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A STUDY ON CROSS-BORDER M&AS OF EUROPEAN TARGETS BY CHINESE AND INDIAN FIRMS

ABSTRACT

Globalization has led to a relocation of production activities and new regions have become significant sites for international competitiveness. The rise of the Chinese and Indian automobile industries cannot be understood independently of the global geographical shifts in the automobile industry and changing roles of governments, and this can be seen as one of the most significant aspects of China and India's modernization. More than 300 cross borders M&A deals European targets of Chinese, Indian and European acquirers during the periods 200 to 2015 have been examined for this study. This study measure factors influencing M&A deals and examine the relation between the cumulative abnormal returns (CARs) and geographical sub-samples. In order to explore which factors influence the observed wealth creation and its variations this paper estimate a cross-sectional multivariate regression

KEYWORDS : China, India, Automobile, Deals

INTRODUCTION

The 2008 financial crisis jointly with big losses in the US automotive industry gave Chinese automotive manufacturer Geely Group an opportunity that its founder Li Shufu compared to “the marriage of a world famous movie star to a Chinese peasant”: the acquisition of Swedish carmaker Volvo. Remarkably, at this time no large western corporation had shown serious effort in buying the struggling company.

At the exceptionally most recent, this was one of the comments for the end of China's part as concealed player in the worldwide financial coliseum and is illustrative for the rising significance of the economies of Brazil, China, India and China (BRICs) with respect to the world economy by and large and for outbound Mergers and Acquisitions (M&A) action specifically. The way that China has the world’s biggest outside trade holds empowers the nation to deliberately put resources into organizations, things and nations over the globe (Vogel, 2011). In like manner, Indian's biggest organizations are "money rich and entrenched" to trophy points of interest and henceforth can be named "the new worldwide capital players" (Ernst and Young, 2011). What's more, there is not a single end to be seen as considerably all the more purchasing open doors rise in Europe and the US. In the midst of a slide development log jam in these locales, China is hitting a 7-year-record of M&A outbound action in 2012. Besides, India's outbound cross-fringe securing action is as of now representing over portion of aggregate Indian M&A exchanges, regardless of a feeble neighbourhood coin (Financial Times, 2012).

The most sensational movement in the worldwide vehicles industry is the sharp development of recently industrializing nations underway and deals, strikingly China, India, and Brazil. The triadic structure of the car business is currently evolving. The vehicles business has been under weight subsequent to the money related emergency in 2008. The weights requiring changes inside of the business, for example, stringent emanation and security regulation and expanding necessities for quality administration guidelines, joined by extreme cost rivalry has unavoidably prompted the enormous rebuilding of the vehicles business around the world. The adjustments in assembling structural engineering, in view of level layered and progressively modularized creation, have additionally influenced the worldwide topography of car generation. In car fabricating, China has risen as the quickest developing maker, surpassing Germany in 2006, the United States in 2008 and Japan in 2009. In 2010, China delivered 18.26 million units (23.5% of the world aggregate generation). India has additionally risen as an extensive maker, and creation came to 3.53 million (4.6% of the aggregate world generation) in 2010. Together, these two record for around 28.1% of the aggregate. Against that, the figure for the United States and Japan, which represented more than 40% of world generation in 1997, tumbled to 22.4% in 2010. In the meantime, China and India are additionally the quickest developing markets for vehicles.

China's residential deals came to 18.06 million units in 2010, making it for two continuous years the biggest auto market on the planet. Offers of cars in India have additionally ascended to 3 million in 2010, making it the 6th biggest business sector on the planet. Be that as it may, to comprehend the principle pattern in vehicles generation all the more precisely requires the organization level creation figures. A generally small number of driving automakers from cutting edge nations overwhelm car producing. In 2010, the main five vehicles organizations delivered around 45% of worldwide generation, and the main ten organizations together represented 66% of worldwide creation. In spite of the state-level examination, the triad makers still rule world creation. The organization level examination results highlights that economies of scale have dependably been a critical element. These can be through mergers and acquisitions, or by seeking after partnerships. In spite of the fact that the lion's share of world generation happens in the home business sector of every maker (55.6% in 2009), China and India have gotten copious remote direct venture (FDI) from cutting edge nations. This pattern made it workable for the main firms included to abuse a worldwide business sector to support their development.

SIGNIFICANCE OF THE STUDY

This research study helps companies who are interested in M&A in area of technology transfer knowledge, experienced technical work force, obtain new market, to sustain in competitive arena, introducing new products, reduced less risk factor in term of failure in most of the cases

Research paper will also help Investor to see how such deals affected share market based on such deals and future of the company. Economist will also benefited based on our research to examine economy condition of country after such big M&A. In education field MBA schools, Management Institutions this research will help to modify their course modules and if applicable can add new chapters based on corporate governance, technology transfer, shareholder issues, Economy, Government policy etc.

