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CHANGE IN THE PATTERN OF MERGERS AND ACQUISITONS CASE OF LENOVO AND ULKER

Master's Thesis

NESLIHAN BÜYUKÇAYIR

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ABSTRACT

CHANGE IN THE PATTERN OF MERGERS AND ACQUSITIONS

CASE OF LENOVO AND ULKER

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With the beginning of the 20th century, world has witnessed a politic and economic change with a rising surge. Especially after the Cold War and the increasing aspect of globalization, the interaction between the economies became much more intense.

Today, it is not enough for countries to enlarge the domestic market. Thus they seek growth potential both internally and externally. For the players in the market, one of the boosters for growth is mergers and acquisitions.

Mergers and Acquisitions can happen either within a country or between different countries. Cross border mergers and acquisitions play an important role in the globalization of world economies.

Up until recent, mergers and acquisition pattern was from “West to East”. The reason for this is the firms in western economies were richer in resources. However, with the elimination of closed economies, rising globalization, and the emerging of new markets, the pattern has changed from “East to West”. The case of the firms in China, Southeast Asia, and Turkey can be an example for this new phenomenon.

This particular study will examine the new phenomenon of mergers and acquisitions, from “East to West” both emphasizing the practical and theoretical aspects.

Keywords: Mergers, Acquisitions, emerging markets, China, Turkey

ÖZET

BİRLEŞME VE SATIN ALMALARIN YÖN DEĞİŞTİRMESİ LENOVO VE ÜLKER ÖRNEĞİ

Büyükçayır, Neslihan

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20. yüzyılın başından bu yana Dünya'nın ekonomik ve politik anlamda artan bir ivmeyle değişime uğramaktadır. Özellikle soğuk savaş sonrası dönemde artan küreselleşmeyle birlikte ekonomilerin birbirleriyle olan etkileşimi giderek artmaktadır.

Ülke ekonomileri için artık sadece iç pazarda büyümek yeterli gelmemektedir. Bunun yerine hem iç hem de dış pazarda büyüme hedeflenmektedir. Pazardaki oyuncular için büyümeyi besleyen en önemli kaynaklardan bir tanesi ise bileşme ve satın almalardır.

Birleşme ve satın almalar aynı ülke içinde olabileceği gibi ülkeler arasında da olabilmektedir. Özellikle ülkeler arası olan birleşme ve satın almalar dünya ekonomisinin globalleşmesinde önemli rol oynamaktadır.

Yakın zamana kadar ülkeler arası birleşme ve satın alma hareketi "Batıdan Doğuya" şeklinde gerçekleşmekteydi. Bunun sebebi Avrupa ve Amerika'daki firmaların daha fazla kaynağa sahip olmasaydı. Fakat kapalı ekonomilerin ortadan kalkması, artan küreselleşme ve gelişen ekonomilerden sonra bu durum "Doğudan Batıya" şeklinde kırılmaya başladı. Bunun en büyük göstergesi olarak Çin'de Güneydoğu Asya ülkelerinde ve Türkiye'de arta yatırım fırsatlarını sunabiliriz.

Bu çalışmayla birleşme ve satın almaların teorik ve pratik yapılarıyla beraber klasikleşmiş "Batıdan Doğuya" olan birleşme ve satın alma motifinin kırılmasını inceleyeceğiz.

Anahtar Kelimeler: Birleşmeler, Satın Almalar, Gelişen Ekonomiler, Çin, Türkiye

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ABBREVIATIONS

Emerging Market Economies	:EME
European Union	:EU
Foreign Direct Investment	:FDI
Brazil, Russia, India, China	:BRIC
Gross Domestic Product	:GDP
International Monetary Fund	:IMF
Million	:Mn
Mergers and Acquisitions	:M&A

1. INTRODUCTION

World has been into a dramatic surge both politically and economically with the beginning of 20th century.

There were number of phenomenal activities which changed the economical environment. One of the main ones is the growing number of mergers and acquisitions especially after the second half of the century and onwards.

Mergers and acquisitions can be described as follows: One firm buying another one partially or wholly.

This particular study will examine the mergers and acquisitions in the following order.

First of all, merger motives will be discussed. Merger motives are important because there is a theoretical and practical approach to it. There are many different theories for instance Efficiency Theory, Monopoly Theory, Empire Building Theory, Valuation Theory and Disturbance Theory. While explaining the theories, the synergies that are aimed to be formed through the parties will also be discussed through. For the practical side we will be examining the effects of globalization since it has a major impact on merger and acquisition decisions. Especially towards the end of the century, globalization paced up and the world market has become even more open.

Another main issue to be discussed is the forms of mergers. There are three types of mergers which are horizontal, vertical and conglomerate mergers. Horizontal mergers occur between the firms in the same industry whereas vertical mergers occur between the firms in the same production line, for instance between producer and the supplies. Conglomerate mergers are different than those two since it is been called to mergers that operates neither in the same industry nor in the same production line. There are numerous examples from each of the merger types. This research has a particular reference in horizontal mergers for the examples in the upcoming chapters.

Mergers and Acquisitions have a particular impact on the domestic market as well as they can have an impact in the global market. Also it is a solid fact that free economy is

nourished by free competition. Thus the impact that arises with the M&Aactivity should not hinder the competition. From this aspect, the use of competition policy in merger regulation, why and how are deals have been disapproved according to the competition policy will be discussed in the related part. Moreover we will be touching upon the point where politics are involved in global mergers and acquisitions especially in the case of EU.

