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MULTINATIONAL ENTERPRISES AS POTENTIAL ACQUIRERS

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1 INTRODUCTION

Vazirani (2015) conducted broad literature review about the history of M&A waves. The first wave started around the 20th century when several small firms merged together in the United States. During the 1980s vertical acquisitions started to become more common and from the end of 20th century, the value of M&A deals total has skyrocketed, excluding aftershocks of the 2001 IT-bubble and 2008 financial crisis. According to statistics of the Institute of mergers, acquisitions, and alliance (IMAA), the total value of M&A deals was over 4 trillion USD in 2015, 16 percent more than 2014. We are here on the verge of huge amounts of capital and possibilities.

The Amount of published M&A articles have grown steadily over three decades but constantly under 3 percent of total articles published (Ferreira, 2014). Previously M&As were not so popular probably due to the lack of media coverage. During the recent years, especially acquisitions emerge into public awareness as one big part of modern startup hype which could also explain even the researchers' interest into the subject.

1.1 Introduction to the research subject

The main purpose of this study is to learn to identify potential acquirers on the markets and utilize this knowledge in strategic planning of startups and other small medium-sized companies. Dryer (2004) states corporate mergers and acquisitions (M&As) is vastly debated over the last 40 years. Researchers have been trying to find an optimal formula for acquisitions through dozens of theories and prays. Jeffrey Pfeffer & Gerald Salancik in the 1970 and Jay B. Barney in the 1990s have written several articles about drivers of acquisitions especially about resource dependency theory and resource-based view and their influence on mergers and acquisitions. Here are two examples of great literature to get familiar with acquisition theories: Pfeffer and Salancik, The External Control of Organizations (1978) and Jay B. Barney Firm resources and sustained competitive advantage (1991). Sure there are other perspectives available to explain acquisitions but the resource-based view and resource dependence perspective are more straight-forward to bind with research theme. For example Transaction cost economics (Williamson, 1975;) and Internalisation (Buckley and Casson, 2009).

I will not state here to be exact answers or mathematical patterns which would define the best pattern for acquisitions or point which companies will be acquiring tomorrow. The discussion is about deepening understanding of potential acquirers on the markets. This literature review can be seen as a buyer analysis and initiator for conversation from this particular perspective.

1.2 Motivation and purpose of the study

During the recent years, startups and entrepreneurship have become trending topics in everyday life. For innovating growing businesses, startups, there are two main strategies to exit: initial public offering (IPO) or acquisition by a larger entity (Sipola 2015:66). Understanding buyer's perspectives are one of the key elements of the seller to close the deal. Entrepreneurs have to be aware of potential acquirers and how to catch their interest towards developing business.

There is a relatively vast collection of research about (M&As) Mergers and Acquisitions and (JVs) joint ventures but not much significantly specific research about those entities who execute acquisitions. Several cases the point of view is from the target's side. The only repetitive fact to describe typical acquirer is a Multinational enterprise.

What characteristics of an MNE make them potential acquirers?

• *Are there internal features that effect on acquisition?*

•*Which external pressures foster towards acquisitions?*

1.3 Methodology and the structure

This literature review was conducted by combining information from the scientific article journals. Articles were found through EBSCO database. Some web articles from The Guardian and Business insider were cited to tie theories into real acquisition scenes. Quite many cases when acquisitions occur the current situation is already over before academical research is published.

The second chapter defines Mergers and acquisitions and distinguishes both from each other. Also, Multinational enterprises and their capabilities as acquirers are explained. The third chapter introduces few theories. In this chapter resource dependency theory and resource-based view are introduced and why acquisitions occur at first place and how they are tied to the behaviour of MNEs. Also, few words about internalization theory and conclusion of them. In the fourth chapter, I have given more concrete examples of characteristics of an acquirer, divided in internal and external features. This study ends with fifth chapter with some conclusions and managerial implications about the topic. Final subchapters give few future research topics.

2 ACQUISITIONS AND MULTINATIONAL ENTERPRISES

Probably due to the relevance of terms Acquisition and merger to their meaning in English they are not usually defined in the business literature. Then both terms are quite often discussed as Merges and Acquisitions (M&As) together, without actually understanding the difference between both aspects. In some level, M&As can be discussed as a package but continuously they are separated due to the fact that they are completely different strategic moves.

2.1 Difference between Merger and Acquisition

In Desai's article (2010) by Vazirani (2015) Mergers and acquisitions are defined separately. Merger's meaning comes from the verb "to merge", to join together. In a merger merging company unites its assets and liabilities into merged company. Two or more companies become one gaining a new identity or sometimes only parts of the merging companies are united.

