianjin Oil Refining and Petrochemical Plant and Oil Exploration and Production Projects; independent imports of crude oil; unimpeded exports of petroleum products and petrochemicals; selling the joint venture's petroleum products and petrochemicals within the country During the APEC summit in Beijing: in the presence of the Chinese President and Russian President, signing of a cooperation framework agreement on the Vankor Oilfield project

Sources: Based on the companies' websites, official government websites, and the industry development overview results

transport natural gas from Russia to China (by Gazprom) and jointly operate gas processing and gas chemical projects in eastern Russia and other countries. The Joint Coordinating Committee was set up to supervise the agreement implementation.

In June 2009, China and Russia signed the Memorandum of Understanding for cooperation in the natural gas industry and, later in October, Gazprom and CNPC inked in the framework agreement on the major terms and conditions for natural gas supplies from Russia to China; in December 2009, the Agreement on Gas Supply from Russia to China was signed. In March, 2010, the companies entered into the agreement on developing the feasibility study for gas processing and gas chemical projects. In 2014, Gazprom and CNPC signed the agreement to supply Russian gas via the Eastern route, which is the biggest contract in the history of the global gas industry. The 30-years agreement implies delivering 38 billion cubic meters of natural gas annually to China from the Yakutia and Irkutsk gas production centers via the Power of Siberia gas trunk line (Gazpromexport 2015).

Rosneft

Company Background

The Rosneft Oil Company is the leader in the petroleum industry in Russia. It was established in 1993 as a state enterprise with assets previously held by Rosneftegaz, which was the successor to the USSR Ministry of Oil and Gas. Later, in December 1995, Rosneft was incorporated as an open joint stock company. However, Rosneftegaz is still a shareholder, with a 75.16% equity stake, while the company is in 100% federal ownership (the Russian government's direct share through the Federal Agency for State Property Management) (Rosneft 2014).

Rosneft ranks among the world's top publicly traded oil and gas companies. It is involved in the prospecting and exploration of hydrocarbon deposits, crude oil and gas extraction, the processing of natural hydrocarbons, and sales of gas and oil products in Russia and overseas. It is engaged in seven exploration projects in Algeria and Kazakhstan. Its seven major

oil refineries have convenient locations across the country, from the Black Sea to the Far East, and the sales network covers 41 regions. In 2010, Rosneft reached an agreement with the Venezuelan national oil company on the acquisition of 50% of Ruhr Oel GmbH, which in turn owns stakes in four refineries in Germany.

Rosneft has been included in the Russian Government's List of Strategic Enterprises and Organizations. Thus, on December 31, 2012 the state held 75.16% of the company (through OJSC Rosneftegaz), while approximately 10% of shares were in free-float. As of December 2010, the Rosneft group consisted of 534 subsidiaries and affiliated companies. The company had a network of 1800 filling stations throughout Russia. Additionally, during the financial year 2011, the company recorded a revenue of US$91,975 million; the operating and net profit amounted to US$15,880 million and US$12,452 million respectively.

Rosneft in China

The company considers the Asia–Pacific region to be one of the most preferable regions for development. Thus, Rosneft and CNCP signed a memorandum for expanding cooperation in the upstream sector, potentially considering the purchase of new offshore and onshore blocks through LLC Vostok Energy. A joint venture between these corporations, Rosneft (51%) and CNCP (49%), was established to operate upstream assets in Russia (registered in October 2008). In 2009, another contract was signed (for 300 million tons of crude to be exported to China by 2030). Currently, Russian crude is being supplied via the ESPO pipeline, and exports are the main entry mode of Rosneft into China.

At the end of September 2010, the companies signed a contract for downstream cooperation, which is a feasibility study agreement for the construction of a refinery in Tianjin (China). As a result, the Chinese–Russia Eastern Petrochemical Company was established by Rosneft and CNCP as part of the energy cooperation between the two companies.

In addition to the refinery, this joint venture is expected to develop a network of retail filling stations. The construction of the refinery with an annual capacity of 13 million tons of oil, with a light product yield

above 80% will be completed by 2016. Along with the motor fuels and liquefied natural gas, the refinery will produce petroleum products such as aromatics and polypropylene.

In March 2013, Rosneft signed a number of agreements with Chinese companies in order to strengthen its position in China. Under the terms of this new deal between Rosneft and CNCP, the Russian company will supply an additional amount of oil over a 25-year period (planned after the intergovernmental agreement on cooperation in the construction and operation of the plant in Tianjin). The two countries signed an agreement on strategic cooperation in hydrocarbon exploration, production, and sales, where Rosneft and CNPC acted as the authorized representatives.

Rosneft and the China Petrochemical Corporation (Sinopec Group) have also signed a protocol on comprehensive cooperation. This provides grounds for increased partnership in the field of exploration and the production of hydrocarbons, refining and the petrochemical industry, the processing of liquefied natural gas, as well as supplies of crude oil and petroleum products (and possibly LPG in the long term) in China. Furthermore, the company confirmed its intention to continue the joint exploration in the Udmurt Republic, to assess the prospects of ground gas production on the Sakhalin-3 project, and to consider the conditions of Sinopec's possible participation in Rosneft's large-scale project in the Far East (the Eastern Petrochemical Company). Positive results of this cooperation in the Udmurtneft and Sakhalin-3 projects can already be seen, with Sinopec as the strategic partner.

Findings

Overall, the role of the Russian government in the internationalization of Gazprom and Rosneft in China is presented in Table 10.1.

The number of intergovernmental agreements between Russia and China helped to develop the oil and gas sector cooperation between the two countries. There was a particular agreement on May 27, 1994 between the government of the RF and the government of the PRC for avoidance of double taxation and the prevention of tax evasion with respect to taxes on income. This appeared to be very important in terms

of the contribution to the economic, scientific, technical, and cultural cooperation between China and Russia.

The internalization process of Gazprom has been influenced by Russian government policy. The government of the RF is the ultimate controlling party of the company and has a controlling interest of over 50% (direct and indirect ownership). On December 31, 2012, 38.4% of Gazprom was directly owned by the government, while 11.6% was owned by government controlled entities. Hence the government has a huge influence on the company's operations in Russia and overseas. Furthermore, governmental economic and social policies affect the financial position, results of operations, and cash flows of the company. In other words, after the privatization in 1992, the government imposed the duty on the company to provide an uninterrupted supply of gas to customers in Russia at government controlled prices.

The question of prices is very important and is also seen in the cooperation with China. However, prices of natural gas sales and electricity tariffs in Russia are regulated by the Federal Tariffs Service. In addition, taxes are accrued and settled in accordance with Russian tax legislation.

Rosneft's international projects correspond to the political ambitions of the home government and Russia's interests in foreign trade. A strong foreign presence helps the company to create strategic partnerships and agreements with foreign counterparts, not only in China, but also around the world. Commonly, when the representatives of two governments meet in order to sign an agreement or discuss cooperation, Rosneft representatives are usually also there. Thus, Rosneft often acts as an ambassador for Russia's business to countries of strategic interest. For example, it is active in Kazakhstan, where it develops Aday zone together with Sinopec. Along with other oil companies in Russia, Rosneft has established operations in Venezuela. It also operates in Algeria, which is located within the sphere of the commercial and political interests of the Russian state and the company. In December 2009, the first stage of the ESPO pipeline was opened, which will allow access to new markets for Rosneft. This was a government supported project, exploiting alternative markets where Russian oil and gas can be sold.

Russia's access to the WTO can also impact on many industries, and is of particular importance to domestic oil companies. However, it may

favorably affect the performance of Gazprom, speeding up the process of increasing domestic gas tariffs to a level of parity with export prices. In addition, the requirement of the WTO is to provide equal access to the export of gas which is an issue that is likely to remain within the regulations of Russian legislation.

Overall, the role of government in the oil and gas industry is very prominent due to the fact that oil and gas are national resources and thus the government's goals concerning their use and exploitation should be paramount. The main decisions in this sector depend on the government's policy and on the effective control of the sector. The government is the major contributor to the industry because, as a whole, it depends on political decisions for utilizing the nation's resources. The Chinese government also has a strategic interest in receiving these resources at a good price. As a result, Chinese companies are dependent on Russia's government priorities, while Russian companies extracting, producing, and exporting oil and gas experience the pressure of Chinese government demands. As it happens, key sticky issues are resolved with the support and direct participation of both the Russian and Chinese governments, as well as representatives of the companies on both sides. Such a direct participation of the government actually supports the internationalization of Gazprom and Rosneft into China, while by comparison Lukoil, which is a private company, does not widely operate in China.

Discussion and Conclusion

Which Approaches and Strategies Add More Value to the Investment of Russian Firms in China?

From the analysis above, the active internationalization process of Russian firms in China started in the late 2000s, which benefited from high oil prices and brought about the consequent prosperity of Russia's economy. The Russian government pushed oil and gas MNEs to internationalize due to the understanding of the unique chance to overcome all possible roadblocks and to compensate for liabilities of foreignness. Providing Gazprom and Rosneft with various incentives and protecting them with

intergovernmental agreements, Russia facilitated the internationalization process of not only these two companies, but also of many other Russian firms in other sectors.

Both companies used different entry modes, which allowed them to "test" the foreign waters while entering the Chinese market, and to choose the most appropriate post-entry strategy. Gazprom and Rosneft used exports as a main entry strategy into China, principally due to intergovernmental and cooperation agreements between the two countries. (In contrast, in the same decade, the entry strategy of Russian metallurgy firms was via mergers and acquisitions.)

In 1993, property rights, ownership regulations, and governance structure in Russia were transformed and this resulted in a formal institutional void, which created economic chaos in the country (Puffer et al. 2009). The collapse of formal institutions increased the reliance on informal institutions, bringing to the fore personal connections and networks. These have been crucial for Russia's business development and have long facilitated business interactions with foreign partners (Ledeneva 1998). One can also argue that even governments can use informal institutions to enforce formal institutions such as laws and regulations. In other words, formal and informal institutions are closely intertwined, with both types of institutions trying to protect their own survival (Lebedeva and Shekshnya 2011).

This institutional interplay influences the operations of Russian MNEs like Gazprom and Rosneft, which use both types of institutions to operate in an unstable or unknown environment. Concerning their internationalization strategies towards China, it has to be mentioned that, since the Chinese government in some aspects uses similar ways to shape and regulate its economy and MNEs, Russian companies like Gazprom and Rosneft possess advantages because they know how to deal with these factors better than MNEs from developed countries that do not have experience with politically shaped formal and informal institutions. Gazprom and Rosneft internationalize in China through strategic partnerships with domestic Chinese companies that are essential for their success. These partnerships are built on networks and personal connections and these are largely associated with the informal institutions these companies have and the formal institutional support.

To What Extent and How Does the Home Government Add/Decrease Value to the Strategy of Russian MNEs in China?

The role of the home government in the expansion of Russian oil and gas MNEs into China is huge. It also influences entry modes and post-entry operations of Russian firms in China. Politically, oil and gas is of strategic importance to Russia, which is why decisions, including those on firm internationalization, are discussed and coordinated with the government.

Ownership structure also plays an important role in the industry. State ownership, though, does not always reflect the real interest of the government in the company. For example, in contrast to Rosneft, that is fully state owned and is included in the Russian Government's List of Strategic Enterprises and Organizations, and which the state directly owns 75.16% of (through OJSC Rosneftegaz), Gazprom with its 50% government stake at times seems to be more dependent on the government.

Gazprom and Rosneft are under the strict control of the government due to the big share of state ownership and their importance to the national economy. The companies began creating joint ventures with Chinese companies, and then went on to build facilities and infrastructure in order to export their products. In this sector, there is a big political and economic potential for Russia, which is estimated to become the largest exporter of gas in the future. Given the worsening relations between Russia and Western Europe due to political tensions and economic sanctions, Russian firms have successfully strengthened their partnerships with their Chinese counterparts.

Overall, I distinguish the following value-adding factors, which confirm the important role of home government in the internationalization of Russian MNEs to China:

1. Government ownership makes a company more stable and reliable, which is especially important in the Chinese context and for Chinese partners.
2. Government support facilitates access to financial resources, which can be used for technological development in different projects.

3. The transportation system plays a key role for oil and gas firms' operations, and is crucial for exports. Without government support, it would not be possible for Russian MNEs to build a logistics system for exporting oil and gas abroad using pipelines.
4. The set of intergovernmental agreements between Russia and China has developed and framed the relationships between the two countries in the oil and gas industries.

Two additional arguments in support of the Russian government role were two prerequisite events that accelerated activities and laid the foundations for value creation in the operations of Russian MNEs in China.

The first was the agreement signed on May 27, 1994 between the government of the RF and the government of the PRC for avoidance of double taxation and the prevention of tax evasion with respect to taxes on income. This was extremely important and forced both countries into cooperation with each other.

The second was the entry of Russia into the WTO in 2011, which is an important potential link to the reform of export duties in future cooperation with China.

To Conclude

Political factors play an important role in the internationalization of Russian oil and gas MNEs and, more specifically, in the cooperation between Russian and Chinese firms. The decision to enter the Chinese market and cooperate with oil and gas companies there, in the case of Gazprom, was supported by the government due to its political implications and attempts to limit the dependence of Russian oil and gas companies on European markets by diversifying its customers in order to mitigate political risks. Both Russia and China are members of the BRICs and one of the goals of this organization is to enhance and improve cooperation between these countries, both in the political and economic fields.

As to China, this is a country with a strong communist heritage, yet one striving to integrate into the global economy. This influences a great deal the way in which other countries' MNEs may enter the Chinese

market, especially in the energy and natural resource based industries. Such a big market needs a lot of energy, and specifically this industry requires geographical proximity, which is an obvious advantage for Russia (as well as for Kazakhstan or other CIS countries). That is why it is mutually beneficial, politically and economically, for both countries to develop cooperation and exchange investments. In addition, culturally, the way of doing business is pretty similar in the two countries, which influences positively the process of mutual internationalization between them.

References

Alon, A., & Dwyer, P. (2012). Globalization and multinational auditing: The case of Gazprom and PwC in Russia. *Behavioral Research in Accounting, 24*(1), 135–160.

Anand, J., & Delios, A. (2002). Absolute and relative resources as determinants of international acquisitions. *Strategic Management Journal, 23*(2), 119–134.

Andreff, W. (2002). The new multinational corporations from transition countries. *Economic Systems, 26*(4), 371–379.

Bulatov, A. (1998). Russian direct investment abroad: Main motivations in the post-Soviet period. *Transnational Corporations, 7*(1), 69–82.

Caseiro, L. C. Z., & Maseiro, G. (2014). OFDI promotion policies in emerging economies: The Brazilian and Chinese strategies. *Critical Perspectives on International Business, 10*(4), 237–255.

Deloitte (2008). *Russian multinationals: New players in the global economy*. Moscow: Deloitte.

Dlabay, L. R., & Scott, J. C. (2006). *International business* (3rd ed.). Mason: Thomson, South-Western.

Eng, L. L., & Mak, Y. T. (2003). Corporate governance and voluntary disclosure. *Journal of Accounting and Public Policy, 22*(4), 325–345.

Filippov, S. (2011). Emerging Russian multinationals: Innovation, technology, and internationalization. *Journal of East-West Business, 17*, 184–194.

Gazprom (2014). Official website, www.gazprom.ru

Gazpromexport (2015). Official website, http://www.gazpromexport.ru/en/partners/china/

Hilmersson, M., & Jansson, H. (2012). Reducing uncertainty in the emerging market entry process: On the relationship among international experiential knowledge, institutional distance, and uncertainty. *Journal of International Marketing, 20*, 96–110.

Johnson, J., & Tellis, G. (2008). Drivers of success for market entry into China and India. *Journal of Marketing, 72*(2), 1–13.

Kalinovsky, I. (2014). Switching to Yuan. *Expert Online,* November 21. http://expert.ru/2014/11/21/yuan-speshit-na-pomosch/

Kalotay, K. (2005). Outward foreign direct investment from Russia in a global context. *Journal of East-West Business, 11*(3/4), 9–22.

Kalotay, K., & Sulstarova, A. (2010). Modelling Russian outward FDI. *Journal of International Management, 16*(2), 131–142.

Lebedeva, A., & Shekshnya, S. (2011). Business in Russia: Informal practices and anti-corruption strategies. *Russie.Net.Visions, 58*, 1–29.

Ledeneva, A. V. (1998). *Russia's economy of favours: Blat, networking and informal exchange*. Cambridge: Cambridge University Press.

Luo, Y. (2000). Entering China today: What choices do we have? *Journal of Global Marketing, 14*(1), 57–82.

Mihailova, I., & Panibratov, A. (2012). Determinants of internationalization strategies of emerging market firms: A multilevel approach. *Journal of East-West Business, 18*(2), 157–184.

Najid, N. A., & Rahman, R. A. (2011). Government ownership and performance of Malaysian government-linked companies. *International Research Journal of Finance and Economics, 61*, 42–56.

Omar, N., & Abu Bakar, K. M. (2012). Fraud prevention mechanisms of Malaysian government-linked companies: An assessment of existence and effectiveness. *Journal of Modern Accounting and Auditing, 8*(1), 15–31.

Panibratov, A. (2009). Internationalization process of Russian construction industry: Inward investments perspective. *Journal for East European Management Studies, 2*, 210–228.

Panibratov, A. (2012). *Russian multinationals: From regional supremacy to global lead*. London: Routledge.

Panibratov, A. (2015). Liability of foreignness of emerging market firms: The country of origin effect on Russian IT companies. *Journal of East-West Business, 21*(1), 22–40.

Panibratov, A. and Kalotay, K. (2009). *Russian outward FDI and its policy context*, Columbia FDI Profile, No.1. http://www.vcc.columbia.edu

Panibratov, A., & Latukha, M. (2014). Obtaining international results through partnerships: Evidence from Russian MNEs in the IT sector. *Journal for East European Management Studies, 19*(1), 31–57.

Panibratov, A., & Verbá, C. (2011). Russian banking sector: Key points of international expansion. *Organizations and Markets in Emerging Economies, 2*(1), 63–74.

Peng, M. W., Sun, S. L., Pinkham, B., & Chen, H. (2009). The institution-based view as a third leg for a strategy tripod. *Academy of Management Perspectives, 23*(3), 63–81.

Puffer, S. M., McCarthy, D. J., & Boisot, M. (2009). Entrepreneurship in Russia and China: The impact of formal institutional voids. *Entrepreneurship Theory and Practice, 34*(3), 441–467.

Rasiah, R., Gammeltoft, P., & Jiang, Y. (2010). Home government policies for outward FDI from emerging economies: Lessons from Asia. *International Journal of Emerging Markets, 5*(3/4), 333–357.

Rosneft (2014). Official website. www.rosneft.ru

Russia-China Investment Fund (2015). http://rcif.com/russia-china-trade.htm

Settles, A., & Gurkov, I. (2011). Strategy and organization in Russian corporations. *International Studies of Management and Organization, 41*(4), 3–19.

Sokolov, S. (1991). Companies set up abroad with Soviet capital. *Foreign Trade, 10*, 15–17.

Tse, E. (2010). Is it too late to enter China? *Harvard Business Review, 88*(April), 96–101.

Vahtra, P., & Liuhto, K. (2006). An overview of Russia's largest corporations abroad. In K. Liuhto (Ed.), *Expansion or exodus—Why do Russian corporations invest abroad?* New York: International Business Press.

Wang, C., Hong, J., Kafouros, M., & Wright, M. (2012). Exploring the role of government involvement in outward FDI from emerging economies. *Journal of International Business Studies, 43*(7), 655–676.

Weede, E. (2003). China and Russia: On the rise and decline of two nations. *International Interactions, 23*, 343–364.

Wong, C.-Y., & Govindaraju, V. G. R. C. (2012). Technology stocks and economic performance of government-linked companies: The case of Malaysia. *Technological and Economic Development of Economy, 18*(2), 248–261.

World Investment Report (2015). *Reforming international investment governance*. Geneva: United Nations Publication, UNCTAD.

Zotin, A. (2014). Neft So Vsemi Vytekayusimi, *Kommersant*, October 27. http://www.kommersant.ru/doc/2594003

11

When Is FDI Valuable to the Multinational Enterprise? The Role of Firm Capabilities and International Experience

Piotr Trapczynski

Introduction

While the relationship between the internationalization degree of multinational enterprises (MNEs) and their performance has long been an important issue in international business research, empirical research has only generated heterogeneous outcomes (Li 2007). This can be related to the fact that the internationalization degree in itself is not an explanatory, but an intermediate, variable (Verbeke and Brugman 2009). Hence, in order to benefit from the advantages of internationalization, firms need to leverage their resources in different foreign settings (Lu et al. 2010). Thus, added value in MNEs is generated from contributions originating in different parts of a network of subunits, exposed to divergent characteristics of host countries (Verbeke et al. 2009), and having different roles in the MNE portfolio (Luo 1999b). Despite the focus of academic attention on

P. Trapczynski (✉)
Poznan University of Economics,
al. Niepodleglosci 10, 60-967, Poznan, Poland
e-mail: piotr.trapczynski@ue.poznan.pl

© The Editor(s) (If applicable) and the Author(s) 2017

S. Marinova et al. (eds.), *Value Creation in International Business*,
DOI 10.1007/978-3-319-30803-6_11

foreign expansion, divestment processes and withdrawals from foreign markets are commonplace (Benito and Welch 1997). Thus, the relationship between firm internationalization and its performance is clearly a non-obvious one.

Studies on foreign direct investment (FDI) have adopted the foreign affiliate (e.g. Luo 1999a; Gaur and Lu 2007; Kim and Gray 2008) or the MNE (e.g. Delios and Beamish 1999; Lu and Beamish 2004) as levels of performance measurement. Within the second category of studies, although significant research attention has been devoted to the link between an MNE's internationalization degree and its performance, the antecedents of this relationship have basically continued to be ignored. Verbeke et al. (2009) have urged us to consider the specific motives underlying each FDI project, as these determine the consequences of foreign expansion to the MNE. In fact, the role of FDI motives has remained underscored (Li 2007; Verbeke and Brugman 2009). Furthermore, apart from Chan (1995) or Brouthers et al. (2003), the analysis of the economic effects of investing abroad has been limited to the foreign subsidiary. Therefore, the question about the conditions under which FDI can add value to the parent MNE in different financial and non-financial dimensions constitutes a vital research issue.

At the same time, the emergence of MNEs from emerging markets has attracted the attention of scholars (Luo and Tung 2007). A significant portion of research on these MNEs and their behavior in international expansion has focused on their conventional or atypical character from the perspective of the theory and evidence from advanced economies (Hennart 2012; Jormanainen and Kovershnikov 2012). As Obloj (2014) argues, these "infant" MNEs make initial internationalization decisions and thus pose an excellent laboratory for testing the theory and the resultant hypotheses. While scholarly attention has been focused on BRIC countries, Central and Eastern European (CEE) countries, including Poland, have also witnessed an increasing tide of outward FDI (OFDI) undertaken by indigenous firms (Svetlicic and Jaklic 2003; Panibratov and Latukha 2014).

Yet, the question of how and under what conditions firms from low and middle-income countries improve their international performance by engaging in FDI has not received adequate scholarly attention. While

comparative studies from several CEE countries indicate a generally positive influence of FDI on investors' competitive positions, the degree of fulfillment of related expectations varies significantly between firms from different countries, due to financial and managerial barriers and difficulties related to foreign investments (Svetlicic and Jaklic 2003). Väätänen et al. (2009) demonstrate that internationalization has a positive influence on the profitability of Russian multinationals, whereby the effect is stronger for privatized and newly established firms, rather than state-owned firms. Musteen et al. (2010) indicate that performance related to the internationalization of Czech firms is positively affected by the geographic diversity of the network of contacts possessed by top managers.

Preliminary empirical evidence from Poland suggests that firms engaging in more advanced internationalization modes such as FDI show higher financial results (Ratajczak-Mrozek et al. 2011; Trąpczyński 2015), although the relationship between the degree of internationalization and financial performance followed an inverted U-shape (Doryn 2011). Furthermore, Szalucka (2009) found a high fulfillment of Polish parent expectations in sales growth and firm value increase, but not as much in terms of profitability, possessed resources, or cost efficiency. Meanwhile, it was noted that this relationship improved with a higher degree of internationalization, though no further explanatory factors were examined. As far as acquisitions are concerned, Nicholson and Salaber (2013) found that Chinese and Indian firms could achieve superior returns by acquiring targets in developed countries. Conversely, variations in the performance of target firms in developed markets can be explained by differences in resources for acquiring Emerging market multinational enterprises (EMNCs) and the latter's experience from previous FDI in emerging markets (Buckley et al. 2014).

Clearly, the antecedents of FDI contribution to the creation of value for the MNE in financial and non-financial dimensions still remain ambiguous, both in general and in the specific context of emerging multinationals. Therefore, the present study aims at investigating the factors that affect the value creation of FDI, that is the contribution of undertaking FDI to different performance aspects of MNEs originating from Poland as a middle-income country. The analysis is to take into account the role assigned to the foreign affiliate by the parent firm regarding its actual

performance outcomes, as well as the capabilities of the parent firm itself. The chapter sets out with a review of theoretical concepts and related empirical research, explaining the effects of undertaking FDI on MNE performance. In the next section, research hypotheses are formulated, with justification particularly rooted in the specific context of emerging multinationals. Subsequently, the hypotheses are tested by using econometric modeling. The final sections of the chapter discuss the results and outline their implications for further research.

Value Creation Through FDI: Theoretical Underpinnings

Performance from the Perspective of FDI Theory

A number of theoretical concepts of international business can explain the reasons; mode and location patterns of FDI can be accordingly related to the economic outcomes of these decisions. According to Dunning's (1995, 2001, 2002) eclectic theory, or OLI paradigm, a firm must possess ownership (O) advantages to engage in FDI and successfully compete in foreign markets. The notion of firm resources as the key drivers of firm success in foreign markets also appears in the monopolistic advantage theory (Hymer 1976), according to which firms require the possession of value-generating assets in order to overcome their liability of foreignness. Moreover, internalization theory refers to firm-specific advantages, which constitute a source of competitive advantage in foreign markets (Rugman and Verbeke 1992). A second condition for undertaking FDI, alongside the possession of unique firm resources, is a superior profitability from exploiting firm resources internally rather than externalizing them via contractual agreements (internalization or I advantages). Given that these two requirements are met, it must also be more beneficial to the MNE to combine these advantages with certain location (L) advantages in a host country. These include local market potential, labor costs, and political incentives, as well as institutional environments (Peng et al. 2009). Dunning (1996) further shows that, with an increased degree of internationalization, MNEs source an increasing share of their international

competitiveness from foreign activities. This relationship is contingent upon the sector of the MNE, the resource endowments of its home country, or its size (Dunning and Lundan 1998).

Dunning (1988a,b) further draws attention to the objectives of undertaking FDI from the MNE viewpoint. FDI motives include market-seeking, resource-seeking, efficiency-seeking, and strategic asset-seeking (Dunning 1993). Resource-seekers undertake FDI in order to obtain the required resources at a lower cost or at a higher quality than in their home market. Market-seekers invest abroad to benefit from market size or the expected growth of host countries. Further, it may be important for the firm to locate its operations close to its key trade partners or clients in foreign markets, in order to adjust its marketing program or reduce the costs of serving a given market. Efficiency-seekers are preoccupied with rationalizing production, distribution, and marketing activities by a common governance of geographically dispersed operations. Their aim can be to exploit differences between factor cost and availability among countries or, conversely, to benefit from the similarity between countries so as to generate economies of scale and scope. The last category pertains to the strategic objectives of MNEs, whose fulfillment allows sustaining or improving their international competitiveness by extending or complementing the firm's portfolio of assets (Dunning and Lundan 2008). Dunning argues that whilst the first two motive categories are typical of initial FDI, the latter two typically appear in sequential FDI and are widespread in more developed countries (Dunning et al. 2008).

It should be stressed at this juncture that FDI motives in themselves do not constitute an object of dedicated theories. Certain scholars have proposed classifications similar to that of Dunning. In addition to the above four general categories of motives, Dunning (1993) also distinguishes between escape investments, support investments, and passive investments. The first category relates to FDI evading restrictive or unfavorable policies by the home-country government, which may limit investment opportunities in particular sectors. The second category seeks to support the activities of other MNE subunits, especially in the form of export facilitating and promoting investments, for example importing activity, wholesale and retail distribution and marketing, and after-sales service.

Finally, passive investments embrace those surpassing 10% of capital share but not intended for lasting control by the foreign investor, such as investments by restructuring funds or investments in real estate.

While it is inconceivable to assign FDI to one specific type of motive, as in real business foreign expansion can fulfill a bundle of different objectives from the viewpoint of the parent firm (Demirbag et al. 2007): the specific dimension on which an affiliate can be expected to perform specifically well, appears to be contingent on the mandate of the affiliate within the MNE. In the same vein, it can be assumed that the contribution of undertaking FDI to the performance of the parent firm is also contingent on the underlying FDI motives (Verbeke et al. 2009). While this relationship might at first glance seem to be intuitive, if not trivial, business reality shows that the assumed targets determined for a foreign affiliate are far from guaranteed, resulting in strategy changes, including the contraction of foreign operations, which may—in extreme cases—result in withdrawal from a foreign market (Benito and Welch 1997). Hence, the verification of this claim provides a direct indication as to the effectiveness of a firm's foreign expansion.