Global FDI is seen either by Greenfield Investment or Cross border M&A. The difference between the two is another subject that is to discuss. Basically Greenfield investment is the type of FDI when a company starts off a business from the very beginning other than merging or buying another firm in the host country. How and why do firms choose one on other, which one is more beneficial to the host country, and how the global mood effects the choice are the questions to be answered.

Mergers and acquisitions were mainly the subjects attributed to bigger economies. However when we come to the end of the last century there was a new buzz word: Developing Economies. This particular term is used for the economies which have been on the move especially after the end of Cold War and the after opening up their economies. Few of the examples are East Asia; China, Singapore, Malaysia, Thailand, Russia, India, Turkey and so on. Developing economies are also interested in growing outside. This research mainly emphasizes the background of the developing economies in Asia and Turkey with reference to the global comparison.

There will be a special reference to the Chinese economy. As caught by everyone's attention there is a big debate about whether China will be the next hegemon. Although we do not have a specific answer for Chinese Hegemony we will consider the cross border M&A activity conducted by Chinese economy. One of the biggest acquisitions world economy has witnessed was the IBM-Lenovo case. Lenovo is a Chinese PC and PC units company. In 2005 Lenovo bought one of the world's mostly renowned technologies company IBM'S PC Unit. This acquisition is a strong example showing us that how a developing country enters into this much of competitive market by buying an American company. It has been a great milestone in realizing how the pattern "developed to developing country" turns "developing to developed country".

Through understanding the motives behind IBM-Lenovo case, there will be an emphasis in understanding how Chinese companies are motivated in cross border M&A activity. In short we can say that Chinese companies are highly motivated by market share seeking in another country, access to new technologies, enhancing their managerial capabilities and so on.

The second example of the study is the Ülker-Godiva deal. Ülker is very well known Turkish brand owned by Yıldız Holding which has been into different conglomerates before. Godiva, on the other hand, is one of the few famous brands in the luxurious chocolate market. It has been a great surprise for the world market when this merger has been approved.

Through analyzing Godiva deal, we will be focusing on the development of Turkish economy. There will be a major focus on 2001 crisis and onwards. This deal will figure out the motives of Turkish companies when looking for cross-border M&A. There will be a comparative analysis of the two cases. Also, both the examples will show us the similarities and differences of cross border M&Athat are conducted by developed and developing economies.

In summary, the aim of the study is to highlight the M&A activity conducted by the developing economies through focusing on the theoretical background and the practice. Also the main answer that we are seeking is whether the pattern of developed countries to developing countries has been changed to the opposite, developing to developed economies.

2. MERGER MOTIVES

2.1. THEORIES OF MERGER MOTIVES

Why do mergers occur? What are the motives behind that a company decides buying another one or do business together by sharing the profit?

It is for sure that the post merger analysis is more common in the literature rather than the analysis of merger motives. However, there are seven theories that the literature came up with. Theorists either focuses on the shareholders' interest or the managers' interest and through that reaches the shareholders' value maximization (Trautwein 1990, p.283).

According to the Efficiency Theory, two companies merge to achieve synergies. At this point, synergies are differentiated into three categories. Financial synergies create a cost reduction in capital. For instance by investing in an unrelated business company may create a risk reduction I the investment portfolio. Moreover, to smoothen the access to cheaper capital company may increase its' size. Last but not least, through establishing an internal capital market, allocation of capital would more efficient (Trautwein 1990, p.284).

Efficiency Theory has been challenged by Bondt and Thompson. According to their findings, increasing number of mergers is not always linked to macroeconomic indicators in terms of economic efficiency. In contrast to the general idea, they have showed that the target companies are not necessarily the poor market performers. They assert that efficiency motives have a less effect on merger decisions than other motives. It has been proclaimed as: "Our company-by company findings suggest that efficiency motives play less of a role and other motives are more of a role than is sometimes recognized. The results add to other disturbing facts: the long term stock market losses of bidder firms and the now wide agreement that conglomerate merger wave of the 1960's was a failure. Equally discomforting are the still unsubstantiated claims that take overs shorten managerial horizons, and interfere with efficient long term contracting." (Bondt and Thompson 1992, p.32)

On the other hand, although the economic environment is flourishing, the particular industry that firms compete can be distressed. In contrast, some economists claim that more mergers is better for the economy and surely reacts any kind of regulation that may impede with the M&Aactivity. This ideology has been challenged by Bondt and Thompson. They suggest that not all regulation is harmful to the society. Rather they suggest that government may be useful in overcoming the problems associated with the multi-party multi-issue negotiations (Bondt and Thompson 1992, p.33).

Operational Synergies are the second type. In this type of synergy, two companies combine their forces. For instance, combination of sales force, or creating know-how transfers. The motive is to create a cost reduction and/or coming up with a new product. The utility gained from the combination of forces should be greater than the cost of combining the assets (Trautwein 1990, p.285).

Managerial synergies come into being when the buying side is more superior in the managerial process and the target company will benefit (Trautwein 1990, p.285).

Another aspect that may challenge the theories is the managerial defensive motives as proposed by Gorton, Kahl and Rosen. Managers may be more interested in increasing the firm's size. Thus they would be more hesitant to be acquired. They may end up with the benefits of sole control. In order for a profitable acquisition, managers should be more comfortable in sharing the control powers. Researchers argue that in case of too much emphasis of private benefits of control, managers may likely to less profitable defensive acquisition, where they might enjoy a profitable one if they would have share the control. Furthermore, as research indicates, these defensive acts could generate a wave of unprofitable defensive acquisitions (Gorton *et al*. 2005, pp.3-5).