The acquisition comes from the verb "to acquire", to get, to gain, to buy. In the corporate/business context, an acquisition is a purchase of another entity. In acquisition, acquirer company buys the majority or all target company's ownership to takeover the whole control of the firm. Acquisitions can also be friendly or hostile depending on the target's willingness towards the acquisition. (Desai, 2010)

2.2 Multinationals and capabilities

According to definition by United Nations, multinational enterprises, multinational corporations or transnational corporations are enterprises which control assets or other entities in more two or more countries owning a 10 percent or more equity share of their foreign operations. It is very noticeable that becoming a multinational is a relatively small step. Although when discussed MNEs or MNCs usually we mean companies which have already advanced and grown quite on the global markets.

Markusen (1995) gives four typical characteristics for MNE: high levels of research and development (R&D) compared to sales, a substantial amount of professional and technical workers, technically complex or new products and high level of product diversification and advertising costs. Competing on international global markets requires multidisciplinary know-how and assets which are efficiently used. Haapanen et al. (2015) conclude that internationalization itself requires financial resources and several different competencies to perform in international markets. Matured MNEs have already proved to have strong performance on the markets and therefore stronger financial and internal capabilities compared just regular firms. Buckley et al. (2015) show in their study that Indian MNEs are able to execute acquisitions due to their financial and technological resources. They point out that MNEs have managerial capabilities to undertake acquisitions. Chittoor et al. (2009) argues that Indian pharmaceutical companies are capable of combining foreign assets with their own research and technology.

Multinational enterprises might be officially defined rather slightly but commonly speaking, the question is more about the biggest dominant players on the markets. They possess necessary skills set to exploit efficiently resources out of the acquisitions and sufficient financial resources.

3 ACQUISITION THEORIES

Acquisitions occur due to three fundamental reasons: to become more independent over the vital resources on the markets, to reduce unnecessarily fierce competition between organizations by acquiring the competitor and to dilute dependencies over the other organizations by diversifying operations. (Malatesta & Smith, 2014; Pfeffer, 1976) When these three reasons match the needs of an acquirer, it should consider acquisition as an expanding option. Following three theoretical perspectives give reasonable explanations for acquisitions.

3.1 Resource dependency theory

Resources are company-specific assets that are very difficult to imitate or copy. Examples of such are for example engineering know-how, trade secrets and specialized production facilities. (Teece et al. 1997) Some resources are difficult to absorb into another organization due to their intangible characters such as know-how and personal networks but intellectual property and physical material are easier to acquire.

Resource dependency theory (RDT) explains organizations' dependencies over the resources of the external environment. Organizations pursue to dilute the uncertainties towards its vital resources and when successfully obtained organization maximizes power and stability (Malatesta & Smith 2014; Ulrich and Barney, 1984). According to Pfeffer & Salancik (2003) By bringing vital entities such as suppliers or customers inside to acquirer's boundaries it reduces uncertainties or risk over them.

Dependencies drive the organization to interact with those who have control over the essential resources. This means MNEs which operating on competitive and dynamic markets are expected to acquire. They need to constantly reduce risks from the environment, for example, purchasing the common supplier with a competitor. Another situation could be purchasing retailers to ensure own products will have more coverage compared to competitors'

The acquisition is a complete way of absorption of resources and therefore it can seem to be a simple way to solve a competitive problem (Pfeffer 1976). Some cases startups are able to develop competitive technology which could outrun existing competitor later in the future or in a worst case the technology could end up in the hands of the customer. In MNE point of view paying a quite significant sum by acquiring the rising competitor in early stage could save a considerable amount of capital compared to losing the vital technology. 2013 Google bought Israeli Waze by around 1 billion USD after Facebook and Apple were first given their offers (Julie Bort 2015 Business Insider). Google eliminated a risk of Waze's growing user base ending into hands of the competitor.

Another reason for the acquisition is to diversify operations. Acquiring a company from totally different industry reduces the dependency of the main business. The company can build itself alternative choice for future in case of their core business becomes unprofitable. Terry Macalister wrote (2016) on the Guardian that world's largest oil companies had executed series of green investments which included wind power, bioenergy and solar power at least. Without a question when fossil fuels run out the oil corporations become unprofitable unless they have diversified operations further. To conclude MNEs which might be performing currently very well but future predictions are uncertain, are more eager to diversify their operations.