Verbeke et al. (2009) suggest that foreign expansion can be expected to yield different outcomes for the MNE depending on the above FDI motives, although this relationship has not been adequately examined before. Market-seeking motivations were found to be more related to local market sales than other location advantages (Demirbag et al. 2007). Uhlenbruck (1997) analyzed the influence of resource-seeking motives, finding a significant effect of lower labor costs in Eastern European host countries on the performance of foreign affiliates of Western multinationals. A similar positive performance effect of labor costs was found by Chan et al. (2008) and Li et al. (2011).

Performance from the Perspective of an MNE Organization

Since MNEs have to manage geographically dispersed structures, they are exposed to significant environmental complexity, resulting from operations in markets at divergent levels of economic, institutional, and cultural distance. Hence, a portfolio of subsidiaries needs to be coordinated, each

of them fulfilling different functions within an MNE strategy. Thus, the added value of FDI projects to MNE performance cannot be regarded in the context of its environment in isolation, rather it is co-determined by internal organizational factors. Jarillo and Martinez (1990) indicate that the role of a subsidiary within the MNE system can be defined by its degree of integration with the rest of the firm and the degree of localization of its operations. Likewise, Bartlett and Ghoshal (2002) argue that international strategy, which expresses itself in a trade-off between responsiveness to foreign market demands and the need for a cross-border rationalization and integration of value chain activities in order to maximize efficiency, impacts upon their organizational structures, authority allocation, or the role of subsidiaries in their host countries.

Empirical research exploring value creation by foreign affiliates has predominantly overlooked the organizational antecedents of subsidiary performance. Studies devoted to foreign affiliate performance have concentrated on the effects of foreign affiliate resources (e.g. Xia et al. 2007; Chiao et al. 2008), or to a larger extent of MNE resources (e.g. Vega-Cespedes and Hoshino 2001; Brouthers et al. 2008; Gao et al. 2008; Luo 2002). Among studies linking MNE and subsidiary level, such variables as share of expatriates in the affiliate (Fang et al. 2010), relatedness of marketing and technological knowledge between the parent and the affiliate (Fang et al. 2013), or cultural distance between home and host country (Qin et al. 2011) have been explored. Gammelgaard et al. (2012) observe that both an increase in intra-organizational relationships and affiliate autonomy result in enhanced affiliate outcomes. Luo (1999b) underlines the importance of a foreign affiliate's role in the parent firm's strategy for its financial and non-financial results, observing that affiliate focus on cost efficiency positively affected the return on assets, export growth, and risk reduction, while a local market focus was connected to local market growth.

However, none of the above research devoted to the relationship between firm resources and subsidiary performance provides comprehensive explanations as to the conditions under which FDI can actually add value to the entire MNE and in which different financial and non-financial dimensions this can occur. A subsidiary in itself can be successful in terms of sales performance, yet less so as far as costs are concerned,

and hence affect an MNE's cost efficiency. Conversely, deficient integration of foreign operations into MNE activities may hinder know-how transfer and therefore limit learning effects for the whole firm. Moreover, not explicitly considering strategic motivations beyond a foreign venture disables a complete understanding of the ways in which value can be added to the operations of the entire MNE (Verbeke and Brugman 2009; Verbeke et al. 2009).

In light of the above deficiencies identified in previous studies, the present chapter is preoccupied with the question of which factors intervene in the relationship between FDI outcomes and its ability to add value to the entire operations of an MNE, and in what dimensions of MNE operations can this added value show itself. Thereby, particular attention is devoted to the role of firm-specific factors, whereof firm capabilities and international experience have been put forward as the most influential antecedents in the research quoted above, yet at the same time providing inconclusive evidence and thus requiring further investigation. The following section summarizes the theoretical argumentation put forward above in order to formulate a set of hypotheses which are generally relevant for international business research on MNE performance, but which at the same time are rooted in the context of emerging MNEs.

Development of Hypotheses

Firm Capabilities and Added Value by FDI

As was mentioned above, the ability of a given foreign subsidiary to add value to the parent firm is not uniquely contingent on the targets set by the MNE, but equally importantly on the degree of both control and support provided by the parent. Ghoshal (1987) divided the goals followed by multinationals into attaining efficiency in current operations, managing the risks thereof, as well as developing internal capabilities to innovate and adapt to future changes. In pursuit of a given competitive strategy MNEs can configure their international value chains by allocating different activities, such as production, marketing and sales, service, technology development, or procurement, in different locations.

It is this coordination and configuration strategy that affects the competitive advantage of the firm, more than the location advantages themselves (Porter 1986). In line with Dunning (1979), the capabilities of the MNE, which are relevant in foreign expansion, include production management, organizational and marketing abilities, and R&D capacity. Research devoted to subsidiary performance has shown that firm capabilities possessed by the MNE lead to higher outcomes by the subsidiary (Xia et al. 2007; Brouthers et al. 2008; Tran et al. 2010; Fang et al. 2013). In a similar vein, if the MNE is to leverage foreign operations to its advantage, it has to have appropriate managerial capabilities (Hennart 2012). This refers to different mandates defined by the parent to different FDI projects, such as those using expertise developed in other markets to succeed in sales to a new market and thus increase global market share, those exploiting differentials in operating costs across locations, or those providing learning benefits (Fig. 11.1).

One of the most typical characteristics of emerging MNEs is that they are mostly latecomers to global markets and therefore display disadvantages in terms of international competitiveness, in particular in relation to managerial capabilities (Svetlicic et al. 2000; Yamakawa et al. 2008; Cui and Jiang 2010; Wang et al. 2012). On the other hand, while being laggards to the global economy, firms from the emerging markets of CEE must rely on certain firm-specific resources, which allow them to compete particularly in economically more developed countries (Narula 2006).

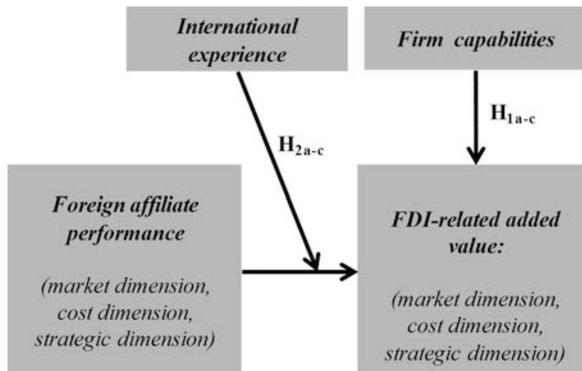

Fig. 11.1 FDI-related added value: conceptual model of the study

Sliwinski (2011) argues that the sources of international competitiveness of Polish firms increasingly pertain to firm capabilities, rather typical of more developed firms. Moreover, recent studies of Polish OFDI suggest that market-seeking motives prevail, thus implying that emerging multinationals from Poland must possess certain advantages to be exploited abroad (Jaworek et al. 2009; Gorynia et al. 2013; Radlo 2012). Hence, as opposed to some less advanced emerging countries, such as the BRIC countries, it might be expected that firms from Poland would share features of both advanced and emerging country multinationals. In this context, while their intangible assets and experience with managing cross-border operations may still remain limited, the possession of higher-order abilities may constitute an important determinant of the ability to add value through FDI. Thus, it is argued that:

Hypothesis 1a
There is a positive relationship between firm capabilities and market-related added value of FDI.

Hypothesis 1b
There is a positive relationship between firm capabilities and cost-related added value of FDI.

Hypothesis 1c
There is a positive relationship between firm capabilities and strategic added value of FDI.

International Experience and Added Value by FDI

As was highlighted in the foregoing theoretical sections, added value of FDI to MNE performance is not independent of the original FDI motives. However, it is also clear that the above added value, that reflects a given FDI motive and—in consequence—also the subsidiary mandate, has to be generated at the level of the affiliate under investigation. The activities of the affiliate are reflected in its own performance, yet this does not automatically translate into value to the MNE if it remains

in isolation. It can be argued that the ability of the MNE to leverage a given FDI project to yield value for the whole firm is also dependent on its experience with international operations, in particular with establishing foreign affiliates. The argumentation behind this is twofold. Firstly, along with the increasing scope and maturity of international operations, a firm's ability to manage FDI can be argued to increase, thus leading to positive performance outcomes (Ogasavara and Hoshino 2007; Ogasavara 2010). In the context of CEE firms, mostly expanding gradually to similar, neighboring markets in order to exploit previous business ties, FDI experience is still rare (Gorynia et al. 2015). Secondly, it is a valuable resource which can be transferred to subsequent markets in which emerging MNEs establish direct operations and improve market-related results due to the gradually accumulating knowledge of such a form of foreign expansion. Hence, it might be expected that market-related outcomes will translate into higher value for the parent firm, in terms of market-related performance aspects to a larger extent, if the firm has more experience with other FDI projects, allowing for mutual sharing of best practices between the particular country operations. While this statement could apply to developed country multinationals, it is specifically relevant for emerging MNEs, which can exploit their experience of doing business at home in other similar emerging markets (Del Sol and Kogan 2007). Thus, the following hypothesis is put forward:

Hypothesis 2a
International experience reinforces the positive relationship between market-related performance of the foreign affiliate and market-related added value of FDI.

Another relevant aspect of the added value of FDI operations relates to the efficiency dimension. With the increasing scope of foreign operations, it can be assumed that the marginal added value of each subsequent FDI will be less relevant from the perspective of the entire MNE. It is in fact more likely that efficiency-oriented operations are already in the MNE portfolio, therefore each subsequent project will be of relatively lesser importance. It is hence argued that with an increasing advancement and scale of international activities of the MNE, the added value of FDI to the dimension of the parent's economic results will decrease. Hence, it is proposed that:

Hypothesis 2b
International experience weakens the positive relationship between the cost-related performance of the foreign affiliate and the cost-related added value of FDI.

A similar effect can be expected from the perspective of strategic assets. Firms originating from emerging markets frequently use FDI as a means of closing their competitive gap by acquiring higher-order resources (Cui and Jiang 2010). Therefore, it might be expected that firms with superior FDI experience have already sourced their strategic assets abroad with a higher likelihood than those with limited FDI experience. Hence, it is argued that:

Hypothesis 2c
International experience weakens the positive relationship between the strategic performance of the foreign affiliate and the strategic added value of FDI.

Methodology

Data Collection and Sample

Empirical data were collected from a proprietary database of 910 Polish outward investors. Between May and January 2014, CEOs and senior executives responsible for international operations were invited to take part in an online survey covering different aspects of their FDI projects, with a particular focus on the largest affiliate to date. Due to significant personal efforts to support the survey with direct reminders, additional interviews, and—where necessary—triangulation with secondary data, a total sample of only 100 complete surveys was obtained, which amounts to an effective response rate of 11%.

The distribution of parent firm characteristics in the research sample is to a large extent similar to that of the entire population with regard to industry classification and parent nationality. Thus, the collected data enable a detailed exploration of the sectoral, geographic, and size structure of Polish OFDI. The studied sample was dominated by manufacturing

industries (61% of firms), followed by services (39%). In general, the sectoral structure of the largest affiliates of Polish parents is similar to that of the entire groups, that is investments were made in related sectors. However, due to the above mentioned predominance of sales activities, wholesale and retail trade activities turn out to be predominant (33%) (see Table 11.1 for a detailed breakdown). In terms of firm size, parent firms with over 500 employees constituted 50% of the sample (see Table 11.2). In order to qualify for the study, the parent firms had to be registered in Poland, although their ultimate owners can be located abroad. Therefore, parent firms with more than 10% of foreign capital account for 46% of sample firms, whereas those with foreign shares exceeding 50% account for merely 25%. However, many of these foreign majority owners are in fact entirely controlled by Polish capital, therefore the sample predominantly contains firms which are Polish in the managerial and operational sense. The still limited scope of foreign operations is reflected by the fact that 68% of the firms have their affiliates in only up to three countries, whereas sales and marketing activities are predominant.

As regards FDI forms, 59% of the firms had had prior experience with greenfield subsidiaries, 43% with acquisitions, while 24% had established joint ventures abroad. The studied firms located their major FDI projects mostly in Germany (15%), Ukraine (14%), the Czech Republic (13%), Romania (11%), Russia (8%), and Slovakia (5%). Most foreign affiliates were active in sales and marketing, followed by production, services, and R&D (see Table 11.3). Of the affiliates, 63% count up to 99 employees in size, which is another reflection of the limited scale of operations by Polish multinationals.

Table 11.1 Sectoral structure of the sample (*N* = 100)

Sector	Manufacturing	Wholesale and retail trade	Information and communication	Financial and insurance activities	Agriculture, forestry, and fishing	Other
Parent firm						
# firms	51	14	8	8	4	15
Affiliate						
# firms	32	33	8	8	6	13

Table 11.2 Performance contribution depending on firm characteristics ($N = 100$)

Performance contribution		Market-related added value		Cost-related added value		Strategic added value	
	N	Mean	S.D.	Mean	S.D.	Mean	S.D.
MNE size (# employees)							
1–99	15	2.83	1.11	2.69	0.97	2.91	0.85
100–249	14	3.18	1.28	3.07	1.14	2.98	0.95
250–499	21	3.31	0.89	3.33	0.82	3.41	0.80
500–999	13	3.19	1.27	3.18	1.15	2.89	0.89
1000–1999	15	3.67	0.77	3.62	0.75	3.62	0.79
>1999	22	3.16	1.07	2.85	0.97	3.23	1.03
Number of affiliates							
1–3	69	3.12	1.00	3.13	0.96	3.15	0.86
4–7	22	3.43	1.04	3.32	0.99	3.26	0.82
Over 8	9	3.50	1.54	2.56	1.07	3.44	1.44
Foreign ownership share (% of capital of the parent firm located in Poland)							
0%	30	3.23	1.38	2.98	1.16	3.03	1.17
1–10%	24	2.81	0.98	2.89	1.11	3.06	0.92
11–74%	30	3.55	0.62	3.44	0.65	3.50	0.59
75–100%	16	3.22	1.05	3.10	0.88	3.17	0.77

Note: All values are on a five-point Likert Scale (1 significantly negative, 5 significantly positive)

Dependent, Independent, and Moderating Variables

The outcome variable in the econometric modeling is the added value of FDI, which is broken down into specific dimensions of MNE performance. This was operationalized by managerial perceptions of the impact of the largest foreign affiliate on market-related (sales growth, market share), cost-related (profitability, cost efficiency, sales to employment ratio), and strategic (market reputation, product quality, new product development capability) items, evaluated from a significantly negative to a significantly positive impact. Although the use of objective data has been common in earlier studies, no such data was available on Polish investments abroad. Furthermore, due to the fact that MNE performance is

Table 11.3 Performance contribution depending on affiliate characteristics (N = 100)

Performance contribution		Market-related added value		Cost-related added value		Strategic added value	
	N	Mean	S.D.	Mean	S.D.	Mean	S.D.
Affiliate size (# employees)							
1–99	63	3.12	1.07	3.06	0.98	3.12	0.86
100–249	14	3.36	0.99	3.21	0.94	3.45	1.06
250–499	14	3.71	0.85	3.48	0.96	3.45	0.72
500–999	1	4.00	–	3.67	–	3.33	–
1000–1999	4	3.75	0.87	3.00	0.47	3.58	0.69
>1999	4	2.00	1.15	2.42	1.64	2.33	1.54
Parent control							
11–49%	21	3.17	1.20	2.97	0.99	3.16	0.98
50–94%	21	3.10	1.32	2.92	1.18	2.89	1.04
95–100%	58	3.29	0.91	3.24	0.91	3.33	0.82
Affiliate operations							
R&D	1	3.00	–	2.33	–	3.33	–
Production	22	3.16	1.14	3.11	1.13	2.98	0.96
Services	21	3.12	1.09	3.17	1.13	3.25	0.94
Sales/marketing	37	3.16	1.12	3.01	0.93	3.15	0.89
Production and services	1	3.00	–	3.00	–	3.00	–
Production and sales/marketing	7	3.57	0.35	3.57	0.42	3.62	0.65
Services and sales/marketing	3	3.50	0.87	3.67	0.58	3.44	0.38
R&D, production services, and sales/marketing	8	3.63	1.22	3.00	1.04	3.42	1.23

Notes: All values are on five-point Likert Scale (1 significantly negative, 5 significantly positive); affiliates can perform several types of activities

affected by different factors (such as transfer pricing, subsidies, management fees, or exchange rates), it is hard to attribute specific figures to the overall outcome (Verbeke and Brugman 2009). Moreover, due to the sensitive character of such information, the gathering of objective financial information can affect the number of returned surveys, hence subjective questions allow us to capture the added value from the MNE viewpoint.

Indeed, it is the MNE headquarters that defines goals for an FDI project, which refers to both financial and non-financial aspects, hence it is also the appropriate entity to evaluate their attainment. The participation of executives responsible for international operations, although it can be biased by nature, appears to be an appropriate tool for capturing the effects of a given FDI project for the MNE under study, especially given that the value creation process occurs in several dimensions, whose measurement would otherwise have been difficult.

Among explanatory variables included in the hypotheses, firm capabilities were evaluated on a five-point bi-polar scale with reference to each firm's major competitor. They were measured on a five-point Likert-type scale for each of the following capabilities: technological capabilities, new product development capabilities, marketing capabilities, managerial capabilities, and product adaptation capabilities (Brouthers et al. 2008), scoring a good value of Cronbach's alpha of 0.88. Secondly, international experience of the MNE in undertaking FDI projects was operationalized as the total number of countries with established foreign subsidiaries of the MNE prior to the FDI under study (Ogasavara and Hoshino 2007; Ogasavara 2010), multiplied by the number of foreign affiliates in the MNE network, hence specifically reflecting both the duration and scale of FDI activities of the firm under study. Moreover, as Hypotheses 2a, 2b, and 2c feature a moderating effect of international experience, the explanatory variables here pertain to foreign affiliate performance, which was operationalized by managerial evaluations of market-related, cost-related, and strategic indicators in relation to the initial objectives determined by the parent firm (Kwon 2010; Slangen and Hennart 2008), analogically to the added value operationalization mentioned above, and showing a Cronbach's alpha of 0.79.

Finally, a number of control variables were introduced due to the multitude of factors affecting business performance. MNE size was controlled for, expressed in terms of current employment (Gaur and Lu 2007; Kwon 2010). Market potential was captured by two items on a five-point Likert scale: industry growth rate and market size (Agarwal and Ramaswami 1992), showing a Cronbach's alpha of 0.65. At the level of the foreign environment, since institutional factors have been shown

to affect business performance, institutional distance was added as a control variable, based on the World Bank's Governance Indicators (see e.g. Dikova 2009), which include data on such aspects of the environment as voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and corruption control. Further, parent control over the focal affiliate was controlled for (Ghahroudi 2011). In line with earlier research, a sectoral dummy was added with 0 = manufacturing and 1 = non-manufacturing (Brouthers et al. 2003). The final control variables were FDI motives on a five-point Likert-type scale for each of the following motive categories (Dunning and Lundan 2008): market-seeking (foreign market share increase), efficiency-seeking (lower production costs, economies of scale and access to low cost labor, Cronbach's alpha = 0.62), and strategic asset-seeking (new brands, new distribution channels, human resources, and new technology, Cronbach's alpha = 0.67).

Findings

Tables 11.2 and 11.3 present parent firm and affiliate characteristics, but they also enable cross-tabulation for the above mentioned dimensions of added value of FDI. They provide initial insights into the nature of the foreign units and the variation of performance measures. In terms of firm size, in the case of firms from 1000 to 1999 employees, their affiliates tend to add value across all dimensions to the largest extent. In a similar vein, for market-related and competitiveness-related dimensions there is also a rising tendency for added value in line with the number of FDI projects carried out by the parent firm. As far as foreign affiliate characteristics are concerned, a rising degree of parent control over the affiliate appears to affect positively the added value to parent performance along all dimensions. At the same time, there seems to be no clear relationship with affiliate size. On the contrary, the completeness of the value chain of the affiliate turns out to be beneficial for the performance of the entire firm across all three dimensions. In fact, for affiliates involved in either production and services, services and sales/marketing, or all activities, the average added value was clearly higher.

Due to the fact that the dependent variable in Hypotheses 1a, 1b, and 1c and 2a, 2b, and 2c (added value of FDI) is a continuous one, ordinary least-squares models were estimated with IBM SPSS 21. The modeling process involved three models for each of the three added value dimensions. In each instance, one model included all control variables and firm capabilities (Hypothesis 1), while the subsequent two models added the variables for Hypothesis 2, that is FDI performance and the moderating variable of international experience. Harrell (2001) notes that 10–20 observations per explanatory variable are necessary to capture acceptable size effects with satisfactory statistical power. Therefore, 12 predictors per model were treated as an upper threshold in the present study, in order to ensure acceptable F values in each case. Models with added variables on FDI performance and international experience show increasing R^2 values.

Prior to regression analysis, statistical checks were conducted in order to detect multicollinearity between explanatory variables and to deliver some initial overview of the relationships between added value of FDI and its antecedents. In the case of several of the above variables, recoding was necessary. Due to the problem of rare data, firm capabilities and international experience were transformed by using the logarithm of the original variable. Although correlation analysis (see Table 11.4) revealed minor multicollinearity problems, subsequent collinearity diagnostics revealed no serious concerns, as the VIF values for all models were visibly below the threshold of 5. Parent control was recoded from a scale with five intervals to three intervals due to rare answers. Market-related, cost-related, and strategic FDI performance was all mean-centered so as to avoid collinearity with international experience when running models that feature their interaction.

Beginning with Models 1–3 (Table 11.5), in which the focal construct is market-related added value of FDI, firm capabilities were a significantly positive determinant of added value in all models, providing strong support for Hypothesis 1a. The inclusion of international experience in Models 2 and 3 proved this variable to have a significantly positive effect on market-related added value. However, the negative interaction term of international experience and market-related performance of the foreign affiliate was not found to be statistically significant, thus providing no support for Hypothesis 2a.

Table 11.4 Descriptive statistics and Pearson correlations

Variables	Mean	Std Dev.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1. Market-related added value	3.23	1.06	1															
2. Cost related added value	3.12	0.99	0.792***	1														
3. Strategic added value	3.20	0.91	0.798***	0.769***	1													
4. MNE size	2277.64	5358.62	−0.190*	−0.161	−0.151	1												
5. Market potential	3.04	0.94	0.282***	0.256***	0.296***	−0.169*	1											
6. Institutional distance	1.02	0.94	0.055	0.018	−0.034	0.033	0.271***	1										
7. Parent control	2.37	0.81	0.061	0.130	0.113	0.136	−0.006	0.012	1									
8. Sector	0.61	0.49	0.161	0.158	0.124	0.011	−0.075	0.102	0.011	1								
9. Market-seeking	3.57	1.45	0.303***	0.240**	0.336***	−0.222**	0.239**	0.025	0.179*	0.145	1							
10. Efficiency-seeking	2.43	0.98	0.337***	0.371***	0.344***	−0.008	0.029	0.073	0.197**	0.161	0.322***	1						
11. Strategic asset-seeking motive	2.20	0.94	0.175*	0.248**	0.256**	−0.011	0.067	−0.170*	−0.39	0.129	0.248**	0.182*	1					
12. Market-related performance motive	0.00	0.86	0.465***	0.410***	0.320***	−0.044	0.243**	−0.107	-0.017	−0.262***	0.034	0.087	0.169*	1				
13. Cost-related performance motive	0.00	0.71	0.525***	0.539***	0.394***	−0.108	0.284***	−0.037	0.008	−0.187*	0.069	0.111	0.206**	0.796***	1			
14. Strategic performance	0.00	0.67	0.467***	0.498**	0.478**	−0.095	0.371***	−0.082	0.119	−0.213**	0.089	0.156	0.155	0.669***	0.716***	1		
15. Firm capabilities	0.00	0.74	0.417***	0.298***	0.368***	−0.019	0.199**	−0.109	0.055	0.024	0.182*	0.200**	−0.061	0.201**	0.172*	0.219**	1	
16. International experience	15.30	33.00	0.114	−0.162	0.050	0.085	0.139	0.129	0.063	0.043	0.083	−0.079	0.176*	−0.31	0.041	0.039	−0.065	1

*** $p < 0.01$; ** $p < 0.05$; * $p <= 0.10$; $N = 100$

Table 11.5 Regression models for market-related added value ($N = 100$)

Variable	Model 1	Model 2	Model 3
MNE size	–0.143*	–0.157*	–0.152*
	(0.000)	(0.000)	(0.000)
Market potential	0.061	0.045	0.040
	(0.099)	(0.099)	(0.100)
Institutional distance	0.092	0.074	0.076
	(0.096)	(0.095)	(0.096)
Parent control	0.024	0.013	0.012
	(0.104)	(0.103)	(0.104)
Sector	0.219***	0.217***	0.217***
	(0.178)	(0.176)	(0.177)
Market-seeking motive	0.090	0.081	0.090
	(0.065)	(0.064)	(0.066)
Efficiency-seeking motive	0.157*	0.178**	0.171**
	(0.092)	(0.092)	(0.093)
Strategic asset-seeking motive	0.051	0.022	0.016
	(0.096)	(0.097)	(0.098)
Market-related performance	0.431***	0.438***	0.459***
	(0.104)	(0.103)	(0.116)
Firm capabilities	0.274***	0.279***	0.281***
	(0.119)	(0.118)	(0.119)
International experience		0.137*	0.132*
		(0.003)	(0.003)
International experience			–0.043
x market-related performance			(0.003)
R^2	0.49	0.51	0.51
Adj. R^2	0.43	0.45	0.44
Std error	0.80	0.79	0.79
F	8.54***	8.21***	7.48***

Notes: Standardized β are shown; standard errors in parentheses
*** $p < 0.01$; ** $p < 0.05$; * $p <= 0.10$

In Models 4–6 (Table 11.6), in which the dependent variable is cost-related added value of FDI, firm capabilities displayed a positive influence on cost-related added value, supporting Hypothesis 1b, although the level of statistical significance is lower than in the case of models with market-related added value. Moreover, the addition of international experience in the analyses revealed a statistically significant ($p < 0.01$) negative sign, both for the direct effect as well as for the hypothesized moderating effect between cost-related performance of the foreign

Table 11.6 Regression models for cost-related added value (N = 100)

Variable	Model 4	Model 5	Model 6
MNE size	–0.107	–0.085	–0.079
	(0.000)	(0.000)	(0.000)
Market potential	0.072	0.094	0.086
	(0.093)	(0.090)	(0.089)
Institutional distance	0.015	0.043	0.054
	(0.089)	(0.087)	(0.085)
Parent control	0.092	0.108	0.109
	(0.097)	(0.094)	(0.093)
Sector	0.199**	0.205***	0.213***
	(0.163)	(0.158)	(0.155)
Market-seeking motive	–0.001	0.014	0.036
	(0.061)	(0.059)	(0.058)
Efficiency-seeking motive	0.216**	0.182**	0.163**
	(0.086)	(0.084)	(0.083)
Strategic asset-seeking motive	0.095	0.137	0.101
	(0.090)	(0.089)	(0.089)
Cost-related performance	0.474***	0.477***	0.559***
	(0.118)	(0.114)	(0.125)
Firm capabilities	0.154*	0.145*	0.143*
	(0.111)	(0.107)	(0.105)
International experience		–0.210***	–0.196**
		(0.002)	(0.002)
International experience x cost-related performance			–0.170**
			(0.003)
R^2	0.49	0.52	0.55
Adjusted R^2	0.43	0.46	0.48
Std error	0.75	0.72	0.71
F	8.37***	8.81***	8.72***

Notes: Standardized β are shown; standard errors in parentheses
*** $p < 0.01$; ** $p < 0.05$; * $p <= 0.10$

affiliate and cost-related added value of FDI to the parent firm. Therefore, Hypothesis 2b was supported.

Finally, in Models 7–9 (Table 11.7), in which the focal construct is strategic added value of FDI, firm capabilities again—in line with Hypothesis 1c—were positively related to strategic added value at a high level of significance ($p < 0.01$). Finally, the analysis of international experience and its interaction with FDI performance did not prove to be statistically significant, hence delivering no support for Hypothesis 2c.

Table 11.7 Regression models for strategic added value ($N = 100$)

Variable	Model 7	Model 8	Model 9
MNE size	–0.073	–0.075	–0.057
	(0.000)	(0.000)	(0.000)
Market potential	0.072	0.070	0.050
	(0.093)	(0.094)	(0.095)
Institutional distance	–0.003	–0.006	–0.003
	(0.086)	(0.088)	(0.087)
Parent control	0.019	0.018	0.017
	(0.095)	(0.095)	(0.095)
Sector	0.145*	0.144*	0.142*
	(0.158)	(0.159)	(0.158)
Market-seeking motive	–0.124	0.123	0.149
	(0.059)	(0.059)	(0.060)
Efficiency-seeking motive	0.148	0.152*	0.117
	(0.083)	(0.085)	(0.087)
Strategic asset-seeking motive	0.131	0.127	0.138
	(0.086)	(0.088)	(0.088)
Strategic performance	0.369***	0.369***	0.443***
	(0.126)	(0.127)	(0.144)
Firm capabilities	0.222**	0.223**	0.244***
	(0.107)	(0.108)	(0.109)
International experience		0.020	0.024
		(0.002)	(0.002)
International experience x strategic performance			–0.139
			(0.004)
R^2	0.44	0.44	0.45
Adjusted R^2	0.37	0.37	0.37
Std error	0.72	0.72	0.72
F	6.90***	6.21***	5.92***

Notes: Standardized β are shown; standard errors in parentheses
*** $p < 0.01$; ** $p < 0.05$; * $p <= 0.10$

With regard to control variables, the market-seeking FDI motive was found to be insignificant in Models 1–3, thus providing no support for the notion that the actual consequences of undertaking FDI are in line with the initial objectives defined by the MNE. On the contrary, the efficiency-seeking motive was revealed to have a highly significant positive influence ($p < 0.001$). For Models 4–6, efficiency motives displayed a highly significant positive influence ($p < 0.001$), whilst market-seeking and strategic asset-seeking motives turned out to be insignificant.