Financial synergies have been challenged by the idea that they cannot be achieved in an efficient capital market. According to the research, there is neither an evidence for systematic risk reduction nor a superior internal capital market. On the contrary, advantages resulting from size are still precise. Operational and managerial synergies are not often realized by the authorities (Trautwein 1990, p.285).

Financial synergies have mostly been attributed to conglomerate mergers with distressed or start-up companies. Fluck and Lynch assert this idea as follows: Since the manager's incentive compatibility constraints require that she receive part of a project's cash flows, companies with marginally profitable projects are unable to support outside equity. Furthermore, if the projects can not obtain equity financing than they can not raise debt financing either. In this setting, a conglomerate merger can then be viewed as a technology that allows a marginally profitable project, which could not obtain financing as a stand-alone, to obtain financing and survive a period of distress. For this reason, the conglomerate can raise more financing in total than in parts as stand-alone entities (Fluck and Lynch 1998, p.5).

Fluck and Lynch also challenge the idea of financial synergies. According to their research merger motives raises from the lack of capability in financing debt. Thus people are more into seeking mergers to overcome the financial bottleneck. However, as their research suggests, when the profitability of the less developed firm, financial synergy ends since the coordination costs may occur (Fluck and Lynch 1998, p.6).

Moreover, according to the prior research conducted, mergers increase the combined value of the both buyer and the target company. Also if the firm is more diversified, then it is most likely to be less valuable than the more focused stand alone companies (Fluck and Lynch 1998, p.6).

The second theory for merger motives is the Monopoly Theory. According to this theory, mergers come to being due to achieve market power. Firms that combine can cross-subsidize products. By this means, profits earned in one market can be used for higher market share in another market that they operate. Here we can give the example of Philip Moriis acquisition of Miller. Since smoking and drinking can be attributed as cross subsidized products. Also through higher market share, the competition rate declines. Also higher market share creates deterrence for the new entrants. These refer to the collusive synergies which ends up with no efficiency gains but rather a wealth transfer from firm's customers (Trautwein 1990, p.286).

The size of the firm, the distribution of the sizes of competent firms and the nature of the industry are the two factors that may affect the monopolization. Furthermore,

preceding facts also affect the merger motives. It has been showed by the research conducted by Gorton, Kahl and Rosen and stated as follows that Industries in which many firms are similar in size to the largest firm with profitable acquisition opportunities are prone to defensive merger waves if managers care a lot about benefits of control. However, industries in which firms are of very different in size are less prone to waves of unprofitable acquisitions. In contrast, they may display merger waves of profitable acquisitions if managers do not care much about benefits of control. In industries in which some but not all firms are of similar size, merger waves are most likely, because they occur if benefits are either high or low. The profitability of acquisitions tends to decrease in the acquirer's size. Large acquirers pay more while small acquirers tend to engage in profitable acquisitions. Firms of intermediate size sometimes engage in profitable and sometimes in unprofitable acquisitions (Gorton *et al* .2005, pp.3-5).

Furthermore, Valuation Theory supports the idea that mergers are executed on the basis that managers from the buying side have better information about the value of the targeted company. Unique information about the company or advantages that may result from the merger would add up to company's value. This argument has been challenged by the efficient capital market. Capital market requires that the stock price should be consistent with all the publicly available information. For instance if the buying firm has a unique information, he would show this in the bid. The stock-price would rise as the bid shows that there is aunique information. The new information therefore creates a winner's-curse situation for the bidder at the first place. Therefore it is not most likely to be achieved where there is capital market information (Trautwein 1990, pp.286-287).

In case of Empire Building Theory, mergers are executed by managers who are in the pursuit of the maximization of their own utility rather than the shareholders' value. It is not surprising that managerial glory plays an important role in the justification of a merger. The bigger the size of the merger, the greater popularity created for this theory. In case of Philip Morris bidding for Kraft, there were two sides that the theoreticians have divided: one is the management's synergy explanation and the other is the one supporting the empire building theory claiming management's inclination towards growth, new fields of activity resulting by the excess cash (Trautwein 1990, p.287).

Final theory that will be discussed is the Disturbance Theory which is based on the economic disturbances. In case of wave in the economy, uncertainty rises and expectations change. Buyer side may overvalue or undervalue the assets of the targeted side or vice versa. This results in a merger wave. This theory has been challenge by the following. This theory does not include an institutional framework. For instance the oil crisis did not create any major merger wave but in 1960s there has been a major wave with no particular economic disturbance. Also disturbances usually tend to have a sectoral nature therefore merger waves tend to have sectoral pattern (Trautwein 1990, p.290).

These are the theories for the explanation of merge motives. However with increasing globalization, theories are questioned in practice. To have a better understanding when two companies merge, both micro and macro level should be taken into account.

2.2. EFFECT OF GLOBALIZATION

Enterprises are likely to merge with another company to pull down the costs, to increase the quality of the product or service line, increase the product range, cost reduction in R&D and others. (Rekabet El Kitabı-Birleşme, Devralma ve Özelleştirmeler)

Mergers and Acquisitions will be seen much more in the global economy since the resources become scarcer. In this era, the market changes with an increasing speed. If the company is entering into a new market then it is more likely to choose an M&A. The buyer side is also in the chase for a product to increase their product range and/or diversify an already set product line. Acquisitions mostly increase the customer base. On the other hand, start up companies or companies that are relatively small, may end up in need for capital in the rapidly changing environment. Through mergers, capital necessity problem can be solved if the financial credentials of the buying side are strong (www.smallbusinessnotes.com, Mar 2011).