3.2 Resource-based view

Resource-based view (RBV) sees organizations as pools of tangible and intangible resources who is reaching competitive advantage by trying to bring the most vital resources within. Competitive advantage is a situation where a firm is implementing value creating strategy which is not implemented by any current or potential competitor. (Barney 1991) Compared to Resource dependency theory RBV’s main driver to acquisitions emerges through internal pressure.

Zheng et al. (2014) point out that all companies seek strategic assets and especially such assets which give a firm competitive advantage over competitors. This means MNEs should recognize their markets strategic requirements, understand their own internal capabilities in relation to markets and in case of deficiency, acquire missing assets. Zheng et al. give their personal opinion about deficits of Chinese MNEs that they are lack of communicational, cross-cultural and international experience which makes them seek complementary resources through acquisition. Coleman et al. (2013) states according to RBV, the human capital especially entrepreneurial experience is a top-class intangible resource to have in business. Michelacci (2003) shows in his findings that having entrepreneurial experience in companies gives it better results in R&D. Entrepreneurs as innovators are able to push new ideas with given resources.

3.3 Internalisation theory

Internalisation assumes that owners, managers, and trustees of organizations make rational choices. The theory explains MNEs actions to move its operations to places where the benefits exceed the costs. (Buckley and Casson, 2009) Basically, this means that MNEs should internalize operations that are vital and other could not do better. Buckley and Casson (2009) continue that reasons keeping some parts of the company inside are weak manufacturing capabilities, employee education, and risky intellectual property policies.

The acquisition is a complete way to gain full control of the firm and strategic assets (Barney, 1991). When MNEs seek activities to complement its operations that are vital for its efficiency they have to internalize other entities in many cases acquiring them. This requires throughout understanding of own capabilities and limitations but also understanding of the business environment as well.

3.4 Theoretical conclusion

Resource dependency theory and resource based-view are very similar subjects but from the different perspective of a firm. RDT activity could be seen as a cause-and-effect relation. When external pressures strengthen dependencies, companies engage in counter moves to reduce dependencies where RBV-type actions emerge from understanding internal deficiencies of resources. In some cases, companies are able to plan their expanding action and compare the best choices for acquisition expansion while reaching competitive advantage.

However, there will be situations where companies have to react to external emerging threats. Internalisation theory states that companies do rational choices but there is not always rational choices on everything. Sometimes management has to react for external pressure occasionally without much rational justification.

My suggestion is that companies should be driven by RBV and internalization perspective first maintain first movers advantage and acquire competitive advantage as soon as possible. Although they should be very aware of competitors’ actions and be ready for actions in that regard.

4 CHARACTERISTICS OF AN ACQUIRER

I have divided found characteristics into internal and external sections. Acquisition theories especially defy industry effects on corporations but there are also several other details which give a more precise description of potential acquirers.

4.1 External characteristics

Andersson and Xiao (2015) show that in the most acquisitions in Sweden was conducted by Swedish MNEs. Which means it is more convenient for MNEs to seek potential acquisitions from the areas that are culturally similar and legal system is familiar. These qualifications are found the easiest from domestic markets. Managers of an MNEs might just have personal knowledge about the local startups and their performance through personal connections or via local media.

Andersson and Xiao (2015) also state that, at least in Sweden, typical companies to be acquired are new technology-based companies. Multi-technology enterprises exploit their technological competence by acquiring smaller companies (Granstrand and Sjölander, 1990). Quite in many cases highly technology companies tend to be internationally operational. New technology startups might hit the gold mine and develop a unique technology. Due to the massive amounts of existing resources MNEs could try to pursuit technological cap by themselves through intense R&D but there is always a risk that competitor would not do the same. This setup generates external pressure which is released when someone gets acquired.

4.2 Internal characteristics

Typically companies who have already acquired businesses, are expected to acquire more sometimes even regardless the outcome. This also applies another way around, those who so joint ventures tend to keep that path. Companies tend to be slaves of their behavior without considering much about the other alternatives for example alliances or partial investment. This does not completely erase the fact that alliance firms would always do alliances. Some firms' management is capable of adjusting and altering their strategies and execute an acquisition even if they would not have been doing them before. Dryer (2004)

Yin and Shanley (2008) also propose that it is not only the past of the individual firm but also the trend of the industry itself affects to a likeness of M&As. Both propositions are aligned with RBV and resource dependence. Even though some MNEs might not have engaged in acquisitions in their past nor the industry has not been very acquisition rich it does not mean that the company's behavior could change. I propose changing the management into ones that have done acquisitions before could drive the company into that same direction.