In Models 7–9, none of the FDI motives turned out to be significant, again apart from efficiency-seeking motives.

The effect of the sector dummy turned out to be statistically significant, thus meaning that the added value of FDI was more visible in manufacturing sectors. This finding can be partly explained by the nature of a given sector, whereby there is more potential for increasing efficiency by engaging in multi-country operations. These efficiency-related aspects were in fact important among the sample firms. Interestingly, MNE size, parent control of the foreign affiliate, and institutional distance all turned out to be statistically insignificant. In fact, the research sample of 100 firms was dominated by Polish-owned firms or, in cases where the ultimate owner was officially based abroad, the owners were de facto Polish whose business entities were registered abroad due to fiscal reasons. Regarding institutional distance, the lack of its impact can be explained by the fact that Polish MNEs focus on European markets in their internationalization, thus not enabling a significant variation in the examined variable.

Discussion

As far as the role of firm capabilities is concerned, the support for all hypotheses related to their positive effect on the value added of FDI reveals that, in line with international business theory, firm capabilities are an important driver of success in international expansion, despite a common belief related to emerging MNEs that they have to seek sources of competitive advantages to a larger extent in home country-related factors or, at best, manufacturing process innovations (Ramamurti 2010). While a strand of the discussion of the distinct profile of emerging MNEs is indeed devoted to the need for acquiring new firm capabilities through the process of internationalization (Yamakawa et al. 2008), the present chapter provides endorsement for the notion that MNEs best endowed with managerial, marketing, or innovation capabilities are in the best position to manage successfully their cross-border operations, by transforming the results delivered by FDI projects not only in financial terms, but also in other dimensions, into value added to different aspects of MNE operations.

The chapter further provides some preliminary evidence that international experience can in fact have a negative moderating effect on the relationship between actual FDI economic results and its added value to MNE performance in the dimension of efficiency, while a similar effect is not significant for market-related performance indicators, as well as strategic items related to firm competitiveness in general. This finding may appear counter-intuitive at first, remaining in contrast with prior signals that the added value of FDI on MNE performance increase with a rising advancement of international operations (Szalucka 2009). The explanation of this result can be explained by the fact that the marginal added value of each subsequent FDI project in internationally more complex MNEs declines with the increasing scope of operations. The direct negative effect of international experience for cost-related added value seems to support this finding even further. On the other hand, for market-related added value, the positive direct effect of international experience can possibly be explained by the fact that this type of experience contributes to enhanced market-related performance, regardless of the scope and maturity of the affiliate network. In fact, market-seeking has remained a dominant motive of Polish OFDI, which is further reflected by the significant role of sales affiliates (Obloj and Wasowska 2012). Conversely, strategic asset-seeking still remains a limited phenomenon among emerging Polish MNEs (Gorynia et al. 2015), thus partly explaining the non-significance of international experience in this respect.

The results of the present study cannot be directly compared against findings of earlier studies due to the novelty of its research design. Thus, the merit of this chapter is its attempt to link research devoted to FDI performance at the level of the foreign market with that pertaining to the relationship between internationalization and MNE performance. In doing so, the study provides new insights on the conditions under which FDI projects can be beneficial to the parent firm, and in which aspects of parent firm performance. One of the relevant implications of the study is that the added value of FDI to a given aspect of MNE activities and their economic outcomes turns out to be related to actual FDI performance for all three corresponding performance aspects discussed in this chapter concerning MNEs. Therefore, in line with the theoretical discussion presented in the first sections of this chapter, the actual mandate of the

foreign subsidiary determines the dimensions of MNE performance to which it will most likely add value. Conversely, this was not supported for the relationship between the declared initial motives for a given FDI project and its actual added value, apart from efficiency-seeking motives behind FDI which were found to be significant not only for cost-related, but likewise for market-related and strategic, added value of FDI. An explanation thereof, which goes beyond the issues with limitations of the subjective items applied in the analysis, pertains to the premise that cost-related performance is a fundamental managerial criterion for assessing an FDI project and can therefore be regarded as a prerequisite for its continuation.

Findings pertaining to control variables also provide additional analytical insights. Given no negative impact of institutional distance, it can be argued that, although most CEE MNEs follow gradual expansion paths (Antaloczy and Éltető 2003; Gorynia et al. 2013), most CEE countries share a similar, historically shaped, institutional background, which tends to facilitate foreign expansion (Del Sol and Kogan 2007). Thus, due to the currently limited spatial dispersion of Polish OFDI, as well as prior export contacts in most countries receiving Polish FDI, institutional distance was not regarded as a leading impediment by the executives responsible for foreign markets.

Finally, the added value of FDI to MNE operations is visibly more pronounced for MNEs operating in manufacturing sectors. Thereby, this impact was weaker for the strategic added value, and stronger and statistically more significant for market-related and cost-related added value. Apparently, the nature of operations in a given sector of activity and the related business model pose a crucial factor which co-determines the degree to which MNEs can actually benefit from international operations and increase their international competitive position in the long run.

Conclusions

The present chapter has made an empirical contribution to the topical discussion of the conditions under which FDI can generate value to the MNE, which can express itself in the improvement of various financial and

non-financial performance aspects. By investigating added value effects at the level of particular foreign affiliates instead of measuring the effect of the overall internationalization degree on the overall performance of the MNE, the chapter enables us to explore the antecedents of added value related to FDI. In doing so, it has particularly focused on the relevance of firm capabilities, as well as its international experience. The investigation has provided a nuanced view of MNE performance, distinguishing added value effects for market-related, cost-related, and strategic performance of the parent firm. The study shows that a condition of successful FDI projects that benefit the whole MNE is the possession of managerial capabilities. Furthermore, international experience negatively moderates the effect of cost-related subsidiary performance on cost-related added value to the MNE. Conversely, there is a positive direct effect of market-related subsidiary performance indicators on market-related added value of FDI to the parent firm. Interestingly, there is no evidence for the relevance of the planned affiliate role within the MNE portfolio, as expressed by the motives of undertaking a given FDI project, for its actual added value to parent firm results. Conversely, support was provided for the relevance of the actual role of a given subsidiary.

While contributing to international business research in general, the study has a couple of implications for research on emerging MNEs, as well. Although research on MNEs from Asian, South American, or CEE countries has consistently focused on FDI motives, modes, location choices, ownership structures, or institutional push and pull factors, the microeconomic consequences of FDI have widely remained a marginal issue. This chapter indicates that these “infant” MNEs must also be equipped with managerial capabilities in order to be successful in foreign markets and to be able to add value by investing in foreign expansion. However, firms from more advanced emerging markets like Poland show both differences and similarities in their behavior as compared to developed country MNEs, as they indeed follow market-seeking motivations as predicted by theory, which is reflected by the beneficial effect of internationalization on market-related added value.

The empirical study suffers from a number of both conceptual and methodical limitations. The former type of weaknesses involves excessive

reliance on relatively broad categorizations of variables, such as that of FDI motives. While the adopted FDI motives are commonly used in international business scholarship, they exclude other, potentially important, reasons for undertaking FDI and thus lead to simplifications in relation to the actual roles fulfilled by subsidiaries in the portfolios of their parent MNEs. However, despite this simplification in econometric modeling, the present study has undertaken an effort to account for the role of different firm-level conditions of adding value to different dimensions of MNE operations. Moreover, one could argue that the present research design only indirectly accounts for the added value of FDI to overall parent firm performance, as other determinants, such as the performance of other foreign operations of the firm, should be simultaneously taken into account. However, it is has been extensively discussed in the literature on foreign affiliate performance and on the multinationality–performance relationship that performance determinants are empirically challenging to capture. Therefore, the proposed subjective measures of added value of FDI to overall performance are a preliminary, albeit imperfect, step towards overcoming the said difficulties. The latter category of limitation includes the already mentioned use of subjective measures. While the intention was to capture managerial perceptions relevant in expansion decisions, additional use of secondary data apart from institutional distance might have improved the reliability and robustness of the obtained research results, which are now subject to managerial biases.

Further modeling of the relationships under study, for instance with the aim of detecting further moderators on the added value of FDI, could potentially extend current findings based on larger firm samples from other emerging markets. In the light of the present results, further research on the antecedents of added value effects seems to be a promising avenue for development of the existing body of knowledge.

Acknowledgment This study was financed by a research grant of the National Science Centre, awarded by decision no. DEC-2012/07/N/HS4/00283. Dr Piotr Trapczynski is supported by the Foundation for Polish Science (FNP).

References

Agarwal, S., & Ramaswami, S. (1992). Choice of foreign market entry mode: Impact of ownership, location, and internalization factors. *Journal of International Business Studies, 23*(2), 1–27.

Antaloczy, K., & Éltető, A. (2003). Outward foreign direct investment in Hungary. Motivation and effects. In M. Svetlicic & M. Rojec (Eds.), *Facilitating transition by internationalization: Outward direct investment from Central European economies in transition* (pp. 155–174). Aldershot: Ashgate.

Bartlett, C. A., & Ghoshal, S. (2002). *Managing across borders. The transnational solution* (2nd ed.). Boston: Harvard Business School Press.

Benito, G. R. G., & Welch, L. S. (1997). De-internationalization. *Management International Review, 37*(2), 7–25.

Brouthers, K. D., Brouthers, L. E., & Werner, S. (2003). Transaction cost-enhanced entry mode choices and firm performance. *Strategic Management Journal, 24*, 1239–1248.

Brouthers, K. D., Brouthers, L. E., & Werner, S. (2008). Resource-based advantages in an international context? *Journal of Management, 34*, 189–217.

Buckley, P. J., Elia, S., & Kafouros, M. (2014). Acquisitions by emerging market multinationals: Implications for firm performance. *Journal of World Business, 49*(4), 611–632.

Chan, P. S. (1995). International joint ventures vs wholly owned subsidiaries. *Multinational Business Review, 3*(1), 37–44.

Chan, C., Isobe, T., & Makino, S. (2008). Which country matters? Institutional development and foreign affiliate performance. *Strategic Management Journal, 29*, 1179–1205.

Chiao, Y.-C., Yu, C.-M. J., Li, P.-Y., & Chen, Y.-C. (2008). Subsidiary size, internationalization, product diversification and performance in an emerging market. *International Marketing Review, 25*(6), 612–633.

Cui, L., & Jiang, F. (2010). Behind ownership decision of Chinese outward FDI: Resources and institutions. *Asia Pacific Journal of Management, 27*, 751–774.

Del Sol, P., & Kogan, J. (2007). Regional competitive advantage based on pioneering economic reforms: The case of Chilean FDI. *Journal of International Business Studies, 38*, 901–927.

Delios, A., & Beamish, P. W. (1999). Geographic scope, product diversification, and the corporate performance of Japanese firms. *Strategic Management Journal, 20*(8), 711–727.

Demirbag, M., Tatoglu, E., & Glaister, K. W. (2007). Factors influencing perceptions of performance. The case of Western FDI in an emerging market. *International Business Review, 16*, 310–336.

Dikova, D. (2009). Performance of foreign subsidiaries: Does psychic distance matter? *International Business Review, 18*, 38–49.

Doryn, W. (2011). *Wpływ internacjonalizacji na wyniki ekonomiczne polskich przedsiębiorstw przemysłowych*. Łódź: Wydawnictwo Uniwersytetu Łódzkiego.

Dunning, J. H. (1979). Explaining the changing patterns of international production: In defence of the eclectic theory. *Oxford Bulletin of Economics and Statistics, 41*(4), 269–295.

Dunning, J. H. (1988a). The eclectic paradigm of international production: A restatement and some possible extensions. *Journal of International Business Studies, 19*(1), 1–31.

Dunning, J. H. (1988b). The theory of international production. *International Trade Journal, 111*(1), 21–66.

Dunning, J. H. (1993). *Multinational enterprises and the global economy*. Harlow: Addison-Wesley.

Dunning, J. H. (1995). Reappraising the eclectic paradigm in an age of alliance capitalism. *Journal of International Business Studies, 26*(3), 461–491.

Dunning, J. H. (1996). The geographical sources of the competitiveness of firms: Some results of a new survey. *Transnational Corporations, 5*(3), 1–29.

Dunning, J. H. (2001). The eclectic (OLI) paradigm of international production: Past, present and future. *International Journal of the Economics of Business, 8*(2), 173–190.

Dunning, J. H. (2002). Perspectives on international business research: A professional autobiography fifty years researching and teaching international business. *Journal of International Business Studies, 33*(4), 817–835.

Dunning, J. H., & Lundan, S. M. (1998). The geographical sources of competitiveness of multinational enterprises: An econometric analysis. *International Business Review, 7*(2), 115–133.

Dunning, J. H., & Lundan, S. M. (2008). *Multinational enterprises and the global economy*. Cheltenham: Edward Elgar.

Dunning, J. H., Kim, C., & Park, D. (2008). Old wine in the new bottles: A comparison of emerging-market TNCs today and developed-country TNCs thirty years ago. In K. P. Sauvant (Ed.), *The rise of transnational corporations from emerging markets. Threat or opportunity* (pp. 158–182). Cheltenham: Edward Elgar.

Fang, Y., Jiang, G.-J., Makino, S., & Beamish, P. W. (2010). Multinational firm knowledge, use of expatriates, and foreign subsidiary performance. *Journal of Management Studies, 47*(1), 27–54.

Fang, Y., Wade, M., Delios, A., & Beamish, P. W. (2013). An exploration of multinational enterprise knowledge resources and foreign subsidiary performance. *Journal of World Business, 48*, 30–38.

Gammelgaard, J., McDonald, F., Stephan, A., Tüselmann, H., & Dörrenbächer, C. (2012). The impact of increases in subsidiary autonomy and network relationships on performance. *International Business Review, 21*(6), 1158–1172.

Gao, G., Pan, Y., Lu, J., & Tao, Z. (2008). Performance of multinational firms' subsidiaries: Influences of cumulative experience. *Management International Review, 48*(6), 749–768.

Gaur, A. S., & Lu, J. W. (2007). Ownership strategies and survival of foreign subsidiaries: Impacts of institutional distance and experience. *Journal of Management, 33*(1), 84–110.

Ghahroudi, M. (2011). Ownership advantages and firm factors influencing performance of foreign affiliates in Japan. *International Journal of Business and Management, 6*(11), 119–137.

Ghoshal, S. (1987). Global strategy: An organizing framework. *Strategic Management Journal, 8*, 425–440.

Gorynia, M., Nowak, J., Trapczynski, P., & Wolniak, R. (2013). Internationalization of Polish firms via foreign direct investment: A multiple-case study approach. In M. A. Marinov & S. T. Marinova (Eds.), *Successes and challenges of emerging economy multinationals* (pp. 49–76). Basingstoke: Palgrave Macmillan.

Gorynia, M., Nowak, J., Trapczynski, P., & Wolniak, R. (2015). Establishment mode choices of emerging multinationals: Evidence from Poland. *Managing Global Transitions, 13*(2), 101–124.

Harrell, F. E. (2001). *Regression modeling strategies*. New York: Springer.

Hennart, J.-F. (2012). Emerging market multinationals and the theory of the multinational enterprise. *Global Strategy Journal, 2*(3), 168–187.

Hymer, S. (1976). *The international operations of national firms: A study of direct foreign investment*. Cambridge: MIT Press.

Jarillo, J. C., & Martinez, J. I. (1990). Different roles for subsidiaries: The case of multinational corporations in Japan. *Strategic Management Journal, 11*(7), 501–512.

Jaworek, M., Szalucka, M., & Szostek, A. (2009). Knowledge and skills as competitiveness factors of Polish direct investment companies. In W. Karaszewski (Ed.), *Foreign direct investment of Polish companies: Its scale, structure, determinants, influence on the competitiveness* (pp. 41–62). Toruń: Wydawnictwo Naukowe UMK.

Jormanainen, I., & Koveshnikov, A. (2012). International activities of emerging market firms. A critical assessment of research in top international management journals. *Management International Review, 52*(5), 691–725.

Kim, Y., & Gray, S. J. (2008). The impact of entry mode choice on foreign affiliate performance: The case of foreign MNEs in South Korea. *Management International Review, 48*(2), 165–188.

Kwon, Y.-C. (2010). Market orientation of Korean MNC subsidiaries and their performance in the Chinese and Indian markets. *International Marketing Review, 27*(2), 79–199.

Li, L. (2007). Multinationality and performance: A synthetic review and research agenda. *International Journal of Management Reviews, 9*(2), 117–139.

Li, C.-S., Henley, J., Ansell, J., & Dong, T.-P. (2011). Location-specific factors, localisation strategy and firm performance: A case study of Taiwanese manufacturing MNE subsidiaries investing in China. *Tijdschrift voor Economische en Sociale Geografie, 102*(4), 426–440.

Lu, J. W., & Beamish, P. W. (2004). International diversification and firm performance: The S-curve hypothesis. *Academy of Management Journal, 47*(4), 598–609.

Lu, Y., Zhou, L., Bruton, G., & Li, W. (2010). Capabilities as a mediator linking resources and the international performance of entrepreneurial firms in an emerging economy. *Journal of International Business Studies, 41*, 419–436.

Luo, Y. (1999a). Time-based experience and international expansion: The case of an emerging economy. *Journal of Management Studies, 36*(4), 505–534.

Luo, Y. (1999b). International strategy and subsidiary performance in China. *Thunderbird International Business Review, 41*(2), 153–178.

Luo, Y. (2002). Capability exploitation and building in a foreign market: Implications for multinational enterprises. *Organization Science, 13*(1), 48–63.

Luo, Y., & Tung, R. (2007). International expansion of emerging market enterprises: A springboard perspective. *Journal of International Business Studies, 38*, 481–498.

Musteen, M., Francis, J., & Datta, D. K. (2010). The influence of international networks on internationalization speed and performance: A study of Czech SMEs. *Journal of World Business, 45*, 197–205.

Narula, R. (2006). Globalization, new ecologies, new zoologies, and the purported death of the eclectic paradigm. *Asia Pacific Journal of Management, 23*(2), 143–151.

Nicholson, R. R., & Salaber, J. (2013). The motives and performance of cross-border acquirers from emerging economies: Comparison between Chinese and Indian firms. *International Business Review, 22*(6), 963–980.

Obloj, K. (2014). Firma międzynarodowa jako przedmiot badań. In K. Obloj & A. Wasowska (Eds.), *Zarządzanie międzynarodowe. Teoria i praktyka* (pp. 28–46). Warszawa: Polskie Wydawnictwo Ekonomiczne.

Obloj, K., & Wasowska, A. (2012). Location determinants of Polish outward FDI and the (limited) impact of the global crisis. In M. Marinov (Ed.), *Emerging economies and their firms in the global crisis*. Palgrave Macmillan: Basingstoke.

Ogasavara, M. H. (2010). The role of experiential knowledge and subsequent investment decisions on the profitability of Japanese companies in Brazil. *Japan and the World Economy, 19*, 1–25.

Ogasavara, M. H., & Hoshino, Y. (2007). The impact of ownership, internalization and entry mode on Japanese subsidiaries' performance in Brazil. *Brazilian Administration Review, 7*(1), 59–78.

Panibratov, A., & Latukha, M. (2014). Foreign expansion of Russian firms based on natural resources and technology. In M. A. Marinov & S. T. Marinova (Eds.), *Successes and challenges of emerging economy multinationals* (pp. 128–157). Basingstoke: Palgrave Macmillan.

Peng, M. W., Sun, S. L., Pinkham, B., & Chen, H. (2009). The institution-based view as a third leg for a strategy tripod. *Academy of Management Perspectives, 23*(3), 63–81.

Porter, M. E. (1986). Changing patterns of international competition. *California Management Review, 28*(2), 9–40.

Qin, C., Ramburuth, P., & Wang, Y. (2011). A conceptual model of cultural distance, MNC subsidiary roles and knowledge transfer in China-based subsidiaries. *Organizations and Markets in Emerging Economies, 2*(2), 8–27.

Radlo, M.-J. (2012). Emerging multinationals and outward FDI development: The case of Poland. *Eastern European Economics, 50*(2), 59–84.

Ramamurti, R. (2010). Why study emerging-market multinationals? In R. Ramamurti & J. V. Singh (Eds.), *Emerging multinationals in emerging markets* (pp. 3–22). Cambridge: Cambridge University Press.

Ratajczak-Mrozek, M., Dymitrowski, A. and Malys, L. (2011). *Formy ekspansji zagranicznej a wyniki rynkowe polskich przedsiębiorstw* (*wyniki badań*), Współczesna gospodarka światowa. Problemy na poziomie mikro- i makroekonomicznym, Uniwersytet Ekonomiczny w Poznaniu.

Rugman, A. M., & Verbeke, A. (1992). A note on the transactional solution and the transaction cost theory of multinational strategic management. *Journal of International Business Studies, 23*(4), 761–771.

Slangen, A. H. L., & Hennart, J.-F. (2008). Do foreign greenfields outperform foreign acquisitions or vice versa? An institutional perspective. *Journal of Management Studies, 45*(7), 1301–1328.

Sliwinski, R. (2011). *Kluczowe czynniki międzynarodowej konkurencyjności przedsiębiorstw*. Poznan: Wydawnictwo UEP.

Svetlicic, M., & Jaklic, A. (2003). Outward FDI by transition economies: Basic features, trends and development implications. In M. Svetlicic & M. Rojec

(Eds.), *Facilitating transition by internationalization: Outward direct investment from Central European economies in transition* (pp. 49–76). Aldershot: Ashgate.

Svetlicic, M., Rojec, M., & Trtnik, A. (2000). The restructuring role of outward foreign direct investment by Central European firms: The case of Slovenia. *Advances in International Marketing, 10*, 53–88.

Szalucka, M. (2009). The influence of foreign direct investment on the competitiveness of Polish investors. In W. Karaszewski (Ed.), *Foreign direct investment of Polish companies: Its scale, structure, determinants, influence on the competitiveness* (pp. 89–112). Toruń: Wydawnictwo Naukowe UMK.

Tran, Y., Mahnke, V., & Ambos, B. (2010). The effect of quantity, quality and timing of headquarters-initiated knowledge flows on subsidiary performance. *Management International Review, 50*(4), 493–511.

Trapczynski, P. (2015). *Foreign direct investment strategies and performance in the internationalisation of Polish companies*. Warsaw: Difin.

Uhlenbruck, K. (1997). Entry motives and firm capabilities: Performance implications for foreign direct investment in Central and Eastern Europe. *Academy of Management*, 1, 204–208.

Väätänen, J., Podmetina, D., & Pillania, R. K. (2009). Internationalization and company performance: A study of emerging Russian multinationals. *Multinational Business Review, 17*(2), 157–177.

Vega-Cespedes, C., & Hoshino, Y. (2001). Effects of ownership and internalization advantages on performance: The case of Japanese subsidiaries in the United States and Latin America. *Review of Pacific Basin Financial Markets and Policies, 4*(1), 69–94.

Verbeke, A., & Brugman, P. (2009). Triple-testing the quality of multinationality-performance research: An internalization theory perspective. *International Business Review, 19*, 265–275.

Verbeke, A., Li, L., & Goerzen, A. (2009). Toward more effective research on the multinationality-performance relationship. *Management International Review, 49*, 149–162.

Wang, C., Hong, J., Kafouros, M., & Boateng, A. (2012). What drives outward FDI of Chinese firms? Testing the explanatory power of three theoretical frameworks. *International Business Review, 21*, 425–438.

Xia, Y., Qiu, Y., & Zafar, A. U. (2007). The impact of firm resources on subsidiary's competitiveness in emerging markets: An empirical study of Singaporean SMEs' performance in China. *Multinational Business Review, 15*(2), 13–40.

Yamakawa, Y., Peng, M. W., & Deeds, D. L. (2008). What drives new ventures to internationalize from emerging to developed economies? *Entrepreneurship Theory and Practice, 32*, 59–82.

12

Mission Impossible: How to Create Value in Times of Crises

Sonia Ferencikova

Introduction

This chapter analyzes key changes in the structure and behavior of the banking sector in Slovakia over the last 20 years. To illustrate these, I use a case study in the Slovak banking sector during the time of the economic crisis, when value creation had to be revisited.

Slovakia is a special case among Central and Eastern European (CEE) countries. It went through a revolution under ex-Czechoslovakia in 1989, split up from the economically stronger Czech part, and became independent in 1993. The economy was transformed. The banking sector went through radical changes that brought large amounts of foreign capital into the sector. Slovakia adopted the euro, second only to Slovenia in the CEE region and managed to cope successfully with the economic and financial crisis of 2008.

S. Ferencikova (✉)
School of Management, Vysoka skola manazmentu,
Panónska 17, 851 04 Bratislava, Slovakia
e-mail: sferencikova@vsm.sk

© The Editor(s) (If applicable) and the Author(s) 2017

S. Marinova et al. (eds.), *Value Creation in International Business*,
DOI 10.1007/978-3-319-30803-6_12

In the first half of the 1990s the Slovak banking system was inefficient, with a high share of bad loans. As a solution to these problems first came the pre-privatization measures followed by the privatization itself at the turn of the millennium. The main form of privatization was the acquisition of local banks by foreign banking institutions. Foreign investors brought new know-how and made the system more flexible and competitive. At that time, several important foreign banks acquired the local ones—the best examples are the Austrian Erste Bank and Italian Intessa. Some foreign banks created greenfield type operations—e.g. Reiffeissen Bank that founded a very successful Tatrabanka. Currently, due to high capital adequacy and cautious credit policy, the Slovak banking system is relatively stable and able to cope with increased risks in the business environment.

The analysis in this chapter is supported by a selected case study of the acquisition of a Slovak subsidiary of a foreign bank by another foreign bank during the economic and financial crisis in Slovakia (which is often referred to as a "roller coaster time"). I study how Ceskoslovenska obchodna banka Slovakia (CSOB, an independent daughter company of KBC) acquired BAWAG'S Istrobanka in Slovakia. My analysis is supported by the description of the partners and the main economic challenges they faced at the time of the acquisition and integration process. I also analyze the main economic indicators showing how this merger created value for the acquirer and how it contributed to the stability of the Slovak banking sector as a whole.

Studies on the role of foreign direct investment (FDI) in value creation have looked at stock market reaction (e.g. Kallunki et al. 2001; Chari et al. 2004) or the "softer" side, such as knowledge acquisition and the creation (reinventing) of new business models (e.g. Stahl and Mendenhall 2005; Christensen et al. 2011; Jassimudin 2012). Some researchers point to the valuation discount with international operations due to the costs of agency and control and the difficulty of coordinating complex organizations and cultures. Others emphasize the value of a multinational network and the operational efficiency of a multinational enterprise. Thus, issues related to value creation are important and lively areas of business and finance. In fact, value creation is now at the frontier between the functional areas of finance and strategy (Choi and Reid 2006).

Given the fact that the Slovakian banking sector comprises subsidiaries of foreign banks with their headquarters located and listed outside Slovakia, I could not use any of these approaches, therefore I decided to use a case study approach. This is appropriate because I discuss the role of FDI in one sector and then study a case of an acquisition under extremely complicated conditions (financial crisis, currency change, and legal framework change).

For the first part of the study I used the research and materials published in Slovakia by Slovak analysts, the economic press, and the authorities, such as the National Bank of Slovakia. For the second part of the study, I used the case study approach. This design allows a lot of data and additional details to be collected and, therefore, offers information which is normally a lot richer and of greater depth compared to other research methods (Yin 1994). Focused interviews, with the possibility of being left open-ended, are aimed at offering in depth analysis and enhancing the understanding of the process being studied. I used the interviews with the management of the acquirer (CSOB), especially with Evert Vandenbussche who was the head of the acquisition and integration team in CSOB, as well as articles in the economic press from that time period. There has been no case study written about the acquisitions in the Slovak banking sector yet—this is the first attempt to analyze a similar process in this industry. (However, the original parent company of CSOB Slovakia, CSOB Czech Republic, was the subject of a case study analyzing its acquisition of the IPB Bank in the Czech Republic a decade ago; Ferencikova and Pucik 2005.)

The case study is a research strategy that examines a phenomenon in its naturalistic context, with the purpose of "confronting" theory with the empirical world through the use of a variety of data sources (Piekkari et al. 2009). There is no doubt that acquisitions are expected to lead to new value for the shareholders; however, the real situation can be completely different given the environment and circumstances following the deal. I consider the operation of CSOB to be unique, given the unusual complexity and complications the company faced in the acquisition process, and one that calls for research attention.

The Situation in the Slovak Banking Industry and the Role of FDI

After the founding of the independent Slovak Republic on January 1, 1993, the situation in the banking sector of the country was complex and plagued with problems, which included the under-capitalization of banks, a shortage of long-term financial resources, bad debts, and the predominance of state ownership across the major banks. The government of the Slovak Republic considered it necessary to sort out the problem by implementing a package of measures to make the banks economically sound. That applied especially to the banks, which were owned by the state, namely Všeobecná úverová banka, a.s, Slovenská sporiteľňa, a.s., and Investičná a rozvojová banka, a.s. The situation in the Slovak banking sector at the end of 1994 is presented in Table 12.1.

The situation in the following five years is presented in Table 12.2.

The restructuring of the banks was then followed by their privatization with the participation of the state in 2001. It is safe to claim that this process boosted the development of the banks and stabilized the banking sector in 2003. The positive trend continued between 2004 and 2006, and was generally accompanied by vigorous growth of the Slovak economy (Sestakova and Ferencikova 2014).