This study will also be useful to analyze the general impact of FDI on host economies. This paper will hypothesize that overall cross-border M&A deals have a positive impact on host economies. This perspective will have two positive effects towards investment liberalization and facilitation among the APEC member economies. First, it will enable member economies to expedite cooperative policies related to M&A deals through lowered barriers. Second, it will help evoke favorable responses towards M&A deals from the general public of member economies, lowering the emotional entry barriers to member economies' markets.

RESEARCH OBJECTIVE

1. To study how cross border M&A deals impacted by Economy, Culture difference.
2. To investigate do intra-European automotive deals create more value for acquirers than ones involving Chinese or Indian bidders?

LITERATURE REVIEW

Transaction cost theory relates mainly to M&A on a vertical level and involves a target in the same industry that is either closer to the source of supply, or to the end consumer (Brealey et al.). Vertical M&A can be split into forward- and backward integration. Forward integration describes the merger with a purchaser, whereas backward integration is the merger with a supplier (Picot & Franck, 1993, p. 180). When separate units have business relationships, different types of transaction costs occur, and their magnitude is unclear (Picot, 1982). If the independent contractual party is acquired and the long-term conditions for the source of supply or demand are fixed, transaction costs are reduced since the uncertainty factor and coordination effort is eliminated (Brealey et al., 2008; Gaughan, 2002). Depending on the type of relationship, transaction costs can account for a significant amount, particularly if the underlying good is specialized, technologically advanced and requires a customized production flow. In this case, price discovery can cause problems since no market with comparable products is available. In addition, the purchaser is highly depended on the supplier since he cannot easily switch to other firms. Dependability on the supplier is an important factor since it ensures quality and timely delivery for just-in-time management (Gaughan, 2002). Quality control is a major benefit of vertical integration. If correctly implemented, technologically advanced products can be produced at significantly cheaper cost (Reed et al., 2007, p. 19). An external firm that manufactures specialized products might require long-term contracts and a fixed compensation for the initial costs (Gaughan, 2002). For the supplier, this bears opportunities and risks at the same time. On the one hand, he faces the risk of high dependency towards one major client, on the other hand he sets high entrance barriers for potential competitors. For the customer, high dependency towards the supplier's Research & Developments (R&D) capabilities, resource management and long-term business interest exist (McIvor et al., 1998, p. 87; Mentz, 2005).

Operating synergies refer either to revenue-enhancements or cost-reductions (Gaughan, 2002). Revenue enhancing operating synergies are harder to achieve than cost reductions since they are not immediately identifiable and are defined as "newly created or strengthened product or service that is formulated by the fusion of two distinct attributes of the merger partners and which generates immediate and/or long-term revenue growth" (Berk & DeMarzo, 2007, p. 877). The potential reasons for revenue growth can be considered deal-dependent and vary from being a result of an extended product line, which enables each firm to sell more to their customer base, to deriving from cross-marketing of the individual products or services from the respective partner. Another reason might be the combination of two favorable factors. For instance, one firm has products with high market potential and merges with another company that has a highly developed distribution network but no special product (Gaughan, 2002).

METHODOLOGIES FOR VALUE CREATION ANALYSIS

The most widely spread and generally accepted theoretical framework used to value companies is the discounted cash flow method (DCF). It assumes that the value to an owner is constituted by the cash flows that she can expect to receive during the period of possession.

Value implications of particular investments, in our case corporate takeovers, can hence theoretically be assessed by looking at the incremental effect of a particular investment, i.e. the “incremental cash flows” (Bild, 1998) of each investment separated from a stand-alone case of the parent company. These cash flows are discounted by an appropriate rate, taking into account the time value of money and riskiness of the cash flows. A merit of the incremental approach often mentioned is that it is applicable ex-ante as well as ex-post and can thus be used to compare target and actual performance of investments and takeovers. In the corporate takeover literature, the theoretical approach to corporate valuation is hence described as the ideal research method.

However, there are limitations to this theoretically sound approach. Problems for instance arise when incremental cash flows from a particular takeover cannot be separated from cash flows arising from other parts of a business. I believe that a good example of separation issues can be found in situations in which synergies are evaluated. Synergies are not always mutually exclusive, i.e. they arise in different levels of organizational entities, and are hence hard to allocate to different investment decisions.

SAMPLE SIZE

For this study 167 M&A deals in automotive sector by Indian and Chinese acquirers targeted to European companies during the period 2000 to 2015 have been included, furthermore I have also included 166 non-automotive M&A deals of European companies’ targets from Indian and Chinese acquirers during the period 2000 to 2015.