BBC also simplified explanation on why do companies merge in the global world? It is said that there are many motivations for mergers. One reason is expansion. A larger,

growing company may try to take over its smaller competitors in order to grow bigger. In some cases it is the smaller company that wants to expand, but this is challanged by lack of capital. It seeks a larger partner who will put in the necessary investment. Other mergers seek to make cost-savings by integrating operations, sometimes on a world scale. And some mergers are defensive, responding to other mergers which threaten the competitive position of a company (http://news.bbc.co.uk, Jan 2011).

BBC also explains about the timings of mergers. According to the article, they assure that mergers come in waves. This is a common belief that both the business world and academicians are agreed upon. When there is a stock market boom the shares are cheaper and the number of mergers increases when the buying company offers a higher value for the shares. The undervaluation of the targeted company may be appealing. Also there might be turmoil in the specific industry and therefore the companies in that industry may be forced to enter into an M&A. The globalization and the changing regulatory environment may also affect the global M&A market (http://news.bbc.co.uk, Jan 2011).

The article also provides information about why do the mergers fail. Foremost, if the two partners do not come to agreement, merger fails. Apart from that government regulations may prohibit the merger. If the merger creates inefficiency in the market of affecting the competition in a negative manner, the merger can be suspended. Also mergers may not reflect into reality as they seem on paper. The merged company may not create cost savings or the household's reaction to the merged company may be far beyond than expected (http://news.bbc.co.uk, Jan 2011).

Another research claims the fact that mergers should be examined by their economic rationale, behavioral, and their innovative activity after the merger (Berggren 2001, p.2).

Berggren assures that most of the companies merge, if the profit of the merges company would be higher than individual corporate. However, the main point is that how will the firms know if the combined profit will be higher? Since 1970's studies try analyzing the post-merger profit through using stock market reaction to the merger, by comparing

the annual or quarterly reports of the individual companies before merger and the merged company and finally through interview and survey studies (Berggren 2001, p.3).

It is not deniable that since 1970's world has witnessed great number of mergers and acquisitions. With the increasing rate of globalization, is more likely to estimate the facts after the merger. For instance, the two examples which this particular study will provide will be supporting the idea of the post merger benefit to both parties.

3. TYPES OF MERGERS AND COMPETITION POLICY

3.1. HORIZONTAL, VERTICAL, CONGLOMERATE MERGERS

Mergers are divided into three categories which horizontal, vertical and conglomerate. The merger definition is not openly made either in EU competition policy or in Turkish antitrust policy. However the definition is used in US antitrust policy in order to define the positions of the contractors in the merger and to solidify their effects on market competition (Aydemir 2005, pp.1-3).

Horizontal mergers are the types of merger which two companies do business in similar industry and producing similar kind of products. Through horizontal merging, companies aim to achieve economies of scale. By economies of scale we mean to reduce the costs in production, getting rid of the duplications and reduce the working capital and capital expense investment. Moreover companies tend to extend the product line as well as trying to maintain the market leadership. On the contrary, the horizontal mergers are investigated by the competition authorities in order to not to create a disturbance in market competition which will separately be discussed (http://www.economywatch.com Jan 2011).

From another point of view we can say we can say that horizontal mergers occurs between actual and/or potential competitors which buy or supply substitute products or services. The operation of the parties is conducted at the same level. Being at the same level of production produces a potential rivalry, which at the end benefit the consumers because of the risen competition (International Comparative Legal Guide to Merger Control 2010).

Thus, horizontal mergers benefit the merging sides under three categories. First, through maintaining economies of scope, parties affect the demand side. For instance, the marketing of the products, supplying the products by bundling, lining etc. are the terms under the economies of scope. Economies of scale however deal mainly with the supply

side. As said, the main benefit is on the cost reduction. It is for sure that two companies will end up in a higher production volume than on their own. Higher production volume results in a declined average cost per unit by decreasing the fixed costs through merging. Also, through economies of scale companies can create a financial synergy, diversification in risk, a higher growth, reduction in tax liability, and increase in market capability. Thirdly, horizontal merger would articulate a better dominance in the market than two companies operate separately (http://www.economywatch.com Jan 2011).

In short, horizontal mergers benefit both parties since their production range is substitute of each other (International Comparative Legal Guide to Merger Control 2010).

Turkish Competition Authority lists the anti competitive measures as price fixing, market division, concerted control of inputs and outputs, boycotts and entry deterrence (Peer Review of Competition Law and Policy 2005).

One of the major problems that can be associated with horizontal mergers in a given market is the elimination of competitors thus reduction in competition. This may lead to concentration of market power in the merged entity. Also if the merger occurs with a firm that is not already a player in that market, that will eliminate a potential entrant in that market, which in the end reduce the competition (Pilsbury and Meaney 2009, p.5).

OECD paper states the problem of barriers to entry in horizontal mergers that for entry to be considered a sufficient competitive constraint on the merging parties, it must be shown that entry is likely to occur if prices do move above competitive levels. This depends heavily on the associated sunk costs of market entry. Entry may be constrained by barriers such as technological advantages or the experience and reputation of a firm. Moreover, entry would be more likely to occur in a market that is expected to grow (Pilsbury and Meaney 2009, pp.5-7).

The technological advancement or company's position for consumers is not the case to dismiss the merger. However, any uncompetitive measures by using merging power are strictly banned.