Table 12.1 Growth of equity capital in the banking sector of the Slovak Republic (December 31, 1994)

	Equity capital (in Sk millions)	
Type of bank	Subscribed	Paid-up
Banking sector: total	25,957.6	25,524.0
Central bank (net assets)	6323.3	6323.3
Commercial banks and branch offices of foreign banks: total	19,634.3	19,200.7
Commercial banks: total, of which:	17,181.7	16,748.1
Banks without foreign capital participation	12,188.5	11,971.0
Banks with foreign capital participation	4993.2	4777.1
Branch offices of foreign banks	2452.6	2452.6

Source: NBS (2015), adapted from *Survey of Financial Market Development, 1993–2017*, Bratislava

Table 12.2 Growth of equity capital in the banking sector of the Slovak Republic (December 31, 1999)

	Equity capital (in Sk millions)	
Type of bank	Subscribed	Paid-up
Banking sector: total	63,305.1	63,305.1
Central bank (net assests)[/]	10,468.4	10,468.4
Commercial banks and branch offices of foreign banks: total	52,836.7	52,836.7
Commercial banks: total, of which:	48,241.7	48,241.7
Banks without foreign capital participation	36,150.5	36,150.5
Banks with foreign capital participation	12,091.2	12,091.2
Branch offices of foreign banks (funds granted by foreign bank)	4595.0	4595.0

Source: NBS (2015), adapted from *Survey of Financial Market Development, 1993–2017*, Bratislava

Two basic factors influenced the structure and behavior of Slovakia's banking sector during the last decade: (1) the dominant position of foreign investors in the banking sector, and (2) Slovakia's membership of the European Union. Both factors are actually interrelated. Slovakia's banking sector has been, from the turn of the millennium, dominated by foreign banks. This is evident from all the basic indicators, such as the share of foreign owned banks in the total number of banks in Slovakia and the share of foreign capital in the equity of the banking sector, which, since 2002, has always been above 90%, although fluctuating a little. The dominant position of foreign banks in Slovakia is very high in comparison with other CEE countries (Merő and Valentinyi 2003).

The positive effects of foreign banks on the modernization of the banking business by improving credit policy, introducing new products and services, and generally improving the international competitiveness of the banking sector are well known in all post-communist countries. Amendments to the Banking Act, which came into force in 2002, moved the legal framework of Slovak banking closer to EU standards; among the key improvements was the introduction of consolidated supervision to forestall any schemes from spinning off riskier activities to affiliated nonbanks that were subject to less oversight. Accounting rules were upgraded substantially as well.

The fact that the commercial banking sector in Slovakia has actually been controlled by foreign capital has brought many benefits to the financial sector by improving its stability, as well as benefitting the whole economy. Foreign investors introduced new banking products and services (e.g. asset management schemes), new types of loans, and especially new know-how and ethics, which contributed to increasing the quality of personnel and making improvements in bank–client relations.

Foreign banks usually benefit from the advantages of having access to more advanced information technology and better expertise in the field than their domestic counterparts, which are actually foreign banks as well (perhaps foreign banks from other countries, with different backgrounds and experience), as purely Slovak counterparts do not actually exist. The same is true regarding the spillover effects of modern banking methods and skills in the sector. Due to intensive competition between banks such spillover effects exist, but only between foreign controlled banks. For the domestic business sector, spillover effects only happen when former employees of banks move to domestic non-banking institutions where they bring and use their enhanced knowledge and skills.

Sometimes in the literature, a so-called cream-skimming effect of foreign banks is mentioned as a disadvantage for domestic banks. In Slovakia, there were cases when foreign banks tried to acquire the most cost-efficient local institutions. However, the size of the bank's market and its image was also important. There are differences in the cost-efficiency and profitability of individual commercial banks (some of them are due to inherited factors), but most of them stem from the differences in strategies applied, bank management systems, and the financial situation of the parent institution or the whole international banking group. However, these differences exist within the foreign controlled banking system itself as well.

Another disadvantage of the dominance of foreign banks for host countries, often mentioned in the literature, is that foreign owners do not have a good idea of how the domestic economy works; they do not understand the peculiarities of the local legal system or the psychology of the clients. This problem can be solved by retaining the staff of the acquired local banks (which was important mainly during the first years) or sometimes hiring people from local industry or other local institutions. On the other hand, foreign banks may be less vulnerable to political pressures and less inclined to lend funds to connected parties, which in the past often led to bad loans.

The literature discusses various motives in the expansion of banks into CEE countries (Zhu 2012; Lanine-Vennet 2005). Among the factors supporting the entry of foreign banks into CEE, we can mention: the previous development of the financial system (and especially the banking sector); the legal system; the financial and political stability in a country; differentials in the rate of economic growth between the home and host country; and the distance between the bank's group headquarters and the host country. Similar factors also influence the form of entry of foreign bank—although these forms also depend highly on a particular bank's global strategy. I should also mention that the countries that have successfully introduced reforms aimed at establishing transparent and enforceable rules regarding their financial markets were the ones that were considered more attractive by foreign banks (Lensink and de Haan 2002; Voinea and Mihaescu 2006).

Concerning Slovakia, the relevant motivating factors were: inheritance of a relatively developed banking system from ex-Czechoslovakia; favorable political conditions (the local government supported bank privatization by creating adequate rules for it); and the favorable geographical position of the country. Although the level of FDI from non-financial corporations in Slovakia was lower at that time than in other Visegrad countries, foreign banks expected a significant rise in it (in manufacturing and services) in the future. Their entry into the Slovak financial sector was also a way to prepare the economy and the banking system for these changes. In general, we can say that the development of the banking sector during the first decade of the twenty-first century (with the dominant position of foreign banks) formed one of the comparative advantages of the country in attracting FDI by non-financial companies later on.

On May 1, 2004, the EU experienced the largest enlargement since its creation, and Slovakia was one of the ten new member states. The country had to adjust its laws to the requirements of EU legislation, including the norms regulating the financial sector. For banks in Slovakia such an orientation was quite natural because most foreign owners of banks were from EU countries. The situation in 2004 (the year of entry into the EU) is shown in Table 12.3—the significant change in the share of foreign capital in the banking sector is immediately and clearly visible.

Table 12.3 Growth of equity capital in the commercial banks and branch offices of foreign banks in the Slovak Republic (December 31, 2004)

Type of bank	Equity capital (in Sk millions)	
	Subscribed	Paid-up
Commercial banks and branch offices of foreign banks: total	44,278.1	44,278.1
Commercial banks: total, of which:	41,433.5	41,433.5
Banks without foreign capital participation	3249.1	3249.1
Banks with foreign capital participation	38,184.4	38,184.4
Branch offices of foreign banks	2844.6	2844.6

Source: NBS (2015), adapted from *Survey of Financial Market Development, 1993–2017*, Bratislava

The financial system of the EU is often described as a bank-based system, due to the prominent role of banks in the major economies. In 1995–2004, the EU banking sector grew rapidly, reflecting the wider integration of the EU financial system. In the same period, the average growth of banks' assets outpaced GDP growth. The ratio of banks' assets as a percentage of GDP in the EU15 was more than 400%. In the new member states, the role of financial intermediation was significantly lower and the ratio of bank assets as a percentage of GDP was under 100%. However, in Slovakia this ratio was relatively higher and in 2004 it was 88%. Slovakia actually used to be (and still is) a country with a bank dominated financial system. In 2005, the banking sector accounted for 84% of the total assets of the financial sector (National Bank of Slovakia 2005).

The Situation in the Slovak Banking Sector at the Time of the Acquisition

What was the situation in Slovakia's banking sector during 2007–2009, when the acquisition of BAWAG P.S.K by KBC Group occurred? Macroeconomically, the year 2007 was a successful one for the Slovak economy. High growth rates of GDP, standing at 10.4%, were mainly stimulated by the high export performance of the economy as well as increasing household spending, which went up by 7.1% in 2007. The automotive

and electro-technical industries especially contributed to this success. For the banking sector, the growing number of customer credits and mortgages was typical and had influenced real-estate prices and, by and large, caused a building boom. It was quite commendable that growth in clients' credits was largely financed from stable resources provided by other clients' deposits. Quite remarkably, banks at that time did not hesitate to provide credit to small and medium-sized companies. The strategy pursued by them allowed them to retain a reasonably high profit. It is worth mentioning that the banking sector at the time was one of the few in which financing clients' credits was independent of short-term interbank resources.

Unfortunately, in August 2007, the situation in the world's financial markets was unfavorably affected by the crisis in the US subprime mortgages. The global financial crisis in 2008 caused noticeable global turbulence to a point that threatened the very functioning of the world financial system. Not surprisingly, uncertainty and a lack of confidence in the financial markets led to a significant drop in the price of securities. It is noteworthy that the impact of the world financial crisis on Slovakia's banking sector in 2008 was, in comparison to advanced countries, reasonably moderate. This was related to the adoption of the euro in January 2009 and to the fairly big increase in primary resources by Slovak banks prior to 2008 (mostly from clients' deposits). Due to this, clients' deposits well exceeded loans provided to customers. This was a positive trend in the midst of the financial crisis, as the banks managed to become yet more independent in the area of acquisition of resources in the financial market. In the same year though, the world financial crisis began to affect Slovakia's banking sector, but a bigger shock was avoided because of the banks' considerable dependence on the domestic economy, with just a negligible share of international activities. However, as a consequence of the global financial crisis, the Slovak economy could not avoid a significant slow down of growth. This trend went on into 2009, when financial difficulties turned into an economic crisis.

Among the reasons for such unfavorable developments, one can list the accumulation of global imbalances with the ensuing loss of confidence in international financial markets. Following growth in global demand prior to it, this crisis increasingly challenged export-oriented countries such as Slovakia. Such developments made the open economy yet more vulnerable

and its industrial structure very sensitive to the economic crisis that followed the financial crisis. While in 2008 the domestic economy was growing at 6.2%, 2009 saw a fall to 4.7%. Slovakia's export dependence was largely responsible for the country's poor economic performance as domestic consumption could not compensate for the slowdown in exports. As a result, a belated downward trend started to manifest itself across all economic sectors oriented towards domestic consumption, especially in the case of the real-estate market, the building and construction sector, as well as other selected industries. The economic recession rather quickly affected employment, which prior to the crisis was among the highest in the eurozone.

Under these circumstances, Slovakia's banking sector with its fairly close dependence on the home economy was a stick with two ends. On the one hand, such dependence was an advantage, especially in the first stage of the crisis in 2007, when it mostly affected international financial markets. On the other hand, with the gradual spread of the crisis into the Slovak domestic economy, banks began to feel the pressure of the crisis. In 2009, the situation was aggravated by the adoption of the euro, which mostly affected bank earnings and profits. Slovak banks faced a 50% fall on a year-by-year basis, which was also the consequence of growing costs incurred by settling their credit losses. In 2009, the banks acted conservatively, focusing on loans with a high likelihood of repayment. Conservatism also prompted the banks to concentrate on less risky industrial sectors and companies. At the same time, one has to bear in mind that credit restraints were also encountered by many firms. The number of investment opportunities decreased.

The situation in the banking sector at that time in regard to the share of foreign and domestic capital is presented in Table 12.4.

Crises, as often happens, bring new perspectives and reveal what is difficult to see in better times. Hence, 2009 demonstrated the differences between Slovak banks. One example of such differentiation was the quality of loan portfolios, especially in terms of credit failures. A clear distinction could be seen in the area of interest rates. Specifically, while the majority of banks saw a drop in interest income from business and banking, interest income from households remained at the same level and was, above all, larger in big banks. One could also see the differences

Table 12.4 Growth of equity capital in the commercial banks and branch offices of foreign banks in the Slovak Republic (December 31, 2009)

Type of bank	Equity capital (in € millions)	
	Subscribed	Paid-up
Commercial banks and branch offices of foreign banks: total	2074.3	2074.3
Commercial banks: total, of which:	1617.1	1617.1
Banks without foreign capital participation	143.9	143.9
Banks with foreign capital participation	1473.2	1473.2
Branch offices of foreign banks	457.1	457.1

Source: NBS (2015), adapted from *Survey of Financial Market Development, 1993–2017*, Bratislava

in loan policies: the above mentioned growth in household loans was, unlike in the past, concentrated in the hands of selected banks, as others had significantly reduced their activities in this segment.

The Buyer and Seller at the Time of Acquisition

KBC Group

The beginnings of the KBC Group could be traced back to 1998, when two Belgian banks, Kredietbank and CERA bank, as well as the Belgian insurance company ABB, merged to create the KBC Group and Insurance Holding Company. In 2008, the KBC Group was present in over 30 countries; it had 55,000 employees, almost 30,000 of them in CEE. It offered its services to over 12 million clients, with 8 million of them in CEE, and was registered on the NYSE, EURONEXT, and the Luxembourg Stock Exchange. The group was headquartered in Brussels.

KBC was a multi-channel banking and insurance company active in Europe and it provided services primarily to retail and private clients, as well as small and medium-sized companies. It had established operations across the majority of countries, which became EU members as of May 1, 2004, such as Poland, Hungary, the Czech Republic, and the Slovak

Republic. It accomplished a number of acquisitions and in 2008 was present in Bulgaria (DZI Insurance, DZI Invest, and EIBANK), Romania (KBC Securities Romania, Romstal Leasing, and INK Insurance Broker), Russia (Absolut Bank), and Serbia (KBC Banka and Senzal, renamed KBC Securities AD Beograd; Hipobroker, actually KBC Broker a Bastion, renamed KBC Securities Corporate Finance). These acquisitions reflect the criteria of KBC expansion into the CEE markets, making good use of the regional economic proximity to Europe for further penetration of their banking and insurance products.

Ceskoslovenska obchodna banka, a.s. (CSOB, a.s)

Ceskoslovenska obchodna banka, a.s. (Czechoslovak Commercial Bank, a.s.) was set up in 1964 as the only bank offering services in the areas of international trade, finance, and currency exchange operations in ex-Czechoslovakia. After 1989, the bank expanded into providing services for both physical and legal entities. After the division of Czechoslovakia, the bank was active in both markets, and was headquartered in Prague. The bank functioned in Slovakia as a subsidiary of the foreign bank. In 1999, the majority of its shares was bought by KBC Group and on January 1, 2008, a joint stock company, Ceskoslovenska obchodna banka, a.s. (CSOB, a.s.), was established in Slovakia.

In 2008, the company's main business covered services for all segments of clients: physical entities (retail clients), small and medium-sized enterprises (SMEs), financial markets, and private banking business. The services were provided through a network of over 100 branches. The company CSOB, a.s. was a universal bank focusing, above all, on funding housing and investments. It offered by far the widest range of financial services on the market, pursuing a successful distribution model (KBC) for banking insurance and asset management.

BAWAG P.S.K. Group

The BAWAG P.S.K Group (Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft) was established as a merger of BAWAG and P.S.K. in 2000. The acquisition sought a successful

expansion of both banks with their total volume of assets of €44.8 billion. In 2008, BAWAG P.S.K. ranked as the fifth largest banking entity in Austria and the leading retail bank for medium income clientele. The Group became a provider of universal financial services on the basis of the sound knowledge of the market, with complex individual care for clients, and it pursued product innovation as its objective. With its 160 BAWAG branches in over 1300 post-offices, BAWAG P.S.K. had at its disposal the largest centrally controlled distribution network in Austria. The Group was also the market leader in the area of payment clearing services in Austria. It employed 6300 employees altogether.

Istrobanka, a.s.

BAWAG P.S.K.Group entered the Slovak market via acquiring Istrobanka in 2002 (becoming its sole owner) from the former Slovenská poisťovňa and the Bratislava municipality. Istrobanka, a.s. had provided services and products primarily in the areas of mortgages and consumer credits, credit card issuance as well as the promotion of electronic banking and Internet banking for physical entities. Istrobanka, a.s. had also been known for offering services to SMEs. What set the bank aside from others in the territory of the Slovak Republic was that it also provided services for communities (local councils). At the time, its strategy was to offer attractively priced products to the widest possible segment of clients. Given such ambitions, in 2007 Istrobanka ranked as the eighth largest credit provider in Slovakia, controlling 2.2% of the market share in the area of deposits and a 3.2% market share in the area of credits. With its 750 employees, the bank services were able to cover 125,000 retail, SME, and corporate clients via 60 branches, nine of them within the BILLA chain of shops. Through its affiliations, the bank also provided services in asset management. By the end of 2007, the bank's total assets stood at roughly €1.22 billion, with its equity reaching €100.5 million (CSOB 2008). However, according to the Slovak bankers' community, the quality of their portfolio was not good and their main product was a saving's book to retail customers with good yields to attract liquidity.

Expectations Behind CSOB: The Istrobanka Deal and the Major Milestones

What were, then, the expectations of acquiring Istrobanka, a.s.? According to André Bergen, CEO of KBC, taking over Istrobanka was a "logical and significant step in KBC's expansion in Central and Eastern Europe," initiated ten years ago. The acquisition was expected to make CSOB the fourth largest player in the Slovak banking business. To quote André Bergen again, the acquisition was going to "enforce KBC's position within an attractive and ever more stabilized Slovak market that is offering major opportunities for further penetration of banking and insurance products." He was equally enthusiastic about making use of the cross-selling potential in retail and corporate banking, which he believed were to bring KBC savings stemming from the bigger size and growth in share value (CSOB 2008).

The CSOB General Manager and Country Manager of CSOB Financial Group, Daniel Kollár, said that "the acquisition of Istrobanka was going to considerably strengthen KBC and its position in the Slovak market as well as promote the CSOB market share with immediate effect, from 7.6% to 10.5% in credits, from 6.5% to 8.5% in deposits. For KBC Group, the acquisition of Istrobanka meant fulfilling half of its goals, namely reaching, by 2010, a 10% market share in Slovakia" (CSOB 2008).

Jan Vanhevel, CEO of the KBC operation in CEE, also sounded equally optimistic: "KBC believed that the know-how and rich experience in the area of asset management and insurance will result in a successful introduction of the banking insurance model. We are convinced that both employees and clients of the banks, CSOB and Istrobanka, will closely co-operate and benefit from the upcoming merger of the two companies" (CSOB 2008). "Without Istrobanka, we would not have 10% of the market which is a critical mass for sustained profitability" (Evert Vandenbussche, Bratislava, October 26, 2012).

The optimism in CSOB was also fueled by the analysis done by JP Morgan who was advising on this deal. However, it must be recognized

that, during the preparation of the JP Morgan business case in the first quarter of 2008, there was no awareness of the crisis that would hit the financial world and global economy in the autumn of 2008, only three months after closing the transaction. JP Morgan calculated the synergies based on the following assumption of the GDP growth rates in Slovakia: 8.5% in 2009, 8.2% in 2010, 7.8% in 2011, and 7.5% in 2012 (Internal CSOB documents 2010). However, due to the financial crisis the reality became completely different: according to Eurostat, the real GDP growth in Slovakia in 2009 was 4.9%, in 2010 4.2%, and in 2011—3.4%.

Such an expression of over-optimism begs the question of why did BAWAG P.S.K. subsequently sell Istrobanka? As for David Roberts, General Manager of BAWAG P.S.K.: "BAWAG P.S.K. made a decision to concentrate on activities in the Austrian market last year. At the same time, in our international activities we wish to make use of the product leader principle. Selling Slovakia's subsidiary was then the best path to follow for Istrobanka's future evolution" (CSOB 2008).

In this context, it might be of interest to know the opinion of Istrobanka's General Manager, Volker Pichler. He perceived the events as follows: "Istrobanka's management welcomed the decision and are looking forward to close co-operation with CSOB, appreciating the promise to support the expansion of our banking and insurance business with a clearer orientation towards the retail segments." He also added that they were convinced that "both employees and clients of the banks will be considerably benefiting from belonging to one of the leading bank and insurance groups in Europe" (CSOB 2008).

Given the information above, it would not be unwise to suggest that the real reasons for disposing of Istrobanka, which used to be a part of BAWAG P.S.K., were the change to the ownership structure of the latter, or the failure to meet the goals set for Istrobanka within the Slovak banking business. In fact, Istrobanka was supposed to get a 5% market share in Slovakia, which it did not (Table 12.5).

Table 12.5 Major milestones of the deal

August 2007: Beginning of the financial crisis in the USA
January 1, 2008: CSOB Slovakia established as an independent subsidiary of KBC Belgium (not a CSOB Czech Republic subsidiary any longer)
March 20, 2008: KBC Belgium announced that it and BAWAG Austria had agreed on the sale of Istrobanka Slovakia
July 1, 2008: KBC received all the approvals necessary from the Antimonopoly Office of the Slovak Republic and from the National Bank of Slovakia to acquire full ownership (100%) of Istrobanka and Istro Asset Management. KBC acquired them for €350 million (Sk10.54 billion) which was 3.5 times higher than the book value (€100 million). This was also the date of closing of the share purchase agreement
September 1, 2008: A new leading team for CSOB and Istrobanka (Country Team) was created. Miroslav Paulen, chairman of the board and CEO of Istrobanka, became a member
September 2008: Collapse of Lehman Brothers, worldwide financial crisis (JP Morgan, advisor to KBC on acquisition of Istrobanka was strongly hit by the crisis, as was KBC itself in Belgium)
October 1, 2008: CSOB and Istrobanka started to sell their products together
January 1, 2009: Introduction of euro in Slovakia
April 1, 2009: CSOB Asset Management took over the funds of Istro Asset Management
July 1, 2009: Istrobanka and CSOB Slovakia legally merged

Main External Challenges in the Integration and Post-Integration Process

During the integration and in the follow-up period the management faced some very important external challenges. The most difficult proved to be the following.

Managing Expectations

The acquisition took place in the middle of the financial crisis. Istrobanka was bought for a price that was 3.5 times than its book value at the time of purchase (what was normal in those days), that is the headquarters and the shareholders had the expectations that the deal would be profitable. The experience of investment bankers and the numbers from the advisor

to the deal showed that it should be profitable (e.g. the projection of the merged unit for profit before tax was €32 million in 2009, but the reality was just €7 million, i.e. a difference of €25 million).

Down-to-Earth Issues

The interim period between the announcement and approval of the merger by Slovak authorities was also a challenge. (Antimonopoly Office and National Bank of Slovakia)

After March 20, 2008 the authorities needed three and a half months for the approval of the purchase. In this process CSOB (which was closed) could not do anything: Evert Vandenbussche, the then country team member responsible for the merger process, wanted to have access to the Istrobanka files, but BAWAG did not permit it. Later BAWAG accepted the following rule: Evert could officially ask Istrobanka's Board in writing to get access to certain information; which he then got. BAWAG was in the meantime bought by a US hedge fund and Istrobanka management from Austria needed to follow the rules of the US owner. Theoretically, once the process of closing was over, the merger could proceed fast, but it was not possible because after the closure the necessary information was missing and Evert and his team needed to start from scratch (they did not have any preparation period).

Introduction of the Euro

In the middle of the merger period (July 1, 2008–July 1, 2009) the euro should have been introduced to Slovakia. The country team of CSOB Slovakia faced the issue of having two units with different levels of preparation for the launching of the euro: while CSOB was very well prepared, Istrobanka was lagging behind. There was also a difference in priorities: while KBC named the euro introduction as the priority, Evert considered the merger itself as the most important issue.

Branding

At the time of the merger, there was a discussion going on regarding the rebranding of CSOB Slovakia. The management acknowledged that the rebranding campaign would be very expensive. Since CSOB Slovakia had become independent from its former parent company, CSOB Czech Republic, and had become the independent subsidiary of KBC Belgium, the plan was to change the brand to KBC Banka Slovakia.

> There was the time when we were growing like a mushroom, but we were perceived as a Czech brand. A project Condor was prepared before the crisis and before the merger—it dealt with the issue of rebranding. Rebranding is not a cheap exercise. Therefore, there was some hesitancy about whether to start, postpone or cancel this project. However, it would be the first KBC brand in CEE … and something needed to be done with the Istrobanka brand as well. (Evert Vandenbussche, November 23, 2011)

Implications and Conclusions

The Slovak banking sector is a textbook example of the importance of FDI in a transition economy. To date, there are only two local banks among 14 active banks in Slovakia (NBS 2015): one is Postova banka and the other is Prima Banka (however, this one was originally Belgian Dexia, acquired after the financial crisis by a local financial group). The biggest and most important Big Four in Slovak banking are owned by foreign investors: Slovenska sporitelna (owned by Austrian Erste Bank), Vseobecna uverova banka (owned by Italian Intessa/SanPaulo group), Tatrabanka (owned by Austrian Raiffeisen Bank), and Ceskoslovenska obchodna banka (our case study example, owned by Belgian KBC).

When we look closer at the CSOB example, we have to conclude that its position on the Slovak market is the result of the successful acquisition of Istrobanka and the way the management handled this process. It was incredibly difficult to manage this overpriced acquisition at the time of the financial crisis and the introduction of the euro to Slovakia, followed

by legal changes and the division of the CSOB unit between the Slovak and Czech Republics. However, even though the original expectations and numbers envisioned by the management and consultants before the acquisition in the time of economic prosperity were not met, the desired market position was achieved and the bank currently is one of the top players in the Slovak market.

Therefore we can conclude that the business logic can sometimes be different than simply what the numbers show: if KBC had not acquired Istrobanka, it would not have reached the position of being an important player in the Slovak market and would have had to withdraw from it. Currently, depending on the indicators, KBC is number three or four in the market and, when combined with the insurance unit, it is the biggest financial group in Slovakia. This gives them special strength in economies of scale and negotiation power in the local market. The acquisition therefore made sense and has taught us that it makes sense to weather out the troubled waters of changing economic conditions and adhere to a vision of where we want to be in the future, and not just in the next two to three years.

The situation in the Slovak banking sector in regards to the ownership structure is pictured in Table 12.5. As shown, banks with a foreign participation account have 92% of the equity capital held by the commercial banks in Slovakia, while the local ones have 8% only. CSOB is a strong player among the banks with foreign capital participation and, given its finally positive experience from the acquisition of Istrobanka, is currently considering the acquisition of the local Sberbank—what was originally Austrian Volksbank, acquired by the Russian Sberbank (interview with Daniel Kollar, CEO, June 25, 2015; see Table 12.6)

CSOB is not the only interested party in this deal: the two next potential acquirers are big Slovak financial groups, which might mean another round of acquisitions of foreign subsidiaries by local capital in the future.

To sum up, we can conclude that the following value was created for the stakeholders in this deal:

- The seller (Istrobanka) received a 3.5 book value for the bank, which was a unique price and would not have been possible a few months later. The bank was not reaching the goals set for the Slovak market

Table 12.6 Growth of equity capital in the commercial banks and branch offices of foreign banks in the Slovak Republic (December 31, 2014)

	Equity capital (€ millions)	
Type of bank	Subscribed	Paid-up
Commercial banks and branch offices of foreign banks: total	3445.4	3445.4
Commercial banks: total, of which:	1849.0	1849.0
Banks without foreign capital participation	153.9	153.9
Banks with foreign capital participation	1695.1	1695.1
Branch offices of foreign banks	1596.4	1596.4

Source: NBS (2015), adapted from *Survey of Financial Market Development, 1993–2017*, Bratislava

and the sale for such an advantageous price on the eve of the deepest financial crisis was simply one of the greatest deals in the industry.

- The buyer (CSOB) paid too much; however, with the acquisition it has achieved economies of scale, moved to a better market position, and obtained a 10% share of the Slovak market. In this way it has become more competitive, profitable, and able to pay the dividends to the parent company relatively quickly, thus becoming a strong part of the international KBC network. Currently, given its stable market position, it is considering another bank acquisition.
- Customers of the combined unit have experienced economies of scale, cross-selling advantages, and expertise and know-how from the bank-assurance model. The bank is currently the leader in "smart-banking" operations, product innovation, and offers the lowest interest mortgages. This would not be possible without reaching a certain size and market share. Therefore we can conclude that customer satisfaction is the main indicator of value creation.

References

Chari, A., Ouimet, P.P. and Tesar, L.L. (2004). *Acquiring control in emerging markets*: *Evidence from the stock market.* Available at SSRN: http://ssrn.com/abstract=607202 or http://dx.doi.org/10.2139/ssrn.607202. Accessed on 1 Sept 2014.

Choi, J. J., & Click, R. W. (2006). Introduction to value creation in multinational enterprise. In J. J. Choi & R. W. Click (Eds.), *Value creation in multinational enterprise* (pp. 3–15). Burlington: Emerald Group Publishing Limited.

Christensen, C. M., Alton, R., Rising, C., & Waldeck, A. (2011). The new M&A playbook. *Harvard Business Review, 89*(3), 48–57.

CSOB. (2008, March 26). Press news–KBC took over Slovak Istrobanka. http://www.csob.sk/o-nas/servis-pre-media/tlacove-spravy. Accessed on 24 Oct 2013.

Ferencikova, S. & Pucik, V. (2005). *A Shotgun wedding*: *Creating a leading Czech Bank*. International Institute for Management Development, IMD-3-1351: 1–17.

Internal CSOB documents. (2010). Bratislava.

Interview with Evert Vandenbussche, Bratislava. 23.11.2011, interviewer S. Ferencikova.

Interview with Evert Vandenbussche, Bratislava. 26.10.2012, interviewer S. Ferencikova.

Interview with Daniel Kollar, Bratislava. 25.6.2015, interviewer S. Ferencikova.

Jassimudin, S. M. (2012). *The handbook of mergers and acquisitions*. Oxford: Oxford University Press.

Kallunki, J.-P., Larimo, J., & Pynnönen, S. (2001). Value creation in foreign direct investments. *Management International Review, 41*(4), 357–376.