MULTIPLE REGRESSION ANALYSIS

Underneath I include the regression equations for our different sub-samples. Table 6 also includes a summary of all the variables included underneath.
European Sample

For the European sample, which includes only automotive deals, I estimated following regression –

Regression 1:

$$\begin{aligned} CARj = {} & \beta 1\ (Log\_Deal\_Valuej) + \beta 2(Log\_MCAPj) + \beta 3(Deal\_Value\_MCAPj) + \beta 4(Deal\_Countj) \\ & + \beta 5(Target\_GDP\_Growthj) + \beta 6(\text{Acquirer\_(GDP\_Growthj) }) + \beta 7(\text{Target\_PCIj }) \\ & + \beta 8(\text{Openness\_Diffj }) + \beta 9(\text{Europe\_Culture\_Distj}) + \beta 10(\text{Target\_Corp\_Govj}) \end{aligned}$$

Combined Chinese and Indian Sample (“Emerging Market Sample”)

For the Indian and Chinese combined sub-sample, I have estimated our regression with the CARs across different event windows as follows –

Regression 2:

$$CARj = \beta 1\ (Log\_Deal\_Valuej) + \beta 2(Log\_MCAPj) + \beta 3(Deal\_Value\_MCAPj) + \beta 4(Deal\_Countj) + \beta 5(Target\_GDP\_Growthj) + \beta 6\ (Acquirer\_(GDP\_Growthj\ )\ ) + \beta 7(\text{Target\_PCIj}\ ) + \beta 8(\text{Openness\_Diffj}\ ) + \beta 9(\text{India\_Culture\_Distj}) + \beta 10(\text{China\_Culture\_Distj}) + \beta 11(\text{Target\_Corp\_Govj}) + \beta 12(\text{China\_Automj}) + \beta 13(\text{India\_Automj}) + \beta 14(\text{India\_Non\_Automj})$$

Country Specific Chinese and Indian Sample

The Indian and Chinese country specific samples were estimated as

Regression 3 (China) and Regression 4 (India):

$$CARj = \beta 1\ (Log\_Deal\_Valuej) + \beta 2(Log\_MCAPj) + \beta 3(Deal\_Value\_MCAPj) + \beta 4(Deal\_Countj) + \beta 5(Target\_GDP\_Growthj) + \beta 6\ (\text{Target\_PCIj}\ ) + \beta 7(\text{Openness\_Diffj}\ ) + \beta 9(\text{India\_Culture\_Distj}) + \beta 10(\text{China\_Culture\_Distj}) + \beta 11(\text{Target\_Corp\_Govj}) + \beta 12(\text{India/China\_Autom\_Culture\_Distj}) + \beta 13(\text{India/China\_Non\_Autom\_Culture\_Distj})$$

DATA ANALYSIS

Regression number	1		2	
Event Window (-1, +1)	Europe		China & India	
Indepentent Variable	Coeff.	t-statistic	Coeff.	t-statistic
Log_Deal_Value	0.003	0.97	0.005	2.65***
Log_MCAP	-0.005	-1.14	-0.013	-4.74***
Deal_Value_MCAP	0.039	2.16**	0.001	0.46
Deal_Count	0.000	-0.19	-0.001	-1.04
Target_GDP_Growth	1.041	2.16**	0.056	1.51
Acquirer_GDP_Growth	-0.506	-1.94*	0.513	2.85***
Target_PCI	-0.066	-2.03**	0.059	1.72*
Openness_dif	-0.037	-2.15**	0.008	1.32
Target_Corp_Gov	-0.008	-1.59	0.005	3.09***
China_Culture_Dist			0.021	3.01***
India_Culture_Dist			-0.009	-1.06
Europe_Culture_Dist	0.022	2.3**		
China_Non_Autom			0.002	0.27
India_Autom			0.013	1.10
India_Non_Autom			0.030	2.67***
R2 (%)		29.60%		20.60%
Number of observations		396		588

	3		4	
Event Window (-1, +1)	China		India	
Indepentent Variable	Coeff.	t-statistic	Coeff.	t-statistic
Log_Deal_Value	0.005	1.70*	0.003	0.860
Log_MCAP	-0.008	-1.57	-0.016	-4.51***
Deal_Value_MCAP	-0.001	-0.37	0.006	2.24**
Deal_Count	-0.001	-1.44	0.001	0.550
Target_GDP_Growth	-0.062	-0.72	0.132	2.97***
Acquirer_GDP_Growth	(Omitted)		(Omitted)	
Target_PCI	0.056	1.02	-0.067	-0.990
Openness_dif	0.031	3.00***	-0.005	-0.540
Target_Corp_Gov	0.007	2.06**	0.006	3.17***
CD_Autom	0.019	1.59	-0.016	-1.66*
CD_Non_Autom	0.023	2.27**	-0.035	-3.63***
R2 (%)		16.80%		30.70%
Number of observations		255		333

CONCLUSION

Transaction size correlates with synergies, however insignificantly for Chinese deals. Indian and Chinese deals: higher deal value is signal for economies of scales. Indian companies look to expand into growing market. For European countries facing recession, expanding into growing markets is a viable strategy Chinese and Indian firms have higher CARs with more home market growth. Developed country acquirers utilize their home market competitive advantages and export these into less developed target countries emerging market acquirers: seek strategic assets they can internalize in their home market. Developed country acquirers: exporting competitive advantage to countries that are more protected from international competition is a viable strategy. Chinese acquirers: acquisitions in open market go in hand with valuable knowledge and technology transfer as these targets are more competitive internationally. European and Chinese acquirers profit from higher value creation by culturally more distant deals because they reap the benefits associated with better cultural.

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