US antitrust policy holds to guidelines referring to the merger regulation. These two are horizontal merger guidelines and non-horizontal merger guidelines. Although there have not been any specific explanation for the vertical integration, it is likely to understand that the mergers relating to upstream and downstream levels of one particular market falls in this category. Moreover, vertical integration can be defined as the merging of two parties that do business in different levels of production and distributing line. Here we may give the example of the producer and the retailer merger or producer and the middle distributor merger (Aydemir 2005, pp.1-3).

Since a vertical merger may occur in the raw material supplier and the producer, it may negatively affect the market competition through blocking others from accessing the raw material or distribution line. This is defined as vertical foreclosure. Moreover vertical integration may affect the pricing in the distribution line, and affect other producers in selecting raw material suppliers (http://www.economywatch.com Jan 2011).

Vertical Integration is encouraged for the following reasons. It creates a better certainty in the vertical production line from the producer to the customer. The merging parties eliminate one step which will result in a better access to the final consumer. Also the uncertainty regarding the demand side will diminish. On the other hand, it may certainly create a cost reduction in advertising, tax and production line (http://www.economywatch.com Jan 2011).

As in the case of horizontal mergers we should again considered possible effects of market power after the integration. Vertical mergers occur at the different levels of supply chain as we discussed. If there is significant market power at one of the levels then there should be more attention paid in reviewing the vertical integration. OECD defines the threat that may rise as that switching the alternative firms would limit the ability of a vertically merged firm to increase prices or reduce the level of service quality. In the absence of competing upstream competitors, vertical effects might lead to foreclosure of all downstream rivals and monopoly prices (Pilsbury and Meaney 2009, pp.5-7).

In Turkish Competition Policy, EU rulebook of vertical restraints is being used. According to the policy, resale price fixing, discrimination between similar parties, tying, and finally actions that may intimidate competitors and potential entrants are prohibited (Peer Review of Competition Law and Policy).

We understand that vertical integration may be discouraged when the merged company negatively affects the non-vertically integrated competitors by raising the prices of the same input or barrier the access to that input. This is defined as input foreclosure. Input foreclosure may affect the prices of the products offered by the down stream rivals (International Comparative Legal Guide to Merger Control 2010).

Also when the merged party in a vertical integration restricts the access to a specific customer base to its competitors in the upstream market this will be called as customer foreclosure because when they increase the prices of the supplies of the input which will make their downstream rivals at bay. The difference between the two is the in the former one restriction is based on the input, whereas in the second one restriction is on the supplier of the input (International Comparative Legal Guide to Merger Control 2010).

We can also refer to the definition of the OECD for input and customer foreclosure in vertical integration to see from a different angle.

In the OECD Review, Customer Foreclosure is defined as follows: Upstream suppliers are denied access to selling to downstream divisions of an integrated firm. This could prevent suppliers from having a sufficiently large customer base, which may be necessary to cover their fixed costs. As a consequence, more firms may decide to exit or not enter the market. Moreover, the Input Foreclosure is also explained as: The upstream part of an integrated company either excludes companies from purchasing their input or raises the costs of doing so. An integrated firm may also raise the costs of its downstream rivals by lowering the level of service quality supplied by the upstream company. Denying access to essential facilities is a particular form of input foreclosure (Pilsbury and Meaney 2009, pp.8-10).

Global Legal Group in Merger Contral Legal Guide adds to the incentives created by vertical mergers as follows: “Vertical mergers may create an incentive to reduce prices so as to internalize any pre-existing double mark-ups resulting from both parties setting their prices independently pre-merger.” (International Comparative Legal Guide to Merger Control 2010)

The third merger type is the one that can be named neither horizontal nor vertical. In other words, two parties does not operate in the same market or the does not operate in the different levels of the market and this merger type is called conglomerate merger. OECD defines conglomerate mergers as merging of two parties that are not in a relationship as competing or distributing to customer or not in a competition in the market actually or potentially. Court of First Instance defines the similar merger as merging of two parties that are not directly competing and not in a producer-supplier relationship (Aydemir 2005, pp.1-3).

Conglomerate Mergers are the all mergers that can not be named horizontal or vertical. In other words we can define them as mergers between firms that are activated in non related markets and which are not likely to raise any anti-competitive measures. Other than horizontal or vertical mergers they do not usually affect the number of potential or actual competitiors in a given market (International Comparative Legal Guide to Merger Control 2010).

The incentives that can associated with non-horizontal mergers may come from the fact that if one side of the merging party cut prices to boost demand in one market, the other side that operates in a different market may be affected if their production range contains complimentary products (International Comparative Legal Guide to Merger Control 2010).

Also, in case of independent suppliers we see the phenomenon of double marginalization. If the both parties are independent suppliers, they will only consider their own profit maximization not concern the revenues of the other party (International Comparative Legal Guide to Merger Control 2010).

Vertical mergers may create efficiency gains when two suppliers of complementing products improve the quality of the goods supplied under common leadership by reducing costs in production, investing R&D, reducing transaction costs thus making it easier for consumer to bundle the products, reducing cost by binding the advertising and marketing activity, by creating incentives in increasing the product range and etc (International Comparative Legal Guide to Merger Control 2010).

Global market has seen all of the following mergers. This particular research will be basically focusing on the examples from horizontal mergers which are Lenovo-IBM and Ülker-Godiva merger.

3.2. COMPETITION POLICY IN TURKEY AND EU

Before taking consideration over the examples, this study will put more emphasis on the basics of the competition policy and merger motives.