Lanine, G., & Vennet, R. (2005). *Microeconomic determinants of acquisitions of Eastern European banks by Western European banks*. Gent: University of Gent. Mimeo.

Lensink, R., & de Haan, J. (2002). Do reforms in transition economies affect foreign bank entry? *International Review of Finance, 3*(3–4), 213–232.

Mérő, K., & Valentinyi, E. M. (2003). *The role of foreign banks in five Central and East European countries.* Banking Department of the Hungarian National Bank. Mimeo. Bucharest, Hungary.

National Bank of Slovakia. (2005). *Analysis of the Slovak financial sector 2005*. Bratislava.

Piekkari, R., Welch, C., & Paavilainen, E. (2009). The case study as disciplinary convention: Evidence from international business journals. *Organizational Research Methods, 12*(3), 567–589.

Sestakova, M., & Ferencikova, S. (2014). *Transformation of the Slovak banking sector*. Contributions to international business (Acta Wasaensia 303, pp. 95–118). Vaasa: University of Vaasa.: –.

Stahl, G. K., & Mendenhall. M. E. (2005). *Mergers and acquisitions managing culture and human resources*. Stanford: Stanford University Press.

Voinea, L., & Mihaescu, M. (2006). The determinants of foreign banking activity in South East Europe: Do FDI, bilateral trade and EU policies matter? *Global Development Network Southeast Europe*. http://www.wiiw.ac.at/balkanlfiles/VOINEA%20 MIHAESCU.pdf

Yin, R. K. (1994). *Case study research: Design and methods*. London: Sage Publications.

Zhu, M.. (2012). *The impact of foreign bank entry in emerging markets*: *Knowledge spillovers or competitive pressure*? ESRC Centre for Competition Policy. Norwich: University of East Anglia: CCP Working Paper. 12–14.

13

Dragons with Horsepower: Learning about the Internationalization Process of Emerging Market Firms

Anna Jonsson

Introduction

While there are many examples of large multinational enterprises (MNEs) that have acquired local national firms in markets where they want to enter or further expand, there is less research focusing on *how* local and national firms choose to acquire large MNEs as a strategy for internationalization. To be able to compete in emerging markets and to internationalize out of these, firms make strategic choices that are different from those prescribed in traditional behavioral models of MNEs (Aulakh and Kotabe 2008; Lu et al. 2014; Meyer et al. 2009). Supposedly new categories of internationalized firms emerge in relation to traditional explanations and the current understanding of international business is challenged (Xu and Meyer 2013). For instance, through the acquisition

A. Jonsson (✉)
School of Economics & Management, Lund University,
PO Box 7080, Lund SE-22007, Sweden
e-mail: anna.jonsson@handels.gu.se

© The Editor(s) (If applicable) and the Author(s) 2017

S. Marinova et al. (eds.), *Value Creation in International Business*,
DOI 10.1007/978-3-319-30803-6_13

strategy, where local firms from an emerging market acquire an existing internationalized firm, a new dimension to Johanson and Vahlne's (2009) concept of "liability of foreignness" and "liability of outsidership" arises. This is especially so when the acquisition relates to an internationalized firm from a developed market.

Although research has illustrated why emerging market MNEs (EM MNEs) choose international acquisition as a method for strategic asset-seeking efforts (Buckely et al. 2007; Drauz 2013; Yamakawa et al. 2008), less focus has been on how this is achieved and, in particular, on the learning process taking place in such acquisitions (Lahiri 2011; Peng et al. 2010). In this process of internationalization, emerging market firms not only acquire foreign assets in order to enhance the value they can create, but they actually also gain and produce new knowledge as a further value adding source. Under these conditions, there are several opportunities to investigate further sources of competitive advantage enjoyed by EM MNEs, both for the acquiring firm and for the firm that has been acquired (Deng 2012; Lu et al. 2011; Sun et al. 2012; Meyer and Thaijongrak 2013; Williamsson et al. 2013). However, there is a lack of research focusing on these learning processes and how knowledge is shared between the new owner and the acquired international firm. This chapter will therefore contribute with theoretical insights on what role EM MNEs play in a global environment and the subsequent challenges, as well as opportunities, there are for existing internationalized firms. It is important to develop our understanding of how these EM MNEs internationalize together with acquired MNEs, because, as noted by Peng (2012: 100), many explicitly state that their motive was to go abroad to learn. Instead of the "I will tell you what to do" mentality, typical of experienced MNEs from developed economies, many emerging MNEs openly profess that they go abroad with the aim of learning about the internationalization process. This is a new area of organizational learning that has not been extensively studied by researchers, who have traditionally focused on how local firms learn from the foreign entrants of MNEs. This chapter will also, based on secondary sources, pay attention to the learning process of EM MNEs within the auto-industry, which has been able to gear up its power and presence in an international competitive market through an international acquisition.

Learning How to Internationalize from an Emerging Market

There is a growing interest in EM MNEs, and several researchers have investigated different strategies and motives for internationalization and suggested that we need new categories and explanatory models for how to understand their behavior. For example, Mathews (2006: 7) describes a "new zoology" of the global economy. Alvstam and Ivarsson (2014) refer to EM MNEs as "emerging market hybrid firms" as they are positioned in a gray zone, with fewer operations in the home market than in the global arena, and because some of these privately held firms are also indirectly controlled by public interests. These firms typically lack intangible resources and the experiential knowledge that is needed when internationalizing, following the traditional view of the internationalization process (Johanson and Vahlne 1977; Eriksson et al. 1997), and the strategic asset-seeking efforts of EM MNEs have been described as "catch-up" processes (Mathews 2006) or with reference to a "spring-board perspective" (Luo and Tung 2007: Ramamurti 2012). The reasons for making these outward foreign direct investments (OFDI) are market-seeking, efficiency-seeking, and resource-seeking (Dunning and Lundan 2008). An additional reason for choosing acquisitions as a strategy to grow is that it also provides intangible assets such as brand names and the networks in which the acquired firms are embedded (cf. Anderson et al. 2001; Vermeulen and Barkema 2001). This asset-seeking effort is particularly evident in the case of Chinese MNEs, which also represent one of the fastest growing markets of EM MNEs and that are actively seeking knowledge and institutional support to compensate for their late entry into the internationalization process (Mathews and Zander 2007; Lu et al. 2011).

To be able to compete within emerging markets and to internationalize out of these, firms make strategic choices that are different from those prescribed in traditional behavioral models of the MNE (Aulakh and Kotabe 2008; Lu et al. 2014; Meyer et al. 2009). Many researchers note that EM MNEs, compared to MNEs from developed markets, often lack knowledge and experience, which makes it more difficult for them to compete on the global stage. This is also the main reason why EM MNEs

more frequently use acquisitions as a strategy to close the knowledge gaps (Deng 2009; Luo and Tung 2007; Luo et al. 2010; Mathews 2006; Yang et al. 2011). Lu et al. (2014) note that in relation to Chinese EM MNEs the likelihood of foreign direct investment increases in markets that have well-developed host country institutions. Such institutions reduce the importance of and need for experiential knowledge from previous market entries and from a home country government, as is the case with many Chinese multinationals relying on support from the Chinese government. As noted by Meyer and Thaijongrak (2013: 1132), "an acquisition entry may even be a fast track to building legitimacy in the local context, provided the post-acquisition process is managed sensitive to local interests." This fast track strategy is also evident in the discussion about the "dragon multinationals," the expression often used for firms from the Asia–Pacific region, which historically was described as peripheral to the world economy but now is one of the fastest growing (Mathews 2006). These firms have successfully—and quickly—internationalized their business and in some cases become leading global firms in sectors such as software, automotive products, steel production, and financial services by acquiring firms from developed markets.

All in all, these new patterns for globalization challenge the current understanding of international business. For instance, Luo and Rui (2009: 51) note that, given that they are latecomers, the incentives of EM MNEs are strong enough to build and leverage ambidexterity through co-evolution, co-competence, and co-ordination. It is further noted that "culturally, many emerging economies have a long tradition of upholding harmony (e.g. East Asian yin–yang philosophy) and valuing interpersonal and inter-organizational relationships for business transactions." Following that, one might expect that EM MNEs will have particular advantages in relation to the ability to build and benefit from learning and organizational ambidexterity (Gibson and Birkinshaw 2004; He and Wong 2004; Raisch and Birkinshaw 2008). The difficulties of achieving an ambidextrous approach are well-known (at least from studies of firms from developed countries) and often discussed in terms of the exploration and exploitation dilemma (Benner and Tushman 2003). This is therefore an area and subject that existing MNEs from developed markets could learn from.

A Theoretical Frame of Reference for Understanding EM MNEs

This rather new phenomenon of how local national firms acquire existing international firms has been described as "the second wave [of] MNEs" (Mathews 2006: 7). These second wave MNEs, that is EM MNEs, represent a different phenomenon of international business: their analysis calls for new perspectives that differ from those developed. The emergence of second wave MNEs is to be sought in pull factors that draw firms into global connections, rather than push factors that drove firms as standalone players in the first wave.

The second wave MNEs represents a different type of behavior and we therefore need to develop our understanding of how this new behavior influences the internationalization process. Meyer and Thaijongrak (2013: 1126) assess the Johanson and Vahlne internationalization process model (1977, 2009), which adheres to the behavioral paradigm, focusing on the learning process of internationalization, and whether the model is applicable to the second wave MNEs. Based on their case studies of six MNEs from Thailand, they argue that the framework is applicable and can inform future research on EM MNEs by focusing on the internal and external factors that may encourage firms to accelerate their cycle of international learning and commitment, such as the role of acquisitions, human resources, big step commitments, and the home country's institutional environment (Meyer and Thaijongrak 2013: 1144). The internationalization process model by Johanson and Vahlne (1977, 2009) thus serves as a good starting point to develop further our understanding of the dynamic learning process of EM MNEs.

However, as in the case of the literature on MNEs from developed markets, there are different views on how best to understand the internationalization process of EM MNEs. Mathews (2006: 18–19), for instance, suggests an alternative and complementary framework to the Ownership, Location, Internalization (OLI) framework (Dunning 2001)—the Learning, Leverage, Linkages (LLL) framework which focuses on explaining linkages, leverage, and learning. Linkage relates to "the advantages, which can be acquired externally," leverage to "a view that MNEs derive advantages from ownership of superior resources and

from the internalization of operations across national borders (the OLI perspective)," and learning relates to "the ability to perform such operations [linkage and leverage] more effectively, following the idea about organizational learning." However, as previous research has illustrated the static approach, the OLI perspective included, does not further develop the dynamic capability of such learning behavior and so there is a need to develop further our understanding of how knowledge is shared (Foss and Pedersen 2004; Ghoshal and Westney 1993) and especially when encountering the challenges of different institutional contexts (Cooke 2012).

In order to understand the dynamics of the internationalization process, it is imperative to focus on changes in the behavior of a firm. The behavioral paradigm suggests that experiential knowledge and market commitment influence the internationalization process; one of the most cited models was developed by Johanson and Vahlne in 1977. This is often referred to as the "learning approach," as experiential knowledge is the centerpiece of the model (Fletcher 2001). The key argument is that firms will incrementally commit to internationalization as managerial experience and knowledge increase. Experiential knowledge is vital to the internationalization process, because it "not only yields a reduction of the risks involved in going abroad, but also provides a vehicle for acquiring knowledge of internal and external resources and of opportunities for combining them" (Eriksson et al. 1997: 340). The model was recently further developed (Johanson and Vahlne 2009) to meet the criticism that it only emphasizes one of several types of knowledge and does not explain the mechanisms for how to share knowledge (Blomstermo and Sharma 2003; Forsgren 2002; Petersen et al. 2003). This is in line with Foss's work (2006: 6), who notes that the theory of the MNE "has some lead-time with respect to understanding how knowledge and organizations connect," but that there is still a need for more research on intra-organizational aspects of the internationalization process. More specifically, Foss and Pedersen (2004: 50) argue for the need for a developed understanding of how capabilities for internationalization evolve:

> focus on knowledge has traditionally been a (static) matter of explaining the existence of the MNC by focusing on failures in markets for knowledge rather than on (dynamically) stressing the MNCs' distinct capabilities of realizing competitive advantages through managing knowledge flows.

And, as noted by Edwards et al. (2007), much of the existing research focusing on knowledge flows and experiential knowledge within the MNE takes a static view on knowledge, treating it as a black box. This chapter is therefore informed by the criticism of Hemeriks and Duysters (2007: 26–27) that:

> few studies have been able to explain how experience can be translated into a capability [and that] little empirical evidence exists with respect to how firms can best distribute and institutionalize organizational knowledge. More precisely the mechanisms that allow for knowledge transfer which can enhance adoption of new practices have hardly been analyzed.

To develop further our understanding of how knowledge is shared, research focusing on the MNE and factors enabling or hindering knowledge flows is important. As stressed by Gupta and Govindarajan (2000), for instance, MNEs exist because they can exploit and share knowledge more effectively internally than when interacting with the external market. Furthermore, Gupta and Govindarajan (1991: 772) write that

> "it is now widely accepted in the economics literature that foreign direct investment by a company (i.e. capital flows) occurs predominantly because of a desire to internalize knowledge transfers."

These ideas have been synthesized in the OLI paradigm that was previously mentioned (Dunning 2001), focusing on organizational advantages (i.e. resources and capabilities that are unique to the organization), local advantages (i.e. specific circumstances that make a local market attractive), and internalization (i.e. the ability to internalize a market in order to exploit simultaneously both the organizational and the local advantages). However, as stressed, the ability to coordinate knowledge and activities has been questioned. Jensen and Szulanski (2004: 519) argue that there is a need for more research on the process of knowledge sharing across borders and the factors

driving (or hindering) it, especially since the sharing of firm-specific assets seems to be a prerequisite for the success of MNEs. Here, research on organizational ambidexterity (e.g. Gibson and Birkinshaw 2004; He and Wong 2004; Raisch and Birkinshaw 2008) could be especially interesting to develop further our understanding. The discussion on contextual ambidexterity is interesting and described as a behavioral capacity to demonstrate simultaneously alignment and adaptability across an entire business unit.

In conclusion, it is clear that in order to develop our understanding of EM MNEs we need to develop a framework that brings together organizational learning, knowledge, and dynamic capabilities to the internationalization process. Recent research stresses that it is important to go beyond the static and structuralist view of knowledge flows within MNEs and take a social learning perspective, incorporating situated learning processes as different institutional contexts influence the process (Becker-Ritterspach et al. 2010). The framework by Carlile (2004) focusing on how to transfer, translate, and transform knowledge across boundaries is promising for developing our understanding of this process. Another stream of literature that will contribute to our understanding of the dynamic learning process is research taking a knowing-in-practice perspective (e.g. Cook and Brown 1999; Gherardi 2006; Orlikowski 2002) by focusing not only on how knowledge, but also knowing, is shared in practice. The work by Vera et al. (2011) and Crossan et al. (2011) on learning processes would be a good starting point on how to develop conceptually Johanson and Vahlne's (1977, 2009) framework. In order to understand why we need to develop our existing conceptual models for understanding the internationalization process of EM MNEs let us look into an interesting case within the auto-industry and how the Chinese-owned Geely Holding, through their acquisition of Swedish Volvo Cars Corporation, has been able to gear up its horsepower.

Dragons with Horsepower

The Chinese auto-industry is an interesting context for developing an understanding of dragon multinationals. China is one of the world's fastest growing economies and also has the largest automobile market. The car

industry in China has developed fast during the last decade and the demand for cars has reached the same level as in Japan and the USA (Han and Rhys Thomas 2012). However, as noted by Fetscherin and Beuttenmuller (2012: 379):

> Most Chinese automobile companies face significant challenges, especially since the industry is still in its infancy in terms of quality, product features, and research and development (R&D). Issues of product quality and reliability, inability to meet safety and emissions standards, poor sales and distribution networks, and failure to develop effective after-sales service/maintenance networks are not uncommon. [Therefore] domestic Chinese auto manufacturers need to gain the trust of these consumers by implementing appropriate strategies such as acquiring well-known international brands and partnerships.

The Chinese government has therefore, alongside other internationalization initiatives, encouraged OFDI in order to improve the capability of domestic auto-manufacturers, which they need in order to compete both on the Chinese as well as on the global arena (Han and Rhys Thomas 2012). An example of such encouragement is that of the Chinese-owned Zhejiang Geely Holding Group (GH) and their acquisition of Volvo Cars Corporation (VCC)—a Swedish global firm with a long international tradition. Within the auto-industry, the National Electric Vehicle Sweden (NEVS) acquisition of Swedish SAAB Automobile is another interesting example.

Case Study of Zhejiang Geely Holding Group and Volvo Cars Corporation

In August 2010, GH acquired VCC from Ford Motors, an investment estimated at around US$1.8 million. At the time of acquisition, VCC was suffering from the global recession, which was causing falling sales; the Ford Motor Company wanted to sell it off. The motivation from GH's perspective to acquire VCC was that in 2010 the Chinese market was not only suffering from an economic recession but also intensified competition on the global market (Zhou and Zhang 2011). VCC's new

sister company, Geely Auto (GA), which is one of China's top ten automobile manufacturers and among the nation's top 500 firms, was at that time in great need of the international experience that VCC had in order to be able to compete. So as to meet the challenges of increased competition, GH had to invest in quality improvement, technology development, and brand building in GA. From the perspective and importance of experiential knowledge it is important to note that VCC had been building cars since 1927, but GA only since 1987. By acquiring VCC, GH wanted to compete in China's luxury car market and improve its brand awareness, image, and perception among consumers, not only in the Chinese but also in international markets. The acquisition, which was the largest ever at that time by a Chinese company, was described as a status symbol and a "marriage made in heaven" in an article in *The Economist* (March 31, 2010):

> For Geely, acquiring Volvo is both an extraordinary statement of intent and a huge gamble. The deal could help Geely realise the dream of its founder, Li Shufu, the self-styled Henry Ford of China, to become a big international carmaker. Even though Ford has done its best to ring-fence its intellectual property, Volvo has plenty of its own, especially in the critical area of safety, to which Geely will have access and which will lend credibility to its cars as its range expands in both scope and scale. It will also learn from Volvo about how to run a global supply chain and an international dealer network.

The acquisition of VCC thus offered GH access to important resources needed in order to increase its competitiveness and further expand both in the Chinese and international markets (Balcet et al. 2012). Part of the motivation for acquiring VCC was that GH wanted to internationalize and increase the scale of GA. The acquisition of VCC, along with other acquisitions (such as London Taxi), was part of a strategy to extend the scope of internationalization and gain access to technical know-how.

However, the initial years for GH and VCC were described in the media as a culture clash with falling sales and friction between the Swedish and Chinese management (Forbes Business 2013; *Global Times* 2015). The friction was partly explained by the fact that VCC is famous for its Scandinavian design and production quality, while GA, a newcomer in

the auto-industry, sells cars that are low-priced and therefore perceived as being of poor quality, both in China and abroad. Falling sales and friction between VCC's Swedish executives and the Chinese owners marked the first couple of years. However, looking at the sales figures, the acquisition seems to have moved VCC toward a new phase. According to Volvo's Chief Executive Håkan Samuelsson, VCC is now right on track, with sales rising both in China and in Sweden. It has also been acknowledged that VCC has the full freedom to be "Volvo" as long as it is "inside" the strategy and there is no interference at the operational level. In an interview in *The Financial Times* (April 6, 2014), it was also stressed that stability and investment prosperity has been achieved under GH and that VCC experiences autonomy in the sense that they do not feel micromanaged by Chairman Li Shufu. Rather, according to an interview in *Asian Business News* (April 20, 2014), VCC's management has been consulted on the brand restructuring for GA in China. The know-how from VCC is considered important for GA so that it is able to compete better with an increasing number of foreign car manufacturers in China. The current global development and brand strategy is that GA should be considered a mass-market car brand and VCC a luxury one (*Global Times* April 21, 2014); Li Shufu stresses that

> the relationship between Geely and Volvo is just like two brothers rather than father and son, but they both belong to the Geely Holding Group. Like other automobile companies in the world, the two brands are trying their utmost to seek more cooperation.

It is interesting to note that initially the acquisition was treated with great skepticism by the media and competitors alike. There was fear that Chinese conglomerates, like GH, would learn how to, for instance, build a car and a global brand, and then move back production to China. Such fears existed in relation to many other Chinese OFDI projects. However, so far, this has not been the general case and the media are now reporting a much more positive side of the story. In fact, it seems that GH follows the same strategy as Indian-owned TATA chose for the acquisition of Jaguar Land Rover, that is to leave it alone and let it grow, but at the same time encourage mutual learning (Forbes Business 2013). So far it

seems as if the "leave alone strategy" has been successful for GH—as well as for VCC and GA. VCC especially has witnessed successful growth and improved performance. New car models have been introduced, with financial support for research and development by GH, including the new "flagship" XC90 (*The Economist* 2014). Chairman Li Shufu recently explained, in *Global Times* (2015), the decision to acquire VCC and the experiences they have had:

> Our decision to acquire Volvo then was mainly motivated by its technologies in safety, R&D capability and brand influence in the world. The past four years have proven that we made a right decision. Volvo has been occupying a leading position among the luxurious cars brands in terms of technologies in safety, product quality, management and research and application of new technology, which is inseparable from the special environment and unique nature of Northern Europe and Volvo's long-lasting virtuous characters.

Li Shifu, in his view on how GH as a dragon MNE has managed the acquisition of VCC, expresses the success in terms of letting the tiger conquer its past and its territory (*Global Times* 2015): "I've made it clear to Volvo's staff and management team that Volvo is a tiger which cannot be imprisoned. It should return to nature and conquer its own territory."

It is interesting to note that part of GH's globalization strategy is to develop cooperation between GA and VCC, as expressed in a corporate presentation (Geely Auto, 2015); "Given the current economic situation worldwide and the highly competitive nature of the auto business, the synergy between Geely Auto and Volvo Cars is crucial for the build-up of competence and future success of both brands."

In order to do so, various activities have been initiated where "Geely and Volvo engineers will pair up on some projects and tasks, so that they can learn from each other." It is also expressed that, for development in emerging markets, "Volvo will share insights with Geely" and that "Volvo Cars will tap on the cost advantages of Asian suppliers" through joint sourcing. The newly established collaboration of the Volvo/Geely Research and Development Center and China–Europe Vehicle Technology AB (CEVT), located in Gothenburg in Sweden, offers a

platform for these dynamic learning process in practice. It is stated that CEVT aims to increase both GA's and VCC's competitiveness through:

> The right competence and eagerness to learn, and we utilize the cultural differences to our advantage working in teams [and] being the bridge sharing knowledge and technology between Geely and Volvo without jeopardizing brand integrity and individual product development.

At CEVT approximately 15–20 Chinese co-workers per year from GA will follow a one-year training program. The number is increasing at the same speed as CEVT develops. Mats Fägerhag, CEO of CEVT, recently stressed in an interview for *Just Auto* (April 24, 2014) that Swedish engineers have a lot to learn from the Chinese, implying that CEVT is not a one-way learning platform:

> They are not as experienced, of course, but they bring some new thinking, which is interesting. Chinese engineers work more closely with the suppliers; they are better at identifying where the different cost elements are in the designs [of components]. They are very good at working on cost solutions. I think sometimes we in the Western part of the world are maybe a little bit over-sophisticated in the way we design things. I would say the Chinese are different—they have a good balance when it comes to cost and sophistication. The car industry in the West is rather traditional and I think what the Chinese industry brings is a new, and faster way of looking at how cars are developed and built. So if you combine those elements—the ability to develop premium vehicles with new ideas about making cost efficient solutions, it's a big opportunity.

The Chairman of GH, Li Shufu, expresses the importance of understanding the learning process very clearly in an interview in *Global Times* (2015):

> Geely's decision to acquire Volvo is not a financial investment. Apart from realizing the strategy of "setting free the tiger back to the mountains" for Volvo, its objectives and mission are to improve Geely's R&D capability. As two brands under the Geely Holding Group, Volvo and Geely have forged a brotherhood relationship in their R&D and their cooperation will extend

> to other fields since the cooperation can contribute to elevating Geely's R&D ability and cultivating Chinese auto engineers, R&D engineering technicians in particular. With the help of Volvo, I believe that Geely will see a great improvement in its R&D ability, technical levels, engineers' R&D capability as well as competitiveness and ultimately witness an increase in its added-value, thus boosting its competitiveness in the global market.

Concluding Remarks and Future Research

From this brief review and case study it is clear that we need to develop our understanding of how EM MNEs internationalize in practice as well as how, and whether, the existing internationalization process of the acquired MNE will transform in a new direction. This will have consequences not only for the EM MNEs, but also for the society and countries that the acquired MNEs originate from. Five years have passed since the acquisition and GH can for sure be described in terms of a dragon MNE and one that has been able to unleash the tiger of Volvo and thereby gear up its power and presence.

Several interesting queries for future research arise from the Geely–Volvo case. For instance, it would be interesting to understand further how knowledge is shared in practice between the EM MNE and the acquired MNE and what the potential factors enabling or hindering the learning process are. Also interesting would be to know what the power relations between the EM MNE and the acquired MNE are, and how they influence knowledge flows both within the parent company and the sister companies as well as between these. In addition it would be interesting to delve deeper into issues of motivation and the institutional factors for sharing knowledge from the acquired firm to the new owner—and vice versa. All in all, it will be interesting to note whether the processes we are witnessing are new patterns for globalization and which may challenge the current understanding of international business, leaving both research and practice to investigate the opportunities for sources of competitive advantage (enjoyed by both the acquiring and the acquired

firm), or if these patterns after a couple of years of experiential learning can be described in terms of the traditional internationalization models (cf. Deng 2012; Lu et al. 2011; Sun et al. 2012; Meyer and Thaijongrak 2013; Williamson et al. 2013).

References

Alvstam, C. G., & Ivarsson, I. (2014). The 'hybrid' emerging market multinational enterprise – The ownership transfer of Volvo Cars in China. In C. G. Alvstam, H. Dolles, & P. Ström. (Eds.), *Asian inward and outward FDI*: *New challenges in the global economy* (pp. 217–242). Basingstoke: Palgrave Macmillan Asian Business.

Anderson, H., Havila, V., & Salmi, A. (2001). Can you buy a business relationship? On the importance of customer and supplier relationships in acquisitions. *Industrial Marketing Management, 30*(7), 575–586.

Aulakh, P. S., & Kotabe, M. (2008). Institutional changes and organizational transformation in developing economies. *Journal of International Management, 14*(3), 209–216.

Balcet, G., Wang, H., & Richet, X. (2012). Geely: A trajectory of catching up and asset-seeking multinational growth. *International Journal of Automotive Technology and Management, 12*(4). doi:10.1504/IJATM.2012.051361.

Becker-Ritterspach, F., Saka-Helmjout, A., & Hotho, J. J. (2010). Learning in international enterprises as the socially embedded translation of practices. *Critical Perspectives on International Business, 6*(1), 8–37.

Benner, M. J., & Tushman, M. L. (2003). Exploitation, exploration and process management: The productivity dilemma revisited. *Academy of Management Review, 28*, 238–256.

Blomstermo, A., & Sharma, D. D. (2003). *Learning in the internationalization process of firms*. Cheltenham: Edward Elgar Publishing..

Buckely, P. J., Clegg, L. J., Cross, A. R., Liu, X., Voss, H., & Zheng, P. (2007). The determinants of Chinese outward foreign direct investments. *Journal of International Business Studies, 38*, 499–518.

Carlile, P. (2004). Transferring, translating, and transforming: An integrative framework for managing knowledge across boundaries. *Organization Science, 15*(5), 555–568.

Cook, S. D. N., & Brown, J. S. (1999). Bridging epistemologies: The generative dance between organizational knowledge and organizational knowing. *Organization Science, 10*(4), 381–400.

Cooke, L. F. (2012). The globalization of Chinese Telecom Corporations: strategy, challenges and HR implications for the MNCs and host countries. *International Journal of Human Resource Management, 23*(9), 1832–1852.

Crossan, M. M., Maurer, C. C., & White, R. E. (2011). Reflections on the 2009 AMR Decade Award: Do we have a theory of organizational learning? *Academy of Management Review, 36*(3), 446–460.

Deng, P. (2009). Why do Chinese firms tend to acquire strategic assets in international expansion? *Journal of World Business, 44*(1), 74–84.

Deng, P. (2012). The internationalization of Chinese firms: A critical review and future research. *International Journal of Management Reviews, 14*(4), 408–427.

Drauz, R. (2013). In search of a Chinese internationalization theory: A study of 12 automobile manufacturers. *Chinese Management Studies, 7*(2), 281–309.

Dunning, J. H. (2001). The eclectic (OLI) paradigm of international production: Past, present and future. *International Journal of the Economics of Business, 8*(2), 173–190.

Dunning, J. A., & Lundan, S. M. (2008). Institutions and the OLI paradigm of the multinational enterprise. *Asia Pacific Journal of Management, 25*(4), 573–593.

Edwards, T., Collins, T., & Ferner, A. (2007). Conceptual approaches to the transfer of employment practices in multinational companies: An integrated approach. *Human Resource Management Journal, 17*(3), 201–217.

Eriksson, K., Johanson, J., Majkgård, A., & Sharma, D. (1997). Experiential knowledge and cost in the internationalization process. *Journal of International Business Studies, 28*(2), 337–360.

Fetscherin, M., & Beuttenmuller, P. (2012). Geely's internationalization and Volvo's acquisition. In I. Alon, M. Fetscherin, & P. Gugler (Eds.), *Chinese international investments* (pp. 376–390). Basingstoke: Palgrave Macmillan.