Managers' motives of MNE have also a huge impact on acquisition willingness. According to Seth et al. (2000), some managers tend to rush into M&A deals to maximize their own gains in an expense of shareholders. Reasons for these could be the performance rewarding systems or just because of reputational gains. Professional managers might be willing to close acquisition deals if his/her bonus system is connected to increased company's overall value and if they consider it to look nice on their CV.

Like RBV emphasizes, human capital being the most valuable assets of the company to have Andersson and Xiao (2015) state that companies are interested acquiring spin-off ventures of other companies. Acquisitions are most likely to happen if potential acquirer, company A would buy a spinoff C which consists of former employees of company B, A's competitor. By doing so A would get some intangible knowledge of competitor.

5 SUMMARY AND CONCLUSIONS

The main purpose of this study was to provide information for the strategic planning of startups and other small-medium sized companies towards the acquisition exit. To reach the goal this literature review conducted via several theories and academical findings several features of an MNE who could be the most targeted buyers of emerging companies.

5.1 Main findings

M&As, mergers, and acquisitions are relatively researched topics but still, it covers rather a small percentage of academic business literature. Although the overall growth trend is positive and due to prevalent startup hype I would state M&A research and general interest will continue growing.

Mergers and acquisitions need to be distinguished from each other. The merger could be described as permanent joint venture between existing companies. Where acquisitions define the actual scene more precisely. Without denying, all of them are suitable competitive actions are some occasions.

Acquisitions are rather complicated tasks. It requires know-how and capital from the acquirer itself. Therefore, the most companies are not potential acquirers and typically question is more about large multinational enterprises but even though this study focuses only on a selected framework, acquisitions occur in other industries than just high-technology as well. In addition to that also domestically operating companies purchase other entities but eventually they'll become multinationals if the expansion continues

Being multinational does not make you potential acquirer alone. It only gives minor reference of the company's capability to acquire. The competitive and dynamic environment is a major driver for MNEs' acquisitions to sustain their competitive advantage and stay on top of the food chain by acquiring smaller and potential companies. The industry has its own effects. High technology industries tend to develop drastically and new applications and breakthrough technologies can emerge rapidly which requires same industry MNEs to consider acquisition as a competitive manoeuvre. Another driver for acquisition is diversification. Which gives rather a wide approach for acquisitions but then while focusing on probabilities companies who realize their industry existence being threatened are the most potential acquirers, like for example mentioned oil companies which spread into the renewable energy business.

Resource dependency theory states that the pressure for acquisitions comes from the outside competition. Other entities actions create pressure and then initiate M&A actions to answer those calls. The resource-based view defines companies as a pool of intangible and tangible resources (Barney, 1991) and the need to acquire rises from inside to complete own resources to gain competitive advantage.

Although I find both very similar regarding the outcome if companies would always act by resource dependency as a result of competitors' actions they would be late. If the initial need for acquisitions in a hunt for competitive advantage emerges from the understanding of own capabilities you are the first mover.

5.1 Managerial contributions

This literature review brings together knowledge of the big players who could be potential buyers of entrepreneurs' growing businesses. This could also work as an eye opener for business managers who have not consider acquisition as an alternative option to grow their market share.

For the entrepreneurs, this potentially provides strategic guidelines to develop business towards the acquisition, or in some cases avoid it. Matching the needs of large MNEs creates tension which could be erupted through acquisition and in the best case it would be a financially positive thing for both company and entrepreneur.

For the companies who would not have been very aware of acquisitions before, this study provides different perspectives of the need to sustain competitiveness on the markets. Like Dyer et al. (2004) state acquisitions are working on competitive markets, there is an extent of redundant resources and synergies that companies create complementing synergies.

5.2 Limitations and future research topics

There are several limitations in this literature review. Mainly due to time constraints, all possible literature was not possible to revise which could have led to missing some aspects of this matter. Also to conduct solid research, a broad empirical study should be gathered. Acquisitions at the end are decisions made by human beings which makes forming patterns very difficult. There will always be exceptions and some trends might disturb general habits.

Andersson and Xiao (2015) give interesting points for future research topics. They state that there is not much research about early stage acquisitions of startups. This perspective could be implemented and broaden to study: In which circumstances larger companies acquire very early stage startups and what are the reasons behind them? It is stated that the most acquisitions are considered as failures in some level, therefore, it would be interesting to examine, are the most potential and biggest acquirers the best ones to execute them?

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