Competition is a favorable phenomenon in economy. The reason behind this favorability is because it generates a more efficient use of scarce resources than in the case of monopoly. Efficiencies that are generated by competition is divided into four categories. First one is the allocative efficiency. This occurs when the marginal cost of one unit product or service provided equals to the benefit of the unit to the consumer. Second is the productive efficiency where firms drag their costs back in order to increase their sales by price decrease. Thirdly, competition increases dynamic efficiency which promotes innovative environment with high number of investments. Finally competition promotes transactional efficiency where firms seek the least expensive ways of conducting transactions (Kolasky and Dick 2003, pp.211-213).

Since the increasing effect of globalization and the rising surge of merger waves, the issue of protecting the competition gained a greater importance.

In order to prevent the monopolization or cartels that are harmful to market structure in many countries there are numerous responsibilities of governments which are bilaterally and internationally recognized (Rekabet El Kitabı 2008).

If we look at the global environment, US took competition as a serious case and has a set of rules since 1890. Furthermore, EU had started competition policies in mid 1950's. Today European Union has a Directorate Generale on Competition and all the community members are subject to policies (Rekabet El Kitabı 2008).

In Turkey, according to the 167th Constitutional Provision, state is liable to create the environment for the effective working of the money, credit and commodity market and also should prevent the any written or verbal agreement that would damage the market competition. As of December 13th, 1994, Law No.4054 on the Protection of Competition came into effect. Competition Board started working by 1997 (Rekabet El Kitabı 2008).

In reviewing a merger, competition authorities' usual concern is the concentration of market power which may lead to significant obstacle for an effective competition. First they need to examine the market shares and concentration levels because mergers may cause a decline in efficient competition by eliminating a potential entrant in the market or by eliminating a player in the market. On the other hand, they examine any abuse of dominant position resulted from the higher market share (Pilsbury and Meaney 2009, p.11).

Competition Law in the global economy defines two major titles. One is the prevention of any agreements among the market players. Here agreements do stand for written and non written ones; anything that may result in cartelization. Other major title is the abuse of dominant position. Here, being the market leader is not restricted but any act that results in the harm of other smaller players is banned.

In order for a merger to be dismissed, the merged firm should lead to significant decrease in competition in the market that the product or service is offered which would harm and the consumer welfare the market definition should thoroughly be understood. The market definition possesses two major headlines: defining the relevant product

market and defining the relevant geographical market (Pilsbury and Meaney 2009, pp.11-12).

In the OECD Paper in 2009, the major headlines in defining the market is explained as that there are two dimensions to conducting a market definition: defining a relevant product market and a relevant geographical market. The former will include all the products which may differ by the time of day the product is needed, and the type of the purchaser, and the businesses supplying these products, that constrain the behavior of a company with regard to each of its products and, as a result, all those companies supplying services that end consumers regard as substitutes. The definition of the other determines the extent to which demand switches based in different locations and as a result whether a market is local, regional corridor- or origin-destination based, national or international in geographical scope (Pilsbury and Meaney 2009, pp.11-12).

Turkish Competition Act prohibits any merger or acquisition that creates or strengthens the dominant position of one or more enterprises. Thus competition is significantly hurt. Article 7 is mirrored in EU Merger Regulation. However, EU merger regulation has been renewed as of May 1, 2004 which is stated Turkey Peer Review of Competition Law and Policy (2005) as follows: Mergers and Acqusitions are to be barred if they would significantly impede effective competition, in the common market or in a substantial part of it, in particular as a result of the creation or strengthening of a dominant position."

According to a research, European Union has other factors in reviewing a merger. As it shows that EU is more inclined to review a merger; if the acquired company is a European company, both merging firms have a significant market share in the common market, all the American company in that specific industry have a higher market share, and finally if the merger price is relatively high. From these we can understand that EU authorities are concerned both politically and economically in reviewing the merger. There foremost concern is the protection of the common market in which they want European firms to dominate and the protection of European consumer which they want the welfare should be greater than the welfare of the consumers in the other merging country (Ozden 2005, pp.1413-1415).

The importance of competition policy rises from different necessities. One of which is to enhance efficiency. Efficiency is in the sense of maximizing consumer welfare and the better use of resources. In order for goods and services to be produced most efficient, there should be a workable competition. For instance if two companies in the same market producing the same product fix prices within an agreement, this will eventually lead up to higher prices for the given product. On the other hand production would be much less in contrast to the workable competition case. Moreover, in order to sustain efficiency in the market, small producers should be protected. Competition aims to prevent monopolization in a certain market, thus the small producers will maintain their position in the competition. This will lead up to consumer welfare overall by maintaining a price decrease as the supply will increase (Craig and De Burca 2008, pp.950-951).

In addition to the prior facts, EU has another major concern as indicated previously. European Community competition policy has always been in favor of creating a single European market by minimizing the force of small undertakings. EC law bans any action that would jeopardize the competition and common market, for instance tariffs and quotas are also included other than the misuse of dominant position, cartelization (Craig and De Burca 2008, p.951).

According to the Article 81 of the community Law, any agreement or concerted practice within companies is strictly prohibited. Thus any merger and acquisition activity that may eventually lead up to this particular issue will not be approved (Craig and De Burca 2008, p.951).

The other main article sustaining the competition law is the Article 82. The core of it is to control market power. However it should not be missed that Article 82 does not prohibit the market rather it concerns the abuse of market power. More particularly, unfair purchasing or price setting, limiting production, applying non-similar conditions to the same transactions are the issues dealt with article 82 (Craig and De Burca 2008, p.1005).