Fletcher, R. (2001). A holistic approach to internationalization. *International Business Review, 10*(1), 25–49.

Forbes Business. (2013). The Global Auto Forum 2013: Let Volvo be Volvo. 2013-10-23.

Forsgren, M. (2002). The concept of learning in the Uppsala internationalization process model: A critical review. *International Business Review, 11*(3), 257–277.

Foss, N. J. (2006). Knowledge and organization in the theory of the multinational corporation: Some foundational issues. *Journal of Management & Governance, 10*(1), 3–20.

Foss, N. J., & Pedersen, T. (2004). Organizing knowledge processes in the multinational corporation: An introduction. *Journal of International Business Studies, 35*(5), 340–349.

Geely Auto. (2015). *Creating something entirely new. Developing a new modular architecture for world-class cars*. http://www.geelyauto.com.hk/core/files/presentation/sc/CEVT%20Corp%20Presentation%20Hong%20Kong%20visit%20%20Feb%202015.pdf (consulted 2016-09-01).

Gherardi, S. (2006). *Organizational knowledge*. Oxford: Blackwell Publishing.

Ghoshal, S., & Westney, D. E. (1993). *Organization theory and the multinational corporation*. Basingstoke: Palgrave Macmillan.

Gibson, C. B., & Birkinshaw, J. (2004). The antecedents, consequences, and mediating role of organizational ambidexterity. *Academy of Management Journal, 47*(2), 209–226.

Global Times. (2015). Li Shufu commenting on Geely's strategy towards Volvo: Setting free the tiger back to the mountains. 2015-01-05.

Gupta, A. K., & Govindarajan, V. (1991). Knowledge flows and the structure of control within multinational corporations. *Academy of Management Review, 16*(4), 768–792.

Gupta, A. K., & Govindarajan, V. (2000). Knowledge flows within multinational corporations. *Strategic Management Journal, 21*, 473–496.

Han, C., & Ryhs Thomas, S. (2012). Why are China's companies doing overseas M&As? The case of Geely and Volvo. *Emerald Emerging Markets Case Studies, 2*(8), 1–7.

He, Z. L., & Wong, P. K. (2004). Exploration vs. exploitation: An empirical test of the ambidexterity hypothesis. *Organization Science, 15*(4), 481–494.

Heimeriks, K. G., & Duysters, G. (2007). Alliance capability as a mediator between experience and alliance performance: An empirical investigation into the alliance capability development process. *Journal of Management Studies, 44*(1), 25–49.

Jensen, R., & Szulanski, G. (2004). Stickiness and the adaptation of organizational practices in cross-border knowledge transfers. *Journal of International Business Studies, 35*(6), 508–523.

Johanson, J., & Vahlne, J.-E. (1977). The internationalization process of the firm: A model of knowledge development and increasing foreign market commitments. *Journal of International Business Studies, 8*(1), 23–32.

Johanson, J., & Vahlne, J.-E. (2009). The Uppsala internationalization process model revisited: From liability of foreignness to liability of outsidership. *Journal of International Business Studies, 40*, 1411–1431.

Johanson, J., & Vahlne, J.-E. (2013). The Uppsala model on evolution of the multinational business enterprise: From internalization to coordination of networks. *International Marketing Review, 30*(3), 189–210.

Lahiri, S. (2011). India-focused publications in leading international business journals. *Asia Pacific Journal of Management, 28*(2), 427–447.

Lu, J., Liu, X., & Wang, H. (2011). Motives for outward FDI of Chinese private firms: Firm resources, industry dynamics, and government policies. *Management and Organization Review, 7*(2), 223–248.

Lu, J., Liu, X., Wright, M., & Filatotchev, I. (2014). International experience and FDI location choices of Chinese firms: The moderating effects of home country government support and host country institutions. *Journal of International Business Studies, 45*, 428–449.

Luo, Y., & Rui, H. (2009). An ambidexterity perspective toward multinational enterprises from emerging economies. *Academy of Management Perspectives, 23*(4), 49–70.

Luo, Y., & Tung, R. (2007). International expansion of emerging market enterprises: A springboard perspective. *Journal of International Business Studies, 38*, 481–498.

Luo, Y., Xue, Q., & Han, B. (2010). How emerging market governments promote outward FDI: Experience from China. *Journal of World Business, 45*(1), 68–79.

Mathews, J. A. (2006). Dragon multinationals: New players in 21st century globalization. *Asian Pacific Journal of Management, 23*(1), 5–27.

Mathews, J. A., & Zander, I. (2007). The international entrepreneurial dynamics of accelerated internationalization. *Journal of International Business Studies, 38*, 387–403.

Meyer, K. E., & Thaijongrak, O. (2013). The dynamics of emerging economy MNEs: How the internationalization process model can guide future research. *Asia Pacific Journal Management, 30*(4), 1125–1153.

Meyer, K. E., Estrin, S., Bhaumik, S. K., & Peng, M. W. (2009). Institutions, resources, and entry strategies in emerging economies. *Strategic Management Journal, 30*(1), 61–80.

Orlikowski, W. J. (2002). Knowing in practice: Enacting a collective capability in distributed organizing. *Organization Science, 13*(3), 249–273.

Peng, M. W. (2012). The global strategy of emerging multinationals from China. *Global Strategy Journal, 2*(2), 97–107.

Peng, M. W., Bhagat, R. S., & Chang, S.-J. (2010). Introduction: Asia and global business. *Journal of International Business Studies, 41*(3), 373–376.

Petersen, B., Pedersen, T., & Sharma, D. (2003). The role of knowledge in firms' internationalization process: Wherefrom and whereto. In A. Blomstermo & D. Sharma (Eds.), *Learning in the internationalization process of firms* (pp. 36–55). Cheltenham: Edward Elgar Publishing..

Raisch, S., & Birkinshaw, J. (2008). Organizational ambidexterity: Antecedents, outcomes, and moderators. *Journal of Management, 34*(3), 375–409.

Ramamurti, R. (2012). What is really different about emerging market multinationals? *Global Strategy Journal, 2*(1), 41–47.

Sun, S. L., Peng, M. W., Ren, B., & Yan, D. (2012). A comparative ownership advantage framework for cross-border M&As: The rise of Chinese and Indian MNEs. *Journal of World Business, 47*(1), 4–16.

The Economist. (2014). *The $11billion Gamble*. 2014-09-05.

Vera, D., Crossan, M., & Apaydin, M. (2011). A framework for integrating organizational learning, knowledge, capabilities, and absorptive capacity. In M. Easterby-Smith, &. M. A. Lyles (Eds.), *Handbook of organizational learning and knowledge management* (2nd ed., pp. 153–180). Oxford: Blackwell.

Vermeulen, F., & Barkema, H. (2001). Learning through acquisitions. *Academy of Management Journal, 44*(3), 457–476.

Williamsson, P. J., Ramamurti, R., Fleury, A., & Fleury, A. T. (2013). *The competitive advantage of emerging market multinationals*. Cambridge: Cambridge University Press.

Xu, D., & Meyer, K. L. (2013). Linking theory and context: Strategy research in emerging economics after Wright et al. (2005). *Journal of Management Studies*, 50(7): 1322–1345.

Yamakawa, Y., Peng, M. W., & Deeds, D. L. (2008). What drives new ventures to internationalize from emerging to developed economies? *Entrepreneurship Theory and Practice, 32*(1), 59–82.

Yang, H., Sun, S. L., Lin, Z., & Peng, M. W. (2011). Behind M&As in China and the United States: Networks, learning, and institutions. *Asia Pacific Journal of Management, 28*(2), 239–255.

Zhou, X., & Zhang, X. (2011). Strategic analysis of synergistic effect on M&A of volvo car corporation by Geely automobile. *iBusiness, 3*, 5–15. doi:10.4236/ib.2011.31002.

14

Talent Management and Global Value Creation: How Do Russian Companies Do This?

Marina Latukha

Introduction

Firms from emerging markets are constantly looking for additional competitive advantages, a source of organizational growth, and possibilities for value creation in a global context. Scullion et al. (2010) and Scullion and Collings (2011) argue that talent management (TM) has become very important in firms' global operations. There is a growing recognition that a firm's success mainly depends on, among other factors, human resource management (HRM) (Tarique and Schuler 2010) and managerial and professional talent as key resources for companies in the internationalization process (Farndale et al. 2010). It is generally recognized that the complexity of TM in Multinational Corporations (MNCs) is higher than in domestic firms due to the more demanding

M. Latukha (✉)
Graduate School of Management, Saint-Petersburg State University,
Volkhovskiy pereulok, 3, 199004 Saint-Petersburg, Russia
e-mail: marina.latuha@gsom.pu.ru

© The Editor(s) (If applicable) and the Author(s) 2017

S. Marinova et al. (eds.), *Value Creation in International Business*,
DOI 10.1007/978-3-319-30803-6_14

skill sets required by MNCs to create value in supporting organizational growth. Beechler and Woodward (2009) identify four main factors that create an environment that promotes a war for talent and that impact on TM characteristics at the global and national level: global demographic and economic trends; an increase of mobility of people and organizations; transformation in the business environment; and the growing diversity in workforce skills and cultures. Creelman (2004) has defined TM as the process of attracting, recruiting, and retaining talented employees, whereas Chuai et al. (2008) associate TM with activities that include incorporating new knowledge and doing things more quickly and efficiently for organizational growth. For some authors, TM is a mindset to ensure that all employees perform to the best of their potential (Buckingham and Vosburgh 2001; Walker and Larocco 2002). At this point we see the importance of identifying a role for TM in both value creation and a firm's performance results. We use the Russian context due to the fact that TM in Russian companies is not widespread, though firms have become important players in the global market due to an increased involvement in internationalization (Panibratov 2012). Based on this idea, I have formulated the following research questions that guided me in my empirical research:

1. What are the specific TM practices implemented in Russian companies?
2. Is the role of TM in Russian firms more strategic or more operational?
3. How does TM influence a firm's performance in the Russian context?

Talent Management Background

The concept of TM emerged in 1997 when the term "the war for talent" was introduced by McKinsey (Michaels et al. 2001). Since then, TM has become more critical than ever for organizational strategic success (Boudreau 2005) and the value creation process, and this is attracting the attention of many companies globally (Bhatnagar 2008). Recent studies (Mellahi and Collings 2010; Lewin et al. 2009; Stahl et al. 2007; Ready and Conger 2007; Huselid et al. 2005; Cappelli 2008) argue that many firms can fail to manage talent effectively due to the lack of a talent pipeline

and the absence of a long-term strategy to align talent attraction, development, and retention with business strategies and operations. Moreover, there is much discussion about the range of factors associated with the growing importance of TM. First, the shortages of managerial and professional talent have emerged as the key human resource challenge facing the majority of MNCs (Bjorkman and Lervik 2007), which significantly limit the value creation process and organizational growth, especially in international markets. Another equally important issue is that the growth of emerging markets (Russia is considered to be one of them) has resulted in a further demand for special competencies, which can operate effectively in culturally complex and geographically distant markets (Scullion et al. 2007; Latukha 2015). It is argued that MNCs are frequently unable to identify their most talented employees, especially in an international context (Collings et al. 2007). Global TM is important as firms cannot leverage an asset they do not realize they have (Scullion et al. 2010). Tarique and Schuler (2010) discuss the integrative framework of global TM in MNCs, identifying factors that influence the TM system, which is fundamental in the organizational value creation process.

TM is described as the ability to attract, develop, and retain talented employees (Latukha 2015). Talent can be defined in different ways, but the important thing is that in global companies talented employees are thought of as a high value corporate asset (Schuler 2015). Applying the right set of TM processes is the key to success, since an increasing number of potential workers are interested in applying for a job position in a company, and bringing value to it. TM plays an essential role in achieving the main goals set by a company (Scullion and Collings 2010) and brings the skills needed for the value creation process. Discussing the importance of TM, I argue that it helps firms to gain and sustain global competitive advantage (Tarique and Schuler 2010; Scullion and Collings 2010). An organization should be able to attract, select, develop, and retain key talented employees on an international scale (Stahl et al. 2007), extending TM from an operational to a strategic position. These TM activities can be defined as both the formal policies of the organization and the actual daily practices (Schuler 2015), creating a day-to-day basis for value creation and organizational growth.

The Russian Context for TM

Organizations in Russia have undergone dramatic changes in market conditions, ownership structure, and economic sectors. The new economic environment is characterized by competition for market access and capital, particularly human capital (Tarique and Schuler 2010). Beyond the two paradigm reversals evoked in the introduction (knowledge-based economy and lifelong learning), we could add a third one in the case of Russia: that is, a shift from a fully state-regulated labor market to a much more open one (Ardichvili and Khalil 2005). Formerly, the Soviet administration allocated the workforce to companies: after being trained at government-owned vocational schools or higher learning institutions, potential employees were dispatched by government regulators. The only way for companies to develop qualitatively their workforce was to train internally those employees or encourage them to obtain additional degrees through government-owned educational institutions (Ardichvili and Gasparishvili 2001). Before we define the TM peculiarities of Russia, it is worth mentioning that, as outlined by Holden and Vaiman (2013), most of the existing academic work on TM in Central and Eastern Europe (CEE) either focuses on case studies of Western MNCs' subsidiaries, or makes an overview of HRM practices in specific CEE countries, in which TM is only a side element. TM in Russia remains a very recent concept (Latukha 2015), but is increasingly popular due to the combined effects of falling demographics and aging skilled employees, workforce scarcity, and the competition of foreign MNCs, which often have well-developed TM practices. According to Holden and Vaiman (2013), "Russia has not yet developed an environment in which TM can easily take root and flourish" (Holden and Vaiman 2013: 136). Isolation of the top decision makers, survival of authoritarian and bureaucratic management patterns (what Holden (2011) calls "entrenched bossdom"), short-term orientation of business decision making processes, and a lack of individuals with business or management skills (especially among the Soviet-born educated generations) have been pointed out by authors to describe a "wariness of talent" (Holden and Vaiman 2013: 142) in the business sector and which calls for fast catching up on TM practices by Russian firms (Skuza et al. 2013), all the more so as "Russian employees find that their

talents are more greatly valued by foreign employers based in Russia than by Russian firms" (Holden and Vaiman 2013: 130). Besides, ambitious talents expecting fast career progression may face a glass ceiling, insofar as most Russian companies are still headed by their founders and owners, who are unlikely to step down to make way for people not from their inner circle of relatives (Holden and Vaiman 2013). It is thus crucial for us to understand how Russian companies face this challenge of attracting, motivating, and retaining young professional talent.

While conversion to open-market mechanisms might be considerably advanced (Alam et al. 2008), the cultural factors influencing managerial practices in Russia are still in a period of deep transformation and remain far from converging towards Western patterns (Holden and Vaiman 2013). Indeed, according to Latukha (2015), Russian companies that are involved in TM are mostly MNCs, which emphasize the development of cadre reserve to reduce vacancies of key positions and design individual development plans for key employees. In the field of education and training, the early 1990s dramatically changed the vocational education and professional development landscape in Russia (Ardichvili and Khalil 2005). Due to budget constraints, the Russian government of that time downsized, or merely eliminated, many state-sponsored vocational training and professional development programs. As a consequence, foreign companies' subsidiaries created their own training and development facilities, in which Russian new labor entrants now had increased possibilities to complete their degrees abroad, or at joint educational or training programs—offered by either Russian or Western universities –and professional development centers (Fey and Björkman 2001). However, employee development might be of even greater importance in Russia than in Western countries, according to the same author. This might be the legacy of the great (theoretical) focus on individual merit during Soviet times or the consequence of the fact that many Russians lack basic business skills—due, once again, to the ideological rejection of "capitalist" business education in the Soviet Union (Holden and Vaiman 2013)—which would make Russian managers today very fond of continuous employee training and the development of Western-inspired patterns (Fey and Björkman 2001). Holden and Vaiman state that due to a shorter-term mindset in Russian organizations talents are often hired

for a match of their current expertise with current position requirements, with no consideration for individual development imperatives, even when it is in the future interest of the company: "most employers in Russia have no patience to develop their star players, because stars are needed now, and not necessarily in the future" (Holden and Vaiman 2013: 140). There may be a partial contradiction in the literature on this specific point of training, hence the importance for us is to capture what the actual training approaches of leading Russian firms are. In terms of job mobility and career advancement, due to rapid economic change over the last 25 years, talented Russian employees have been used to being promoted rather quickly (Holden and Vaiman 2013), which makes delays in career advancement be regarded as a failure and lead concerned employees to seek other employment in the hope of quicker promotion. However, a prospective business case quoted by Holden and Vaiman (2013) outlined the upcoming need for firms to offer new axes of career development, like career roadmaps, mentoring programs, the possibility of rotation abroad, and performance-based awards. Regarding talent motivation and reward practices, Ardichvili and Khalil (2005) observe that Russian companies from the sample used were rather reluctant to establish a direct link between compensation and employees' seniority, title, and position in the organization, favoring, rather, individual or small team contribution and performance-based rewards. Besides, large firms in the sample were more eager to use formal measures of work performance in determining compensation levels (Ardichvili and Khalil 2005). This rapid shift towards performance-based compensation had already been witnessed, for both managers and non-managers, by Fey et al. (2004) only ten years after the collapse of the Soviet Union and which might be explained by the fact that the loyalty and commitment of key employees in local companies would be reversely impacted by how they were rewarded (Holden and Vaiman 2013). However, beyond the financial component of motivation, marginal aspects like evolving with less rigid work structures (with a supervisor–subordinate trust relationship), having at hand real possibilities for professional growth, and substantial leadership development programs shouldn't be underestimated regarding the loyalty of talent to one firm (Holden and Vaiman 2013). Regarding talent retention, though internal recruitment is favored for

managerial positions, recruitment strategies would be more "balanced" if positioned between internal and external recruitment channels for other positions (Ardichvili and Khalil 2005). A lack of awareness of talent retention challenges by Russian firms has been pointed out by Latukha's (2015) factor analysis, as only 43% of respondents from Russian firms identified this as a challenge (as opposed to 83% of respondents from foreign-owned firms in Russia), despite the fact that Fey et al. (2000) have already shown, some 15 years ago, that employee retention has a direct impact on firm performance in Russia (among other countries).

I continued the research of TM practices in Russian companies and decided to investigate what the specific TM practices implemented in Russian companies are. What is the role of TM in Russian firms? Is it more strategic or more operational? And how does TM influence a firm's performance in the Russian context?

Methodology

The research process relied on a multiple-case design, whereby a set of cases was treated as a series of experiments (Yin 2003), with each generic TM practice leading to a set of observations used to confirm or invalidate elements from the theoretical part, or to fill identified research gaps. I adopted a research design following Eisenhardt's (1989) guidelines on case study research: detailed qualitative investigations were suited particularly well to my exploratory study, which extracted from specific empirical phenomena to produce general verifiable propositions. I designed my study to yield a rich content base of TM corporate practices. I relied on secondary data to constitute this database: first, elements of presentation provided by companies (i.e. website information on careers and employees); second, official documents (i.e. annual reports, corporate social responsibility reports, and, when applicable, sustainability reports or company HR policy and rules); third, elements from pre-existing academic literature (through specific research by EBSCO on talent evaluation, workforce, employees, recruitment, and graduate programs); fourth, press elements which reduce the subjective corporate bias (using Factiva, among others, as well as classic web searches); and fifth, elements from

specific databases (Orbis, Thomson One). I looked for specific qualitative elements like, for example, development programs or assessment methods, or for quantitative data that were prone to characterize a firm's efforts in a given TM field, like average man-days of training.

My sample consists of seven cases, which were chosen using the criteria of presence of TM practices and their constant organizational growth over a period of three to five years. I use content analysis, which is useful for evaluating and understanding collections of data.

TM in Russian Companies

Severstal

Severstal is a Russian company mainly operating in the steel and mining industry and which had 61,000 employees as of year-end 2013, mainly in Russia but also in Latvia, Ukraine, Poland, France, Italy, the USA, and African countries such as Liberia (Severstal 2013). Regarding its approach to TM, Severstal has definitely a position-based definition of those who are the talented employees in its organization, focusing on the top six levels of management, all being included in the annual performance evaluation process, which encompasses goal discussion and 360-degree feedback. As a consequence, as of year-end 2012, the employees labeled as being talented accounted for less than 5% of the total workforce (Severstal 2013). Furthermore, competence-mapping is used to feed subsidiaries with talent from the corporate center. However, the group is increasingly focusing on other groups of employees other than its senior executives in its framework of TM policy. For example, it aimed to generalize the target-evaluation process for all its employees in 2014 (we have, so far, no elements to assess whether the goal was achieved or not). Moreover, Severstal has made talent retention a key objective so that it claims to fill most positions internally: this, notably, goes through the constitution of a management reserve program, the members of which work on individual development plans towards their next management role (Severstal 2013). This talent retention objective is linked to a forward-looking talent attraction policy that doesn't just rely on graduate programs, but explores

pre-hiring channels, too: it has established partnerships with numerous universities (notably in Russia and the USA). Furthermore, in the regions where it has a strong presence, Severstal offers dedicated tracks in secondary schools to help students enter specialized universities, in order to hire them later in specific (technical) positions. It also offers internship positions for students of partner schools—a practice widely used in the other Russian firms of our sample—even implementing TM-like practices to potential future employees through the action of an individual development plan and the attribution of a mentor for each intern. Moreover, as that is the only indication we found on an eventual talent mobility policy, Severstal offers fast career development possibilities for business students to become managers and for engineering students to become foremen, either one or one and a half years after graduation (Severstal 2013). In the training field, Severstal launched its own corporate university in 2010, which covers extensive topics beyond its business, though it is branded as the Severstal Business School. The latter offers short programs in manufacturing management, continuous improvement tools, and personal productivity improvement methodologies; it also provides more introductory sessions such as insights into Severstal business (Severstal 2013). Regarding the motivation of talent through its prioritization of talent retention, I found no elements explicitly mentioning the alignment of remuneration to performance for certain categories of employees (except top management).

Gazprom

Gazprom, headquartered in Moscow, is the largest extractor of natural gas in the world and one of the world's largest companies. State-owned, as of December 31, 2013, its total headcount was 459,500 employees, of which 27,400 worked in foreign subsidiaries (6.0% of the total); only 24,100 (barely 5.2% of the total) worked in the parent company (including branches and representative offices) (Gazprom 2015a); 61,500 were managers (13.4% of the total) (Gazprom 2015b); and 120,900 (26.3% of the total) were considered as specialists in a given field (Gazprom 2013).

In Gazprom most TM programs are accessible to the majority of employees, but the constitution of a talent pool rather aims at providing a reservoir of back-up employees for key positions, hence a definition which is rather position-based, even though the Group has a strong commitment towards the attraction of young talent. Gazprom has also developed a broad network of partner universities (and nine Russian higher education institutions) (Gazprom 2015c) and extensive corporate games, which correspond much more to a graduate program due to the prerequisites of enrolment (Gazprom 2015d). In terms of training, the Gubkin Russian State University of Oil and Gas (a federal budget-funded higher education institution) is almost a corporate university (Gazpromin 2015e). In 2013, 261,800 employees of the Group were trained under career enhancement and retraining programs, with a special focus on young talent, whereas 3,000 Group employees (<1% of the total workforce) follow each year a "Career Development Program" (Gazprom 2013). Job mobility possibilities are, nonetheless, poorly advertised by the company. As for remuneration and employees' motivation, though the group has an employee incentive scheme, it is claimed to be linked to qualifications and business skills. It is not mentioned that monthly performance bonuses, premiums for a greater work scope—when someone fulfils more tasks than in his/her job description and annual and ad hoc bonuses are part of an integrated process of appraisal. It seems rather to conform to annual bonus plans, conditioned by corporate performance indicators (per unit costs in gas production; per unit costs in gas transportation; gas sales by volume; major production facilities commissioned; and procurement cost cutback). In terms of talent retention, Gazprom has developed a "Corporate Housing Program," that is a non-state pension benefit for long-term employees (Gazprom 2015b).

Lukoil

Lukoil, headquartered in Moscow, is one of the world's leading oil companies in terms of proven oil and gas reserves and has operations in more than 40 countries. It employed 110,000 employees as of December 31, 2013 (29% of the total workforce in extraction and production, 65% in the broad refining and marketing branch, 2% in the corporate center

(parent), and 4% in other branches) (Lukoil 2013). Lukoil's definition of talent is both position-based (the key stated objective of the personnel management system is "work to ensure the availability of suitably qualified staff for priority projects" (Lukoil 2015)) and individual-based. As for identification of who the talented employees are, Lukoil pursued efforts in 2013 to forge an executive reserve for senior management positions at both the parent company and subsidiaries and also to shape a new generation of middle managers. Lukoil has also developed an ambitious talent attraction policy with extensive pre-recruitment channels: for example 3,000 internships a year offered to students at Russian universities (especially oil and gas universities) (Lukoil 2013). In terms of talent evaluation, only 1,787 people (less than 2% of the total workforce) were concerned by performance appraisal (results were used to calculate bonuses for 2011 and to prepare personal development plans) in 2012 (the evaluation process was first implemented in 2007, however the 2013 figure was unavailable) (Lukoil 2012). Indeed, the development of a standardized methodology for the assessment and development of personnel only started in 2013. However, Lukoil implemented "appraisal and development center" technology in 2012, which helps to identify the potential of employees and prepare customized training programs to match their development needs (Lukoil 2013). Regarding training policy, Lukoil implemented a corporate university ("Corporate Study Centre") in 2010 and used mobility as an axis for personal development with work placements abroad, distance learning, and the placement of students on MBA programs (Lukoil 2013). To reward employees, Lukoil expressed the wish to link variable remuneration more closely with corporate financial results, making "improving the system of staff remuneration" one of its priorities for 2014. Furthermore, Lukoil introduced a long-term incentive program to attract and retain highly skilled workers (Lukoil 2013).

Rosneft

Rosneft is an integrated oil company, majority owned by the state, and is Russia's leading extraction and refining company (Rosneft 2015a). As of December 31, 2013, Rosneft's headcount was 228,000 people (among

which 29,100 (12.8% of the total) were categorized as executives or managers) (Rosneft 2013). One of the main TM challenges for Rosneft lies in the completion of integration with TNK-BP (Rosneft 2015b). Rosneft has a specialist, rather position-oriented, definition of talent: for example the company established vocational training standards for different positions. In 2013, standards for six occupations in key refinery operations were developed. One of the company's strategic objectives for 2014 was to improve its managerial competences by constituting an internal succession pool (Rosneft 2013). In terms of talent attraction, Rosneft, as a state-owned company, has a high commitment to professional education development in partnership with the Russian Ministry of Education and Science (e.g. the draft of a new specialization entitled "Petroleum Equipment and Technologies" to train specialist engineers in this area) (Rosneft 2013). The first priority of its personnel management policy is to ensure the employment of highly qualified personnel, and another is to ensure the employment of young talented specialists by the company (Rosneft 2013). As a consequence, the company has implemented a "Youth Policy" (there are "Rosneft classes" in schools across 39 Russian cities) and it and its subsidiaries have long-term partnership agreements with 30 higher education institutions, including 13 universities, with the status of strategic partner. The objective of this policy is the formation of an "external succession pool" in universities. To attract promising young employees, it also offers a "young specialist induction and adjustment" program offering mentoring and advanced training and development (especially in R&D fields or for young employees identified as potential leaders) (Rosneft 2013). As of year-end 2013, this program encompassed 3500 young employees across 91 subsidiaries (Rosneft 2012). Regarding evaluation of talent, the implementation of a "Competence-Based Methodology of Personnel Evaluation and Development" for the whole Group is one of the key points of Rosneft's strategic plan that started in 2012 (Rosneft 2012). This plan relies a lot on external training capabilities, especially Gubkin Russian State University of Oil and Gas (the same as for Gazprom) and Tomsk National Research and Polytechnic. The main goal of the project is to establish competence standards for operational positions. For training, in addition to the plan described above, Rosneft has implemented a "Worker Mentoring and Development

Program" and has made talent development one of its priorities, through executive training in managerial skills and succession management (the volume of succession candidates' training amounted to 5600 courses in 2013) (Rosneft 2013).

Sberbank

Sberbank is one of the largest banks in Russia and Europe, both listed and majority owned by the Russian state through the Russian Central Bank. It employs more than 300,000 people in 22 countries, of which 250,000 are in Russia exclusively (Sberbank 2013a). The Sberbank definition of talent is clearly specialist, excluding common service staff (CSS; line managers and front-office specialists), which accounts for 157,000 employees, but even for these categories ongoing training is key (using the banking sector's specifics) (Sberbank 2013a). In its largest conception, the talent pool counts 35,000 employees occupying managerial and key positions. A much more reduced conception includes employees enrolled in the "Sberbank 500—Leader Program," which are 433 in number as of year-end 2013, to whom we may add a further 54 from the finance department, 64 from risks, IT, and other support functions, and 119 from parent and foreign subsidiaries enrolled in similar fast-track programs (Sberbank 2013a). In terms of evaluation, Sberbank has developed advanced features but there is a lack of homogeneity between the parent and some of its subsidiaries: for example the "5+" system of employee assessment based on key corporate competencies is used by Sberbank as well as certain subsidiaries, whereas the "Talent Q Remote System" and 360-degree feedback are used in certain foreign subsidiaries, but not in Russia (Sberbank 2013b). As for training, practices are highly differentiated between talent and CSS; as for talented employees, division managers and key experts are trained at Sberbank Corporate University. In 2013, over 35,000 employees completed training courses at this university. Besides, there exist various educational and training programs for the Group's executives (Sberbank 500—Leader Program) in cooperation with leading international business schools (INSEAD, LBS, Stanford, Haas) (Sberbank 2013b). For CSS, the training possibilities are limited

to training in banking products and services, special software, effective communication and sales skills, and mentoring possibilities for beginners (a very short two-week induction program). Despite its strong presence abroad (more than 50,000 employees overseas), Sberbank doesn't advertise international mobility possibilities. Regarding motivation practices, Sberbank claims to lead an ongoing upgrading of its performance management system, described as a comprehensive target-based management system that allows for unbiased assessment of employee performance and for ensuring interconnection between employee performance, career growth, and financial reward (with ongoing automation for top and middle-level management of bonuses calculation based on performance assessment). Moreover, the career growth management system, the performance assessment, and other motivation issues appeared to be primary concerns in annual surveys. Based on the results of annual surveys, individual targets are adjusted for all top managers, which impact on the compensation system (Sberbank 2013b). As a short conclusion, one of the main TM challenges for Sberbank is to unify practices between the parent company and subsidiaries and across countries of operation.

Sistema

Sistema is a large Russian conglomerate company, headquartered in Moscow, and has controlling stakes in the areas of telecommunications, microelectronics, insurance, banking, retail, and real estate (Systema 2013). The main TM challenge for a company like Sistema is to have a comprehensive TM approach throughout its different subsidiaries, so as to develop an effective group-wide TM system. Sistema has a specialist, even elitist, definition of those who are its talent: it is mainly individual-based with strategic importance placed on the corporate center as talent pool (cadre reserve) for asset management—327 people, out of more than 167,544 across all subsidiaries, are susceptible to the take-up of executive positions in any controlled firm (Systema 2015a), which pre-empts the regular use of evaluation processes like competence mapping and individual assessment. In terms of talent attraction, Sistema introduced recruitment standards for its different subsidiaries in 2013 and launched

the "Corporate Talent Bank" project (Sistema recruiters' community) designed to identify and retain talented and highly efficient managers (194 for the launch in 2013) in the company and its subsidiaries, through a "common space of resources and opportunities," to fill in vacancies with in-house resources, so as to generate synergies between subsidiaries in the recruitment process. Regarding training, Sistema launched in 2013 "the school of CEOs" (Systema 2015b), which is an annual program for the development of managerial competences of the top managers of production companies within Sistema. It was first introduced in Bashneft but should progressively be implemented in other subsidiaries (and, at first, in Mobile Tele Systems (MTS)). In 2013, "the Institute of Internal Coaches" was launched to develop the core business skills and competencies of the senior management using internal coaches for this purpose, to streamline HR development costs, and to develop common corporate standards and values. Most subsidiaries determine employees' development needs based on an annual employee evaluation; as for talent evaluation, performance measure is a key priority for strategic asset manager positions due to the structure of the group. This is directly linked to talent motivation needs: Sistema has indeed developed a two-tier incentive system (Systema 2015b), with a short-term (quarterly and annual) incentive program linked to the operational performance of employees and a long-term incentive program (option programs and phantom stocks) for talent retention purposes on the one hand and an emphasis on the variable part of remuneration on the other hand, which is linked to the achievement of key performance indicators, that is the organization's financial and operating targets set for a particular employee and/or structural division (Systema 2013). Since 2014, the compensation of Sistema's employees is based on cash flow generated for the corporate center by each investment portfolio. However, some subsidiaries already have a long-term incentive scheme and the corporate center has planned to introduce it to other subsidiaries in 2014 and 2015 (depending on the firm) (Systema 2013), though we have so far no elements allowing us to state whether this was effectively implemented or not. Due to its elitist definition of those who are talented individuals in its organization, Sistema has developed a truly strategic talent retention policy (46% of key managers appointed in 2013 previously worked for Sistema or its portfolio companies (Systema

2015b)): beyond the "Corporate Talent Bank" mentioned above, it has made the decrease in labor turnover for key employees in stressful conditions a key priority at the corporate center level (Systema 2013).

VTB

VTB is one of the leading universal banks in Russia, majority-owned by the government. As of December 31, 2013, the VTB Group employed 103,808 people in more than 20 countries across Russia, Commonwealth of Independent States (CIS), Europe, and Asia, compared to 80,860 employees at the end of 2012 (VTB 2015). VTB's talent definition is specialist and individual-based, and focuses on top managers and certain function specialists. In terms of talent identification, VTB aims at constituting pools of internally based trainers (leading experts in their business areas, e.g. the heads of retail departments) among highly talented employees (VTB 2013). As for its talent attraction practices, VTB uses the "competency-based interview rapid assessment method" and "proficiency testing" as the basis of its recruitment (VTB 2015). The competence-based model plays a significant role in the VTB employees' appraisal, defining personnel selection and assessment criteria, as well as setting the standard for assessment in the Group's subsidiary banks, both in Russia and abroad. It also determines employees' training requirements, and—relying on performance appraisal—creates development plans to identify the most promising employees and group them in a "key personnel pool" (VTB 2013). In 2012, the assessment center method was introduced to assess the performance of regional client teams in order to confirm that front-line managers' competencies corresponded to their job profiles (VTB 2012). For training, special emphasis was placed on "public educational programs," which are training activities that focus on the required core competencies of managers and employees, using both external consultants and internal trainers. In 2012–2013, the Group launched the "New Energy of Leadership" program in order to create a unified management culture in VTB Group and to develop employee's leadership skills and key managerial competences (VTB 2013). All these programs correspond with the VTB corporate university (VTB 2013). In 2013, the Group also implemented a new

policy of setting and monitoring key performance indicators for managers of VTB and its subsidiaries. It also developed an incentive program in Russia for several hundred employees, ranging from top managers to specialists (VTB 2013). We quote these stock distribution remuneration mechanisms as they seem to be only linked to individual performance of talent and are binding long-term, hence making this a talent retention tool. As a conclusion, TM challenges in VTB are in the homogenization of practices throughout the Group and the development of a long-term reward policy beyond stock distribution.

Results and Discussion

Data suggest relative immaturity in Russian firms in their definition of talents and the lack of a consistent link between career development paths, internal training, rewards, and performance (Latukha 2015). TM practices are relatively new as they started appearing after the collapse of the USSR (Holden and Vaiman 2013). However, the large firms in our sample have all developed specialist definitions, though they have difficulties in getting rid of definitions centered on managers (e.g. Severstal focused on the top six levels of management or executives enrolled in succession plans at Rosneft) and developing individual-based rather than position-based definitions (the notable exceptions are Lukoil and Sberbank, which have hybrid approaches, and Sistema, the holding structure, which requires the selection of a few highly mobile individuals to implement the directives of the corporate center). However, this doesn't mean that these firms look down upon TM practices as they all have constituted talent pools, so as to establish succession planning for key positions (we can find this approach, at the least, in Severstal, Gazprom, Lukoil, and Rosneft), but also for more original reasons, too (e.g. in the case of Sistema, the constitution of a "corporate talent bank" with managers who are both best performers and with high potential are likely to take over various short-term positions rather than to succeed to a more senior manager role at a given position; and in the case of VTB, there were pools of experienced knowledge-sharers so as to diffuse best practices). Though the studied Russian MNCs give less priority to seniority and are more ready to empower young employees

(probably because they are less risk averse), and according to our results on competence mapping (Latukha 2015 and Ardichvili and Khalil 2005), we could assess that these large Russian firms were less likely to adopt purist, elitist, talent definitions (by defining talents as well-educated, and/or possessing high-knowledge employees/job candidates, or as gifted employees with high-potential) by using the typology of TM definitions developed by Cooke et al. (2014), which apparently contradicts our introductory statement (Latukha 2015). This apparent paradox can be explained by a less strategic/more pragmatic and more ad hoc approach to talent acquisition, in line with the results of Latukha (2015), Ardichvili and Khalil (2005), or Holden and Vaiman (2013). When hiring, Russian companies would focus much more on employees' ability to perform current job responsibilities than on their future potential. However, this short-term orientation of Russian businesses must be strongly relativized when it comes to labor giants like the ones in our sample: with their extensive capabilities, most of them have built strategic talent pools, and even aim at securing their supply in terms of high-potentials for a longer duration (e.g. Rosneft with its formalized target of forming "external succession pools" in universities, its oil and gas counterparts—Gazprom and Lukoil—which in practice have similar approaches, and Severstal, which wants to hire very young employees and train them to make them key technicians in the areas in which it is by far the biggest local employer). This supports our idea about an existing shift to strategic TM in Russian companies and provides a strong basis for linking TM and a firm's results, value creation, and organizational growth possibilities. Due to the relative scarcity of the workforce in Russia, the great importance of education in professional success in former Soviet Union territories (Holden and Vaiman 2013), the deep crisis in the Russian higher education system, and the budget cuts in professional development programs in the early 1990s (Ardichvili and Khalil 2005), we observe that the leading Russian companies like the ones in our sample have developed encompassing training systems to feed their need for qualified employees. Though graduate programs are not that popular in our sample firms, they have established in-depth partnerships with universities so as to secure their incoming talent. All but one (VTB, for which we did not find any elements) have developed ambitious corporate universities, but they rely less on foreign training than their Chinese counterparts (though, e.g., Severstal sends some of its key employees to receive training in the USA and foreign

MBA programs can be financed by Lukoil). We consider that the high level of development of competence mapping in Russian firms, both to identify talent attraction priorities (firm level) and training needs (individual level), is consistent with the literature findings: namely, the importance of education (Holden and Vaiman 2013), the appetites of Russian managers for continuous employee training, and the fashionable trend surrounding Western-inspired patterns in the field of training (Fey and Björkman 2001), as well as the focus on continuous on-the-job training (Holden and Vaiman 2013). Regarding job advancement and motivation, we believe that there is a shortage of approaches to the former, while the latter is handled to a degree through performance-based pay. Our research confirms, at least on a small sample basis—the results of Ardichvili and Khalil (2005)—that large Russian firms are more eager to establish a link between individual performance and compensation and that reward levels if perceived as insufficient might impact negatively on employees' commitment and loyalty in Russia much more than in other countries (Holden and Vaiman 2013).

Conclusion

To conclude on the specifics of Russian companies' TM practices, specialist definitions of talent predominate in our sample, whereas the constitution of talent pools and early securing of talent attraction both play a key role in corporate TM policies. Russian firms in our sample have also developed encompassing training systems and avoid, as much as possible, externalizing the development processes of their talent, probably in order to reduce the risk of talent leaving the firms. This goes along with well-developed competence mapping processes so as to identify better training needs. Last but not least, most Russian companies in our sample implemented performance-based remuneration, which is consistent with the need to secure talent. Another key factor in ensuring talent in Russian companies is labor scarcity (Latukha 2015). We consider that this is the main reason for the emphasis Russian companies place on the constitution of talent pools as cadre reserves so as to avoid shortages in the supply of talented employees. From our data analysis, we may also assume that these difficulties in filling staff positions prompt companies to secure an upstream recruitment of young talent; they also explain the propensity of the Russian firms in our

sample to develop pre-hiring channels (extensive trainee programs) and in-depth partnerships with universities to attract those with high –potential or key technicians, as well as the establishment of significant corporate universities (we may assume this diminishes external networking possibilities for talented employees). Beyond labor scarcity, the fact that insufficient compensation easily impacts on the loyalty and commitment of Russian workers (Fey et al. 2004) may explain the relative success of performance-based variable remuneration in the Russian MNCs in our sample. On the other hand, our results may allow us to disagree on some points that Holden and Vaiman (2013) identified as the short-term focus of Russian managers, for example the lack of pragmatism in companies' definitions of talent. However, the identified lesser importance of seniority in the Russian MNCs of our sample, through empowerment of young talents, may be both considered as a long-term and a short-term commitment. By promoting young employees, Russian firms are preparing the future, but they may also be thinking only of current staffing requirements and not of the long-term development of employees. Thus, we can list the following factors as influencing TM practices in Russian firms: the switch to a market economy in the 1990s and the inadequacy of social structures to absorb the blast; the creation of a two-tier society; labor scarcity; the partial collapse of the vocational training system in the 1990s; the great importance given to education; and the impact of compensation on loyalty and commitment. From this analysis we see that in Russian companies the transformation from an operational to a strategic view of TM has begun. We argue that, due to the shift in Russian firms to strategic orientation of TM, the role of TM in value creation and organizational growth should not be underestimated.

References

Alam, A., AnosCasero, P., Khan, F., & Udomsaph, C. (2008). Unleashing prosperity: Productivity growth in Eastern Europe and the former Soviet Union, *Macroeconomic Report*, Washington, DC: The World Bank.

Ardichvili, A., & Gasparishvili, A. (2001). Socio-cultural values, internal work culture and leadership styles in four post-communist countries: Russia, Georgia, Kazakhstan and the Kyrgiz Republic. *International Journal of Cross Cultural Management, 1*(2), 227–242.

Ardichvili, A., & Khalil, D. (2005). Human capital practices of Russian enterprises. *Human Resources Development International, 8*(4), 403–418.
Beechler, S., & Woodward, I. C. (2009). The global 'war on talent'. *Journal of International Management, 15*(2), 273–285.
Bhatnagar, J. (2008). Managing capabilities for talent engagement and pipeline development. *Industrial and Commercial Training, 40*(1), 19–28.
Bjorkman, I., & Lervik, J. E. (2007). Transferring HR practices within multinational corporations. *Human Resource Management Journal, 17*, 320–335.
Boudreau, J. W. (2005). Talentship and the new paradigm for human resource management: From professional practices to strategic talent decision science. *Human Resource Planning, 28*(2), 17–26.
Buckingham, M., & Vosburgh, R. M. (2001). The 21st century human resources function: It's the talent, stupid! *Human Resource Planning, 24*(4), 17–23.
Cappelli, P. (2008). Talent management for the twenty first century. *Harvard Business Review*, March: 74–81.
Chuai, X., Preece, D., & Iles, P. (2008). Is talent management just 'old wine in new bottles'? The case of multinational companies in Beijing. *Management Research News, 31*(12), 901–911.
Collings, D. G., Scullion, H., & Morley, M. J. (2007). Changing patterns of global staffing in the multinational enterprise: Challenges to the conventional expatriate assignment and emerging alternatives. *Journal of World Business, 42*(2), 198–213.
Cooke, F. L., Saini, D. S., & Wang, J. (2014). Talent management in China and India: A comparison of management perceptions and human resource practices. *Journal of World Business, 49*, 225–235.
Creelman, D. (2004). *Return on investment in talent management: Measures you can put to work right now*. Washington, DC: Human Capital Institute.
Eisenhardt, K. M. (1989). Building theories from case study research. *Academy of Management Review, 4*, 532–550.
Farndale, E., Sculion, H., & Sparrow, P. (2010). The role of the corporate human resource function in global talent management. *Journal of World Business, 45*(2), 161–168.
Fey, C., Bjöerkman, I., & Pavlovskaya, A. (2000). The effect of human resource management practices on firm performance in Russia. *International Journal of Human Resource Management, 11*(1), 1–18.
Fey, C., & Björkman, I. (2001). The effect of human resource management practices on MNC subsidiary. *Journal of International Business Studies, 32*(1), 59–75.

Fey, C. E., Pavlovskaya, A., & Tang, N. (2004). Does one shoe fit everyone? A comparison of human resource management in Russia, China, and Finland. *Organizational Dynamics, 33*(1), 79–97.

Gazprom, Annual Report. (2013). http://www.gazprom.com/f/posts/60/660385/gazprom-annual-report-2013-en.pdf

Gazprom. (2015a). http://www.gazprom.com/careers/statistics/

Gazprom. (2015b). http://www.gazprom.com/careers/hr-policy/

Gazprom. (2015c). http://www.gazprom.com/careers/education/

Gazprom. (2015d). http://www.gazprom.com/careers/education/competition-for-young-professionals/

Gazprom. (2015e). http://www.gazprom.com/careers/education/institutions/rggu-gubkina

Holden, N., & Vaiman, V. (2013). Talent management in Russia: Not so much war for talent as wariness of talent. *Critical Perspectives on International Business, 9*(1/2), 129–146.

Huselid, M. A., Beatty, R. W., & Becker, B. E. (2005). 'A players' or 'A positions'? The strategic logic of workforce management. *Harvard Business Review, 82*(12), 110–117.

Latukha, M. (2015). Talent management in Russian companies: Domestic challenges and international experience. *The International Journal of Human Resource Management, 26*(8), 1051–1075.

Lewin, A., Massini, S., & Peeters, C. (2009). Why are companies offshoring innovation? The emerging global race for talent. *Journal of International Business Studies, 40*(6), 901–925.

Lukoil, Annual Report. (2012). http://www.lukoil.com/static.asp?id=18

Lukoil, Annual Report. (2013). http://www.lukoil.com/static.asp?id=18

Lukoil. (2015). http://www.lukoil.com/static_6_5id_261_.html

Mellahi, K., & Collings, D. G. (2010). The barriers to effective global talent management: The example of corporate elites in MNEs. *Journal of World Business, 45*, 143–149.

Michaels, E., Handfiels-Jones, H., & Axelrod, B. (2001). *The war for talent*. Boston: Harvard Business School Press.

Panibratov, A. (2012). *Russian multinationals: From regional supremacy to global lead*. London/New York: Routledge.

Ready, D. A., & Conger, J. A. (2007). Make your company a talent factory. *Harvard Business Review, 85*(6), 68–77.

Rosneft. (2012). Annual report. http://www.rosneft.com/attach/0/58/80/a_report_2012_eng.pdf

Rosneft. (2013). Annual report. http://www.rosneft.com/Investors/results_and_presentations/annual_reports/

Rosneft. (2015a). http://www.rosneft.com/about/
Rosneft. (2015b). http://rosneft.com/Development/personnel/
Sberbank. (2013a). Corporate social responsibility report. http://www.sberbank.ru/common/_en/img/uploaded/files/pdf/yrep/CSRRen2013.pdf.
Sberbank. (2013b). Annual report (2013b). http://2013.report-sberbank.ru/en/
Schuler, R. S. (2015). The 5-C framework for managing talent. *Organizational Dynamics, 44*(1), 47–56.
Scullion, H., Collings, D. G., & Gunnigle, P. (2007). International HRM in the 21st century: Emerging themes and contemporary debates. *Human Resource Management Journal, 17*, 309–319.
Scullion, H., Collings, D. G., & Caligiuri, P. (2010). Global talent management. *Journal of World Business, 45*, 105–108.
Scullion, H., & Collings, D. G. (2011). *Global talent management*. London: Routledge.
Scullion, H., Collings, D. G., & Caliguiri, P. (2010). Global talent management. *Journal of World Business, 45*(2), 105–108.
Severstal, Annual Report. (2013). http://reports.severstal.com/2013/eng/
Skuza, A., Scullon, H., & McDonnel, A. (2013). An analysis of the talent management challenges in a post-communist country: The case of Poland. *The International Journal of Human Resource Management, 24*(3), 453–470.
Stahl, G. K., Bjorkman I., Farndale, E., Morris, S. S., Paauwe, J, Stiles, P., Trevor, J., & Wright P. M. (2007). Global talent management: How leading multinational build and sustain their talent pipeline. *INSEAD Faculty and Research Working Papers*.
Systema, Annual Report. (2013). http://www.4-traders.com/AFK-SISTEMA-OAO-7352754/news/AFK-Sistema-Sistema-annual-report-2013-18329208/
Systema. (2015a). http://www.sistema.com/about-sistema/careers/
Systema. (2015b). http://www.sistema.com/about-sistema/social-responsibility/
Tarique, I., & Schuler, R. S. (2010). Global talent management: Literature review, integrative framework, and suggestions for further research. *Journal of World Business, 45*(2), 122–133.
VTB. (2012). Annual report. http://www.vtb.com/annual-report/2012/
VTB. (2013). Annual report. http://en.vtb.fr/about/reporting/VTBF_Annual_Report_2013.pdf
VTB. (2015). Annual report. http://www.vtb.com/group/
Walker, J. W., & Larocco, J. M. (2002). Talent pools: The best and the rest. *Human Resource Planning, 25*(3), 12–14.
Yin, R. K. (2003). *Case study research: Design and methods* (5 ed.). Thousand Oaks: Sage.

Index

A

acquired company, 9, 119–22, 134, 198, 201, 205, 215, 218, 223–4
acquiring companies, 142–6, 150, 154, 156
acquiring firms, 116, 130, 153, 155, 160, 166, 169, 172, 175–8, 181, 184–7, 203, 270, 364, 366
acquisition(s)
 activities, 171
 behavior, 246
 capability, 270
 domestic, 238
 experience, 9, 133, 238, 245–6, 252, 253, 255, 256, 263, 270, 271
 focal, 175, 179, 245, 271
 foreign, 112, 171, 177, 179, 208, 209, 224, 226, 254
 friendly, 125, 128, 211
 implementation process, 247
 integration, 241, 244
 investment, 240
 management, 241
 motives, 119–21, 125–6, 210, 255
 overseas, 127, 134
 partial, 56, 65, 68, 94–6, 175, 176, 188, 272
 partners, 218, 223
 performance, 237–72
 phases, 200, 214, 227, 228
 premium, 240
 process, 9, 200, 210–14, 233, 238, 245, 248, 266, 343
 strategies, 112, 135
 success, 239, 243

© The Editor(s) (If applicable) and the Author(s) 2017

S. Marinova et al. (eds.), *Value Creation in International Business*,
DOI 10.1007/978-3-319-30803-6

Aditya Birla Group, 123–6
affiliate(s), 9, 10, 76, 77, 82, 85, 94, 97, 98, 100–3, 105, 125, 297, 308, 309, 312, 313, 316–24, 327, 329, 330, 332, 333, 345
  characteristics, 321, 323
  network, 330
  size, 323
Africa, 8, 60, 127, 149, 163–89
African companies, 66, 168, 182
African context, 165, 167–8, 179, 185–7, 189
African countries, 164, 166, 168–72, 176, 187, 390
African Development Bank, 164–5
African economy, 182
African M&A, 164–6, 168–82, 184–9
African nations, 170, 175, 182, 187
African Union, 184
agriculture, 60, 91, 92
alliance(s), 5, 15–17, 24, 26, 77, 95–8, 103
  experience, 25
  objectives, 93
Alpha Bakeries, 211–13, 216, 217, 220
Alpha Group, 211, 213–17, 223
Anglo-Saxon companies, 154
Asia, 24, 35, 36, 58, 110, 127, 149, 172, 291, 398
Asian suppliers, 374
Asia–Pacific countries, 291–3
Asia–Pacific region, 292, 293, 297, 366
asset(s), 2, 4, 7, 10, 27, 88, 95, 97, 114, 116, 134, 188, 285, 291, 296, 297, 310, 311, 313, 316, 318, 348, 353, 365, 370
  divesture, 129
  management schemes, 346
asymmetries, 5, 111, 114, 115, 133, 135
Austria, 353, 356
Austrian market, 355
average abnormal returns (AAR), 154, 155, 157, 158

B

Baltic countries, 124
Baltic Sea Region, 211
bank assets, 348
banking sector, 10, 88, 99, 183, 341–51, 358, 359, 395
bank services, 353
Bashneft, 397
BAZ-Volkswagen, 82
behavioral paradigm, 367–8
Belgian banks, 351
BILLA, 353
bio-refinery cluster, 124
Birla Group, 123–7, 134
Botnia Hightech, 118–21
boundary conditions, 179, 186, 189
brand awareness, 372
brand building, 372
brand integrity, 375
brand value, 168
Bratislava, 86, 353, 354
Brazil, 56, 57, 62, 68, 110, 149, 174, 197
BRIC countries, 110, 152, 159, 197, 198, 285, 308, 316

British companies, 77
business contexts, 201, 284
Business Environment Index, 89
business model, 3, 331, 342
business operations, 178, 179
business partners, 31, 224
business performance, 205, 322, 323
business portfolio, 56
business practices, 172
business reality, 312
business relationships, 3, 58, 98, 205, 207, 208, 226
business transactions, 366

C

capabilities
  acquired complementary, 119
  distinct, 369
  dynamic, 368, 370
  financial, 287
  organizational, 10, 239
  product adaptation, 322
  technological, 322
capacity
  building, 125
  expansion, 93
  organizational, 239
capital
  escape, 286
  flight, 221
  flows, 369
  internal resources, 78
  investment, 77, 92, 99, 100
Central and Eastern Europe (CEE), 10, 76, 77, 79–81, 90, 92, 94, 103, 308, 309, 315, 317, 331, 341, 345, 347, 351, 352, 354, 358, 386
  countries, 79–81, 103, 308, 309, 331, 332, 341, 345, 347, 386
Central Asia, 291
Central Europe, 76, 86
Ceskoslovenska obchodna banka, 252, 342, 358
China, 9, 24, 31, 56, 57, 110, 112, 118, 120, 149, 172, 174, 188, 197, 198, 279–304, 370–4
China–Europe Vehicle Technology, 374
China Petrochemical Corporation, 298
Chinese companies, 112, 125, 288, 298, 300–2, 372
Chinese context, 281, 302
Chinese firms, 303
Chinese government, 300, 301, 366, 371
Chinese management, 372
Chinese market, 279–80, 288, 301, 303, 371
Chinese MNEs, 365
Chinese OFDI projects, 373
CNOOC, 292
co-evolution, 366
collaboration, 124, 128, 175, 204, 374
commitment, 27, 45, 70, 98, 111, 126, 202, 203, 206, 213, 217, 223, 242, 367, 368, 388, 401, 402

Commonwealth of Independent States (CIS) countries, 286, 304, 398
companies
  affiliated, 297
  automobile, 371, 373
  engineering, 119
  flagship, 124
  medical, 126
  public, 122, 123
  state-owned, 394
  trading, 86
  utilities, 88, 89
company value creation, 4
comparative advantages, 114, 347
comparative ownership advantages, 113–15, 121, 133
compensation, 388, 396, 397, 401, 402
competence mapping, 390, 396, 400, 401
competences, 6, 43, 56, 81, 83, 85, 119, 201, 204, 247, 248, 374, 375, 394, 396–8, 400, 401
competition, 45, 84, 89, 129, 157, 168, 183, 212, 222, 254, 266, 282, 284, 346, 371–2, 386
competitive advantages, 3, 114, 126, 133, 166, 203, 221, 289, 310, 315, 329, 364, 369, 376, 383, 385
competitiveness, 82, 83, 123, 127, 168, 311, 315, 316, 323, 330, 345, 372, 375, 376
competitors, 77, 95, 217, 221, 322, 373
complementary assets, 114, 134, 168
complementary resources, 26, 113, 133
complexity, 63, 95, 100, 184, 270, 271, 288, 343, 383
consolidation, 6, 125, 127, 129, 130, 243
construction sector, 350
consumer preferences, 227
consumers, 60, 81, 92, 164, 167, 174, 188, 213, 218, 222, 225, 227, 290, 291, 353, 371, 372
context, 1, 4–9, 41, 56, 62, 65–70, 118, 134, 142, 159, 163–89, 198–204, 206–9, 222, 225–8, 281, 287–9, 302, 313, 314, 316, 317, 343, 355, 366, 368, 370, 383–9
contextual ambidexterity, 370
contextual conditions, 185
contextualized explanation, 200, 209
contracts, 28, 32, 75, 76, 88, 205, 207, 213, 219, 220, 224, 293, 296, 297, 310, 312
control, 7, 16, 24–5, 27–31, 37, 38, 40, 42, 44, 63–8, 70, 78, 83, 95, 96, 125, 175, 214, 219, 244, 254, 266, 272, 284–5, 300, 302, 312, 322–4, 328, 329, 331, 342
  strategy, 7, 16, 27–31
  variables, 37, 38, 64, 65, 67, 68, 254, 266, 322–4, 328, 331
cooperation, 15, 16, 24, 69, 77, 84, 93, 95, 98, 103, 203, 206, 212–14, 218, 219, 221, 223, 241, 280–2, 288, 291–4, 296–9, 301–4, 373–6, 395

agreements, 213, 301
coordination, 5, 9, 24, 27, 31, 65, 86, 238, 241–3, 252, 253, 255–6, 266, 269, 271, 272, 315
activities, 269
efforts, 241–2, 252, 255, 256, 269
core business areas, 119
corporate center, 390, 392, 396–9
corporate cultures, 32–4, 82, 84, 86, 123, 202, 215, 216, 223, 226
corporations, 164, 168, 197, 200, 217, 291, 293, 297, 298, 347, 370, 371, 383
corruption, 176, 199, 323
cost(s), 6, 16, 32, 34, 45, 65, 77, 79, 82, 83, 85, 92, 95–7, 115, 120, 121, 123, 128–30, 133, 151, 155, 157, 185, 206, 240, 254, 270, 272, 290, 309–16, 310–24, 318, 326, 342, 346, 350, 374, 375, 392, 397
advantages, 374
constraints, 272
optimization, 6
structure, 133
countries
export-oriented, 349
middle-income, 308–9
post-communist, 345
country contexts, 200, 226, 228
country risk, 7, 56, 57, 61–4, 67–9
Cox regression model, 67
creativity, 81
credibility, 86, 372
criteria, non-financial, 95, 96, 100
cross-border acquisitions (CBAs), 9, 117, 128, 129, 133, 164, 165, 197–228, 237–72
cross-border activities, 7
cross-border M&As, 6, 110, 113, 114, 117, 130, 134, 142, 144, 151, 159, 166, 202–4, 285
cross-border operations, 316, 329
cultural contexts, 204, 206, 226
cultural differences, 7, 16, 25, 32–4, 41, 42, 44, 78, 119, 122, 183, 202–3, 241–2, 270, 375
cultural distance, 7, 32, 33, 37–8, 41, 43, 70, 167, 312, 313
organizational, 37, 38
cultures
collectivist, 204
individualist, 204
customer base, 10, 95, 118, 120, 121
customer portfolio, 121
customer relationships, 120, 205, 206, 218–21, 224
customer satisfaction, 93, 360
Czech firms, 309
Czechoslovak Commercial Bank, 352
Czechoslovak koruna, 80
Czech Republic, 76, 77, 81, 105, 319, 343, 351, 358, 359