Merger Control in EU Regulation does not directly come out from the articles. There is a specific and separate EU regulation on mergers which coincides with Articles 81 and

82. The merging parties should before hand notify the deal to the commission in order for it to be reviewed whether or not it distorts competition in the common market or in a part of common market by creating or abusing a dominant position (Peer Review of Competition Law and Policy 2005).

Turkish Competition Policy is preserved within articles 4, 6 and 7 in Turkey's Law. Article 4 mainly prohibits agreements and concerted practices which is similar to Article 81. On the other hand, Article 6 is designed to prevent any abuse of dominance. Finally Article 7 is about mergers and acquisitions similar to EU merger regulation (Peer Review of Competition Law and Policy 2005).

We should also give a brief definition of US Antitrust policy. US Antitrust policy has been established by the Sherman At of 1890. The Act mainly prohibited every contract, conspiracy or combination which would harm trade, and also monopolization (Kovacic and Shapiro 1999, p.1).

However US Congress gave an opportunity to build up the competition policy. The reason is that the implications in the Act is mainly focusing on the economic concepts and should be determined accordingly (Kovacic and Shapiro 1999, p.2).

Economists have made two major contributions in maintaining today's Antitrust Policy. First they put competition to be the sole determinant of economic governance. In the 20th century, US Antitrust policy has been put together with policies that would favor government intervention in economy like planning, ownership management, or controls owner prices and entry. Economists have managed to show the negative outcomes of the facts listed and the benefits of competition. Second major impact of economists is to create a link between law and economics. Thus people who are in charge of amending law or reviewing a deal will be capable of understanding both the economical and judicial aspects of the particular situation (Kovacic and Shapiro 1999, p.3).

Competition policy in EU, Turkey and US also has clauses regarding the relevant market. Mergers and acquisitions are prohibited or approved regarding their activity in the relevant market. Relevant market is determined by the geographical situation as well as the industry and the customers. It is important to define the market well since the

effect on competition is very much correlated. PNS-Cargill merger can be an example for this particular issue. When Cargill bought 50% of PNS A.Ş shares Competition Authority in Turkey defined the relevant market as follows. Both companies were in the business of making starch and starch based products. The relevant market consider according to the criteria of corn starch market, wheat starch market, natural and modified starch market, sucrose and fructose sugar market. Since there was no disturb to the competition in these markets merger has been approved (Rekabet El Kitabı 2008).

Mergers and acquisitions are favored both domestically and internationally if both the buyer and the other side of the deal will benefit in terms of reducing cost, increasing the quality and the number of the products and services offered, also increasing the depth of R&D investment. Mergers and acquisitions falling beyond these are most likely to be prohibited both domestically and in international markets (Rekabet El Kitabı 2008).

Finally, one can always argue and comment on the fact that economic policies are correlated with political environment. Especially in cross border mergers, sometimes competition authorities may tend to find loopholes to prohibit the market from another country's intervention. One of the examples for this situation is the GE/Honeywell merger disapproved by the EU commission.

Honeywell is a player in the market for avionics whereas General Electric is a purchase of aeroplanes through its associate GECAS. EU Commission found a risk that GE may use the market power it possesses in the market where Honeywell is a player (Working Paper, Are Horizontal Mergers and Vertical Integration a Problem 2009).

Commission's decision for the merger is as follows (Case No COMP/M.2220 General Electric/Honeywell):

> *…it should be concluded that the proposed merger would lead tot he creation or strengthening of a dominant position on the markets for large commercial jet aircraft engines, large regional jet aircraft engines, corporate jet aircraft engines, avionics and non-avionics products, as well as small marine gas turbine, as a result of which effective competition in the common market would be significantly impeded. The proposed merger should therefore be declared incompatible with the common market pursuant to Article 8(3) of the Merger Regulation.*

GE/Honeywell integration is blocked because of the concerns that the merged company could distress the competition by excluding competitors by abusing market power in two or more unrelated markets. Because of these Commission could not find enough proof to approve the integration, thus it failed (International Comparative Legal Guide to Merger Control 2010).