D

determinants, 9, 16, 30, 34, 40, 56, 65, 93, 152, 181, 240, 271, 282, 316, 324, 333
DeutschMotor, 77

developed countries, 7, 16, 26–34, 36, 37, 40–1, 43, 44, 63, 69, 76, 110–12, 117, 163, 164, 188, 264, 286, 288, 301, 309, 311, 315, 366
developing countries, 25, 26, 28–32, 34, 36, 37, 41, 43, 44, 62, 63, 284
distance, institutional, 323, 329, 331, 333
distribution channels, 85, 92, 95, 128, 179, 323
distribution networks, 77, 353, 371
distribution system, 220, 221, 224
distrust, 32, 202, 204–5, 207–8, 212, 221, 242
diversification, 6, 125, 164, 167, 174, 178, 182, 183
divestiture, 176
dividends, 84, 89, 221, 360
domestic consumption, 350
domestic market consolidation, 127
Domsjö, 123–6
Domsjö Fabriker (DF), 123–5
double taxation, 89, 298, 303
due diligence, 9, 199, 238–40, 245, 252, 256, 266, 269, 271
dynamic interaction, 4
DZI Insurance, 352
DZI Invest, 352

E

Eastern Europe, 76, 354, 386
Eastern Mediterranean, 7, 55–70
Eastern Petrochemical Company, 297, 298
econometric modeling, 310, 320, 333
economic cooperation, 69, 280
economic crisis, 128, 142, 211, 213, 223, 224, 241, 349, 350
economic development, 7, 56–8, 61–5, 67, 69, 176, 187, 284
economic growth, 45, 152, 165, 167, 185, 284, 347
economic recession, 223, 350, 371
economic transition, 103, 206, 207
economies
  developed, 111, 117, 133, 142, 282, 286, 364
  developing, 110
  knowledge-based, 386
  liberal market-based, 176
  lower-middle income, 64, 69
  national, 187, 189, 281, 284, 289, 302
  open, 349
  transition, 76, 94, 98, 110, 183, 197, 358
education, 89, 135, 387, 392, 394, 400–2
effectiveness, 16, 24, 27, 28, 32, 33, 81, 203, 312, 323
efficiency, 5, 9–10, 31, 33, 95, 169, 243, 309, 311, 313–14, 317, 320, 323, 328, 330, 342
Egypt, 7, 57, 59, 60, 69, 171, 183
electricity tariffs, 299
emergence, 92, 101, 205, 287, 308, 367
emerging countries, 56, 58, 59, 62, 142, 152–8, 264, 279, 282, 316
emerging economies (EE), 8, 70, 141–2, 149, 155, 157–9,

163, 176, 188, 281, 284, 285, 366
emerging market firms, 281–3, 363–77
emerging markets, 7–8, 10, 55–7, 61, 68, 110–12, 114, 133, 141–60, 174, 176, 185, 188, 198, 228, 280–3, 286, 288, 308–9, 315, 317, 318, 332, 333, 363–77, 383, 385
emergingness, 111, 114, 115, 133, 135
empirical studies, 24, 31, 56, 68, 142, 241
employee incentive scheme, 392
employee turnover, 207
employment, 79, 82, 100, 320, 322, 350, 388, 394
energy, 33, 59, 103, 165, 167, 270, 280, 287, 289–93, 297, 304, 398
  cooperation, 297
  market, 292
ENSafrica, 189
enterprises, state-owned, 176, 287
entry modes, 158, 301, 302
entry strategies, 9, 25, 282
environment
  external, 56
  global, 10, 364
  local, 77
  macroeconomic, 80, 284
  turbulent, 239
  unstable, 62
equity
  foreign, 80
  positions, 65, 174, 175, 185
Ethiopia, 169
Euro-Mediterranean Partnership, 57
Europe, 35, 36, 76, 86, 111, 117, 120, 121, 128, 134, 171, 174, 207, 217, 280, 290, 291, 302, 351–2, 354–5, 374, 386, 395, 398
European companies, 58, 62, 77, 154
European countries, 10, 113, 117, 149, 238, 264, 286
European markets, 85, 120, 129, 133, 149, 209, 303, 329
European Union, 57, 60, 69, 79, 88, 89, 92, 97, 101, 142, 152, 159, 345
exchange value, 2–3, 7
exodus, 286
expansion, foreign, 308, 312, 315, 317, 331, 332
experience, prior, 319
expertise, 24, 120, 244, 315, 346, 360, 388
exploitation, 6, 243, 300, 366
export growth, 100, 313
exports, 2, 60, 77, 82, 83, 86, 87, 93, 100, 101, 128, 183, 282, 283, 285, 286, 291, 297, 300–3, 311, 313, 331, 348–50

F

factors
  country-related, 329
  critical, 203, 243
  cultural, 387
  explanatory, 309
  firm-specific, 314
  home-country, 286

failure, 28, 97, 103, 115, 153, 199, 239, 350, 355, 369, 371, 388
Far East, 293, 297, 298
Federal Tariffs Service, 299
financial crisis, 76, 288, 341–3, 349, 350, 355, 356, 358, 360
financial groups, 354, 358, 359
financial intermediation, 348
financial markets, 8, 110, 153–60, 347, 349, 350, 352
financial sector, 81, 346–8
financial services, 123, 167, 352, 353, 366
Finland, 35, 118, 120–2, 214–16, 218–19, 263, 264
Finnish company, acquired, 118–21
Finnish firms, 94
Finnish ICT industry, 133
Finnish investor, 9
Finnish subsidiary, 121
firm capabilities, 7, 307–33
firm-specific advantages (FSAs), 115, 310
flexibility, 7, 16, 29–31, 37, 38, 40, 43, 44, 146
food industry, 146
Ford Motor Company, 371
foreign activities, 311
foreign affiliate resources, 313
foreign affiliates, 9, 308, 312, 313, 317–20, 322–4, 329, 332, 333
foreign banks, 10, 342, 343, 345–8, 351–2, 360
foreign capital account, 319
foreign counterparts, 81, 87, 92, 102–3, 299
foreign currency, 79, 129, 213
foreign currency convertible bonds (FCCBs), 129
foreign direct investment (FDI), 6, 9, 76, 105, 109, 141, 159, 164, 197, 238, 279, 308, 342, 365, 366, 369
  flow, 197
  inflow, 76, 280
  motives, 9, 308, 311–12, 316, 323, 329, 332, 333
  outflow, 110
  performance, 105, 324, 327, 330
foreign domination, 186
foreign investment, 69, 79, 80, 82, 87, 158, 288, 309
foreign investment flows, 69
foreign investors, 57, 60, 76, 77, 80–5, 92, 97, 100, 105, 173, 182, 216, 225, 284, 312, 342, 345, 346, 358
foreign operations, 10, 312, 314, 315, 317, 319, 333
foreign partners, 7–8, 29–30, 43, 58, 59, 63, 66, 68, 77–9, 82–3, 85, 87, 94, 97–8, 101–3, 213, 301
foreign subsidiaries, 76, 322, 359, 391, 395
France, 58, 86, 128, 142–3, 152, 171, 390
French companies, 8, 142, 146–55, 159
French economy, 146
French investors, 149
French M&As, 142, 149
French multinationals, 141–60

G

gas companies, 281, 289–92, 296, 303
gas firms, 289, 303
gas industries, 281, 303
gas MNEs, 279–304
gas supplies, 290, 292, 293, 296
Gazprom, 279, 289, 291–6, 298–303, 391–2, 394, 399, 400
Geely Holding Group, 371–6
Geely–Volvo, 376
General Merchandise Stores, 61
geographical proximity, 304
German companies, 77
Germany, 58, 118, 128, 149, 171, 293, 297, 319
global economic downturn, 165
global investment flows, 279
globalized conglomerates, 124
global legitimacy, securing, 126
global recession, 126, 371
Global Value Creation, 383–402
governance mechanism, 75, 182
governance structures, 16, 166, 177, 199, 301
government
  actions, 282
  effectiveness, 323
  home-country, 311
  host, 284
  impact, 9
  involvement, 174, 176, 177, 185, 186
  ownership, 66, 283, 302
  policies, 166, 282, 284, 285, 289, 299
  role of, 6, 7, 177, 279–304
government-linked companies (GLCs), 284
government support, 299, 302, 303, 347
greenfield investments, 67, 68, 95, 212, 286
greenfield subsidiaries, 319
gross domestic product (GDP), 183, 188, 289, 348, 355
  growth, 183, 188, 348, 355
gross national income (GNI), 65
growth strategies, 57, 70, 141–2, 152–4, 156, 158, 159

H

home country markets, 168
home government, 9, 281, 289, 299, 302–3
host countries, 24, 62, 284, 307, 311–13, 346
human resource management (HRM), 117, 120, 383, 386
Hungary, 56, 76–8, 81, 105, 351

I

ICT industry, 120, 133
ideological rejection, 387
idiosyncrasies, 175
IJVs. *See* international joint ventures (IJVs)
import licenses, 283
India, 8, 31, 57, 58, 109–35, 149, 172, 174, 188, 197, 198
Indian, 8, 93, 109–35, 309, 373
Indian companies, 110, 113, 114, 117–19
Indian conglomerates, 123–4, 126

Indian-Finnish acquisition, 118–22
Indian firms, 115, 128, 309
Indian market, 129
Indian M&As, 8, 111–17, 130, 134
Indian multinationals, 112
Indian Patent Act, 127–8
Indian post-M&As strategies, 112, 117
Indian–Swedish acquisition, 123–30
industrial network approach, 225
industrial structure, 60, 350
industry classification, 318
industry distribution, 58–61
industry norms, 6
influence of national cultural distance, 33, 41
infrastructure, 45, 60, 86, 130, 172, 284, 285, 302
innovation, 15, 17, 29, 32, 80, 89, 126, 185, 226, 254, 271, 329, 353, 360
institutional agencies, 189
institutional arrangements, 288
institutional background, 331
institutional environments, 111, 310, 367
institutional factors, 8, 110, 322, 376
institutional push, 332
institutions
- formal, 206, 207, 282, 301
- informal, 282, 301

insurance products, 352, 354
intangible resources, 4, 270, 365
integration activities, 243
integration, cultural, 116, 167
integration phase, post-acquisition, 116, 214–18, 223, 225
integration process, post-acquisition, 112, 115–17, 121–2, 126–7, 129–30, 133, 205, 214–18, 223, 225, 241, 243, 245, 248
integration strategies, 109–35, 116, 117, 130, 133
integration team, 130, 343
intellectual property, 372
internalization, 111, 299, 310, 367–9
international
- business, 1, 6, 15, 63, 64, 111, 112, 133, 189, 198, 200, 282, 288, 307, 310, 314, 329, 332, 333, 363, 366, 367, 376, 395
- business strategy, 133
- competitive market, 364
- expansion, 142, 146, 279, 280, 286, 308, 329
- experience, 307–33, 372
- growth strategy, 113

internationalization degree, 307, 308, 332
internationalization process, 11, 111, 300–1, 363–77, 383
internationalization strategies, 133, 146, 301
international joint ventures (IJVs)
- creation, 62, 99
- development, 44
- dissolutions, 57
- effectiveness, 16
- existence, 94, 102
- experience, 37, 38
- longevity, 56–7, 61–3, 65–6, 68–70
- operations, 16, 25, 26, 29, 42, 43
- partners, 30, 33, 44, 84, 90, 92, 94, 96–7, 100, 103
- performance

assessment, 97
measurement, 93
stability, 56, 62
survival, 56, 62, 64, 70
value creation, 17, 26, 28–34, 37, 38, 40, 41
international projects, 210, 212–16, 220, 299
inter-organizational trust, 201
inter-partner influences, 17
investment cooperation, 280, 288
investment laws, 282
investor protection, 181–2
Israel, 7, 57, 59–60
Istrobanka, 342, 353–9
acquisition of, 354, 358, 359
Italy, 390

J

Jaguar Land Rover, 373
Japan, 58, 118, 291, 371
joint stock companies, 287
joint venture longevity, 7, 55–70
joint ventures (JVs), 3, 5, 6, 8, 11, 15–47, 55–60, 63, 65, 69, 75–105, 129, 158, 302, 319

K

Kazakhstan, 290, 296, 299, 304
KBC Banka Slovakia, 358
KBC Group, 348, 351–2, 354
key account management activities, 224
key performance indicators, 397, 399
key stakeholder groups, 205
key suppliers, 224
knowledgeable managers, 255
knowledge assets, 4
knowledge base, 121, 243, 386
knowledge exploration, 6
knowledge flows, 369–70, 376
knowledge integration, 32, 116, 117, 119, 272, 313, 314, 348
knowledge transfer, 6, 31, 63, 177, 198, 217, 218, 223, 226, 243, 369

L

labor costs, 310, 312
labor scarcity, 401–2
labor turnover, 398
labour-force qualification, 79, 83
labour market, 81–2
labour productivity, 82
large scale acquisitions, 126
latecomer disadvantage, 111
Latin America, 76, 134, 149, 188
leadership effectiveness, 203
learning behavior, 368
legal systems, 31, 199, 346, 347
leverage, 128, 129, 307, 315, 317, 366–8, 385
liberalization, 60, 92, 133, 282
LLL framework, 367
local advantages, 369
local institutions, 346
location, 7, 15–47, 59, 60, 84, 86, 94, 111, 114, 149, 152, 153, 155–7, 159, 198, 282, 286, 297, 310, 312–15, 332, 367
advantages, 312, 315
choices, 332
effects, 16, 34, 45
patterns, 310
longevity, 7, 8, 55–70, 93, 101
low-cost countries, 121

low-income countries, 63
low-tech industries, 264, 272
Lukoil, 300, 392–3, 399–401

M

management
  post-acquisition, 239
  strategy(ic), 2, 86, 96, 98, 166
managerial capabilities, 166, 315, 322, 332
manufacturing industries, 66, 67
marketing activities, 311, 319
marketing capabilities, 322
market(ing) knowledge, 82, 117, 158, 218, 286
market-related performance, 317, 324, 330
markets
  access, 386
  capitalization, 146, 154
  conditions, 30, 176, 284, 386
  domestic, 127–9
  economy, 81, 91–2, 99–100, 105, 206, 207, 288, 402
  entry, 82, 97, 100, 102, 119
  expansion, 113, 129, 133
  global, 113, 149, 197, 315, 371, 376, 384
  globalization, 158–9
  intelligence, 240
  leader, 149, 211, 216, 222–3, 353
  model, 153
  position, 211, 359, 360
  power, 113, 178
  return, 153, 181, 187
  size, 311, 322
  value, 93, 240
M&As. *See* mergers and acquisitions (M&As)
mature markets, 8, 149, 152, 155, 156, 158
medium-sized enterprises, 91, 287, 352
mergers and acquisitions (M&As)
  decisions, 179, 189
  experiential learning, 171
  motives, 111, 113–15, 125–6
  operations, 143
  outcomes, 200, 204–6
  process, 171, 187, 188, 200, 238, 244
  success, 200
  value creation, 167, 181
merger syndrome, 241
Mexico, 118, 129
Middle East, 58, 172
middle managers, 393
models
  competence-based, 398
  new business, 342
  traditional behavioral, 10, 363, 365
most-favored nation status, 283
motivation, 75–105, 114, 212, 280, 286, 371, 372, 376, 388, 391–2, 396, 397, 401
  market-seeking, 99, 286, 312, 316, 332
motives
  efficiency-seeking, 328, 329, 331
  market-seeking, 99, 286, 312, 316, 332
  resource-seeking, 312
  strategic asset-seeking, 311, 323, 328, 330, 364
multiculturalism, 241–2, 252
multinational companies, 7, 63

multinational enterprises (MNEs), 110, 281, 286, 307, 309, 363
  dragon, 363–77
multinationals
  dragon, 366, 370
  emerging country, 316
  foreign, 128

N

National Bank of Slovakia, 76, 343, 348, 357
national cultural background, 94, 204
national disparities, 183
national-industrial factor endowments, 114
networks
  configuration, 4
  personal, 207
  relationships, 9, 200, 201
  strategic, 4, 5
Nordic, 7, 9, 35, 36, 41, 238, 246, 247, 255, 263, 264, 271, 272
  companies, 255
  countries, 238, 246, 264, 272
  firms, 35, 36, 246, 247, 271
  region, 238
Norway, 35, 263

O

oil, 60, 66, 173, 183, 279–304, 392, 393, 400
oil exporters, 183
opportunism, 26, 65
opportunistic behaviour, 85, 98, 103
organizational ambidexterity, 366, 370
organizational context, 4
organizational cultures, 24, 27, 41, 44, 45, 81, 116, 187, 216
organizational disruptions, 270
organizational ecology, 62
organizational learning, 243, 364, 368, 370
organizational renewal, 198
organizational resources, 3, 4
organizations, 2–5, 7, 10, 16, 24, 27, 29, 31–4, 37–8, 41, 42, 44, 45, 55, 60–3, 81, 83, 84, 86, 93, 116, 117, 119, 122, 123, 127, 129, 134, 187, 198, 199, 201, 202, 204, 208, 210, 211, 215, 216, 225, 227, 239, 242–4, 252, 270, 291, 293, 297, 302, 303, 312–15, 364, 366, 368–70, 383–8, 390, 397, 402
orientation
  long-term, 3, 219, 224
  short-term, 207, 386, 400
outward foreign direct investment (OFDI), 9, 109, 281, 285–7, 308, 316, 318, 330, 331, 365, 371, 373
  policies, 287
ownership, 36, 45, 65, 66, 75, 78, 90, 91, 93, 94, 111, 113–5, 121, 127, 129, 130, 133, 134, 160, 174–7, 211, 248, 272, 283, 287, 299, 301–2, 310, 332, 344, 355, 359, 367, 386
  structure, 91, 94, 302, 332, 355, 359, 386

ownership, location & internalization (OLI)
framework, 367
paradigm, 111, 310, 369

P

Pacific Ocean, 290
parent company, 84, 116, 216, 219, 343, 358, 360, 376, 391, 393, 396
parent control, 25, 42, 63, 323, 324, 329
parent firms, 9, 24–34, 36, 42–3, 45, 65, 75, 78, 94, 309–10, 312–14, 317–19, 322, 323, 327, 330, 332, 333
partner flexibility, 29
partner interaction parameters, 93
partner learning, 70
partner selection, 44
partnerships, 3, 6, 25, 31, 44, 57, 65, 69, 79, 80, 82, 85, 96, 100, 101, 103, 129, 281, 286, 298, 299, 301, 302, 371, 391, 394, 400, 402
strategic, 299, 301
People's Republic of China (PRC), 279–80, 298, 303
perceived value incongruence, 242
performance
alliance, 96, 100
appraisal, 393, 398
assessment, 95, 97, 271, 396
criteria, 90, 92, 93, 95, 96, 99, 100
determinants, 333
dimensions, 10
employee, 396
financial, 17, 93, 96, 186, 309
foreign affiliate, 313, 322, 333
indicators, 93–5, 330, 332, 392, 397, 399
measures, 17, 93, 95, 100, 185, 186, 247, 255, 308, 323, 397
outcomes, 90, 179, 310, 317
performance management system (PMS), 396
personal relationships, 28, 207–9, 215, 223, 226, 241
phantom stocks, 397
pharmaceutical industry, 118, 127–35
Poland, 76–8, 81, 105, 308, 309, 316, 319, 332, 351, 390
Polish firms, 9, 316
positions
low-cost, 133
short-term, 399
post-acquisition integration, 112, 115–17, 121–2, 126–7, 129–30, 133, 205, 214–18, 223, 225, 241, 243, 245, 248
post-acquisition performance
perceived, 263
weighted, 266, 268
post-M&A identity, 121
post-M&A value, 166, 184, 188
Postova banka, 358
Prague, 352
pre-acquisition planning period, 239
a priori expectations, 255
privatization, 10, 60, 88, 110, 212, 286, 287, 291, 342, 344, 347
mass, 287
measures, 60, 342
program, 287, 291

product development, 254, 320, 322, 375
product innovation, 353, 360
product quality, 353, 360
professional intermediaries, 199
professional talent, 383, 385, 387
profitability, 17, 41, 63, 93, 95, 185, 187, 309, 310, 320, 346, 354
profits, 2, 17, 41, 63, 76, 79, 82, 93, 95, 97, 221, 223, 288, 297, 349, 350, 357
promotion, 353, 388
property rights, 282, 301

Q

quality, 5, 7, 10, 16, 25–7, 29–31, 38, 41–4, 80, 81, 83, 84, 87, 95–6, 100, 124, 125, 211, 218–21, 225, 247, 269, 286, 311, 320, 323, 346, 350, 353, 371–4

R

raw materials, 79, 85, 125, 126, 219
recruitment, 388–9, 393, 396–8, 401
  standards, 396
reforms
  collateral law, 88
  export duties, 286, 303
  social welfare, 88
regulatory capabilities, 128
Reiffeissen Bank, 342
relationships
  buyer–seller, 206, 208
  buyer–supplier, 4, 5
  colonial, 171
  cooperative, 56
  external, 199–200, 204–7, 221, 225
  external stakeholder, 204
  inter-firm, 26
  inter-partner, 17, 31
  inter-personal, 241
  intra-organizational, 313
  organizational, 5, 201, 313, 366
  partnership-type, 221, 224
  social, 207
reliability, 220–1, 227, 248, 255–63, 333, 371
remuneration, 83, 391–3, 397, 399, 401, 402
reputation, 169, 186, 208, 222, 224, 225, 227, 320
research and development (R&D), 45, 82, 83, 87, 128–30, 254, 270, 315, 319, 371, 374–6, 394
  capability, 374–6
  capacity, 315
  facilities, 130
  productivity, 254
resource based view (RBV), 3, 45, 65
resources
  complementarity, 7, 16, 25–7, 37–8, 42–4
  diversification, 6
  endowments, 311
  integration, 6, 116, 177
  internal, 185
  natural, 125, 164, 172, 173, 279, 280, 285, 289, 304
  ordinary, 114–15
  redeployment, 243
retail clients, 352

retail distribution, 311
revenues, 76, 124, 128, 169, 297
  annual, 124
risk reduction, 313
Romania, 78, 319, 352
Rosneft, 289, 296–302, 393–5, 399–400
Rosneftegaz, 296, 297, 302
Russia, 9, 56–8, 149, 197–228, 279–80, 285–99, 301–4, 319, 352, 385–91, 395, 398–401
Russian and Chinese firms, 303
Russian business environment, 201, 206, 207, 226
Russian business networks, 206–9, 225, 227
Russian Central Bank, 395
Russian companies, 9–10, 200, 279–80, 289, 298, 300–1, 383–402
Russian context, 199–200, 208, 222, 226, 227, 384, 386–9
Russian Federation (RF), 110, 279
Russian government, 291, 293, 296–300, 302, 303, 387
Russian M&A, 198, 201, 227
Russian managers, 207, 217, 387, 401, 402
Russian MNEs, 9, 285–6, 289, 301–3
Russian OFDI, 285–7

S

Sakhalin-3 projects, 298
sales growth, 95, 185, 254, 309, 320
Sasken Finland Oy, 121
Saudi Arabia, 58
Sberbank, 359, 395–6, 399
Sberbank Corporate University, 395
Scandinavian countries, 183
Scandinavian design, 372
scarcity, 78, 112, 386, 400–2
scope, 10, 178, 185, 200, 243, 286, 311, 317, 319, 330, 372, 392
securities, 121, 143, 164, 207, 216, 255, 349, 352
  financial, 121
Serbia, 352
service industries, 66, 272
Severstal, 390–1, 399–400
shareholders, 4, 91, 126, 153, 154, 156, 164, 181, 184, 185, 187, 238, 255, 287, 296, 343, 356
shock-therapy, 215
Sinochem, 292
Sinopec Group, 298
Sino-Russian investment cooperation, 288
Sistema, 396–9
Slovak banking business, 354–5
Slovak banking sector, 341–4, 348–51, 358–9
Slovak banking system, 342
Slovak banks, 10, 341–51, 353–5, 358–9
Slovak business environment, 87–9
Slovak companies, 79–81, 83, 85, 90, 97–103
Slovak economy, 8, 76, 79, 83, 85, 92, 99–101, 344, 348, 349
Slovak firms, 81, 82, 100, 101, 103
Slovak IJVs, 78, 83
Slovak Republic, 8, 80, 82, 84, 85, 92, 103, 344–5, 348, 351, 353, 356, 360

social control, 7, 27, 28, 37, 38, 40, 42, 44
social development, 186
social exchange activities, 28
social structures, 6, 402
software industry, 24, 26
South Africa, 171, 183, 187
South Korea, 58
Soviet Union, 212, 285, 291, 387, 388, 400, 402
stability
  political, 176, 323, 347
  post-acquisition, 244
stakeholders
  external, 185, 204, 205, 209, 221–3, 227
  group, 205, 209, 224
  multiple, 187–8
state authorities, 81, 291–2
state companies, 77–8, 80, 103
state institutions, 82, 103
state-of-the-art production plants, 101
state-owned enterprises (SOEs), 176, 287
state ownership, 302, 344
state-regulated labor market, 386
state support, 283, 287
strategic alliances, 15, 24, 77
strategic choice, 10, 363, 365
strategic cooperation, 292–3, 298
strategic entrepreneurship, 115
strategic importance, 302, 396
strategic interdependence, 116, 126
subsidiaries, 8, 57, 76, 80, 94, 120–1, 292, 297, 312–13, 319, 322, 333, 343, 359, 386, 387, 390–1, 393–7, 399
subsidiary performance, 313, 315, 332
supplier relations, 205, 220, 224
suppliers, local, 82, 83, 219
supply chain, 83, 221, 224, 227, 372
Sweden, 35, 118, 124, 263, 371, 373, 374
Swedish M&A, 118
Swedish Volvo Cars Corporation, 370
symbiosis, 116, 127
Systema, 396–8

T

talent, 7, 10, 383–402
  acquisition, 400
  attraction, 10, 385, 390, 393, 394, 396, 398, 401
  attraction priorities, 401
  definitions, 398, 400
  evaluation, 389, 393, 397
  management (TM), 7, 10, 383–402
  motivation, 388, 397
  pools, 392, 395, 396, 399–401
  retention, 388–92, 397, 399
target
  countries, 111, 146–51
  firms autonomy, 117, 134, 166, 169–70, 172, 174, 198, 228, 264, 309
Tata, 373
TataGroup, 123, 127
Tata Motors, 113
Tata Steel, 110
Tatrabanka, 342, 358
Tatramat, 80, 82–3
Tatramat-Whirlpool, 82

tax(es), 81, 88–9, 282–4, 298, 299, 303, 357
evasion, 298, 303
rates, 88
system, 88, 89
technology development, 26, 92, 97, 314, 372
telecommunications, 58, 88, 103, 119, 123, 151, 188, 396
Thailand, 123, 291, 367
theory
agency, 180
eclectic, 310
internalization, 310
social exchange, 16
stakeholder, 204
transaction cost, 45, 185
threats, 68, 81, 86, 188
Times of India, 125
TNK-BP, 394
trade barriers, 282–3
training programs, 28, 375, 387, 392, 393, 395
transaction costs, 16, 45, 65, 185, 206
transaction cost theory (TCT), 45, 185
transaction value, 11, 170, 179–80
transformation phase, 91, 100–1
transition, 76, 79, 89, 94, 98, 103, 110, 183, 197, 206, 207, 241, 286, 288, 358
trust
basic, 207
building, 202, 208, 209, 217–18, 226, 227
importance of, 9, 98, 201, 207, 227
initial, 213
interfirm, 202
interpersonal, 201
mutual, 214
personal, 31, 201
trustworthiness, 203, 204, 210, 215, 220, 221, 224
Tunisia, 7, 57, 58
Turkey, 7, 57, 59, 60
two-tier incentive system, 397

U

Unified Gas Supply System of Russia, 291
United Arab Emirates, 58, 172
United Kingdom (UK), 142, 149, 171
United States (US), 58, 142, 149, 152, 159, 171, 280
firms, 24
markets, 114
Uppsala model, 111
Uzbekistan, 290

V

value chain, 4, 114, 124, 126, 313, 323
activities, 313
value creation, 1–11, 15–47, 113, 114, 116, 121, 141–60, 163–89, 197–228, 241, 279–304, 309–18, 341–2, 360, 383–402
activities, 5
in IJVs, 7, 16–18, 24–34, 40, 42–5
process, 4, 10, 16, 322, 384, 385
value-in-context, 4, 6–7, 11
value-in-use, 2–3, 7, 11
variables

explanatory, 252–3, 266, 322, 324
independent, 38, 41, 64
variance inflation factor (VIF), 67, 266, 324
Venezuela, 299
Visegrad countries, 347
Volkswagen Slovakia, 101
Volvo, 370–6
VTB, 398–400

W

Western countries, 135, 206, 291, 387
Western customers, 77
Western Europe, 171, 174, 207, 209, 302
Western firms, 79, 114
Western investors, 78–9
Western MNCs, 386
wholly-owned subsidiaries, 8, 45, 57, 68, 77, 80, 82, 85, 97–8, 100–1, 105
world markets, 82, 124
World Trade Organization (WTO), 60, 288, 299–300, 303

Z

Zgenet Pharma, 127–30, 133