4. GREENFIELD INVESTMENT AND CROSS-BORDER M&A

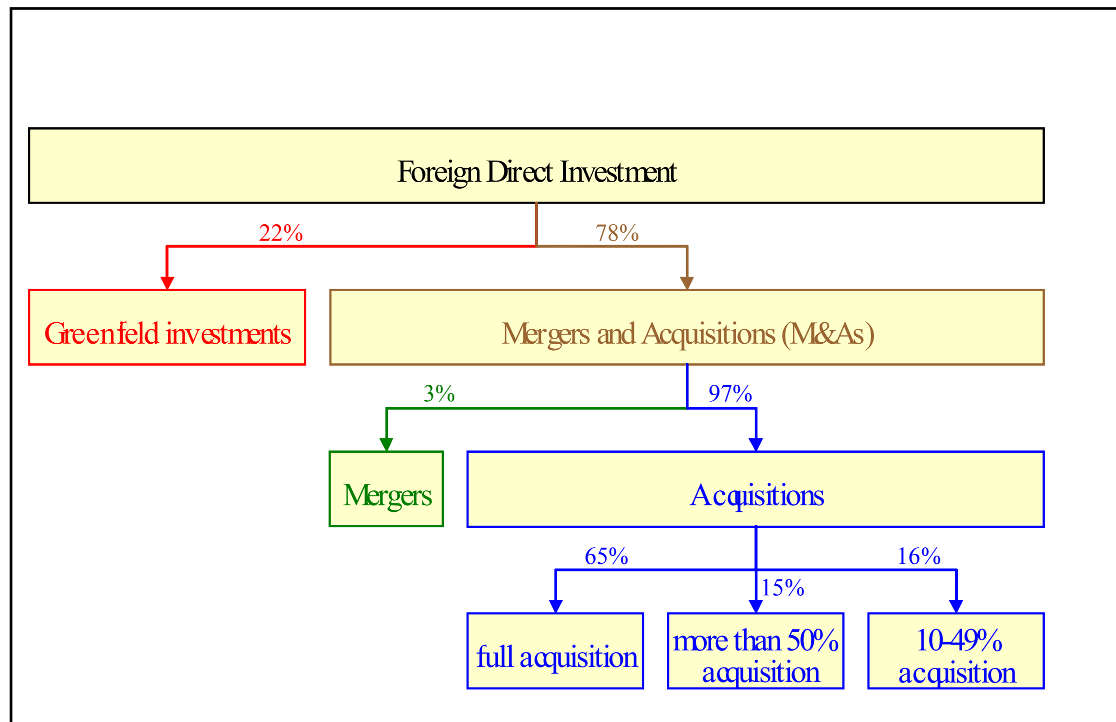

Figure 4.1 : Distribution of different types of FDI

Source: UNCTAD (2000); 78-22% in value terms, other % in number of deals

In Figure 4.1 we can see the distribution of different types of FDI. Mergers and Acquisitions has a significant share in global FDI movement. Also acquisitions are mıch more preferred than mergers itself. In the upcoming sections, the evolvement of FDI will be discussed.

Transnational companies (TNCs) rose in 1990s. The main reason behind this surge is the increasing growth in the international markets through globalization. Transnational markets were both in the regional and global level, meaning EU and NAFTA respectively. Policy liberalization, technological change and increasing competition enhanced the transnational market (Balaam and Veseth 2008, pp.364-365).

As the world became much more global, the countries began to seek more FDI inflows to boost the economic development and decrease unemployment rate. Countries began to adopt “Washington Consensus” policies which proclaim the free trade and capital mobility. Thorough this, countries aimed to attract more TNC investment. Economic groups encourage the trade liberalization thus when China entered into WTO the capital inflow they receive accentuated (Balaam and Veseth 2008, pp.364-365).

Change in technology, caused a decline in transportation and communication costs. Thus TNC s could reach beyond their usual domain. As domain gets larger, competition becomes much more visible. The search to find the cheaper resources with the same quality encouraged the companies to invest more in the developing economies. Thus FDI rate rose (Balaam and Veseth 2008, p.366).

Multinational or transnational companies may affect a foreign economy in five different ways. First one is with no direct investment. This happens when they export to the foreign country or when license local firms in that country. Second one is by investing directly which is as we will discuss by Greenfield investment. Third one is by acquiring/buying a local firm in a foreign country. Fourth one is by merging with another company in the host country. Fifth one is by entering into a strategic alliance with a local company (Lall 2002, p.3)

FDI and M&Aare driven mainly by the same stimulates. These are rapid technological change, elimination of economic distance, rising competition in the global economic world and liberalizing of economic policies (Lall 2002, p.3).

From another perspective, Neto, Brandao, Cerqueira concluded that economic growth plays an important role in attracting Greenfield investment. In contrast, this growth is stimulator in outward FDI for national companies through mergers and acquisitions (Neto *et al.* 2010, pp.1-3).

According to Wang (2009), before 1980’s the common phenomenon in the international market was entering through Greenfield investment. With the 1980’s companies tend to enter into foreign markets acquiring a local company rather than opening up a new branch which is a Greenfield investment. Also between 1987 and 2000 M&Aactivity

globally rose for 14 years. Total amount summed up half of the total FDI and in percentage it was equal to 82%. Because of the global turmoil experienced in 2001, global cross-border M&A fell 48%. With 2004, cross border investment rose to 58%.

As said previously, an investing firm can open up a wholly owned branch from start-up in a host country. This is the general definition of the Greenfield investment. On the other hand, if a firm chooses to buy shares from a company in the host market or wholly own the company, this will be the general definition of mergers and acquisitions consequently. Again in general, it can be said that Greenfield investment brings internal growth whereas M&As would end up bringing external growth. By definition, their implementation is different. M&A aims the internal expansion through external market trading and thus the target company can be referred as a commodity. Moreover, M&As usually do not effect the production capacity of the country in the beginning. From this point of view, usually host countries worry about market competition and structure. Mostly developing economies have concerns about their economic sovereignty (Wang 2009, p.240).

In order to succeed through Greenfield Investment Wang (2009) proposes that, the parent company must use the host company's organization and resources wisely. After comes the building up process by purchasing land and machinery equipment. One of the main differences between the M&Aand Greenfield is the difference in internal organization management cost versus market transaction cost where consequently Greenfield investors and M&A investors experience. M&As adjusts the market in the industry they take place, whereas Greenfield investment shifts the supply created by the industry in the given market. The motive in choosing the investment not only depends on the long run strategic objectives but also companies choose their investment method by business development strategies. By business development strategies we mean, creating a competitive advantage in the market through effective and efficient investment by creating a synergy with the host country in the host economy. Lenovo can be the example of the fact stated above. For almost Lenovo tried to grow as a regional company through Greenfield investment but after the merger with a worldly renowned IBM, Lenovo became a global company. Lenovo started growing externally rather than internally.

Market orientation usually results in weak competition and thus will lead in high profits in the industry. In this situation FDI is more likely to be end up with rather than Greenfield. On the contrary, if the supply is not matching the demand in the market, Greenfield investment would be best to enter, to achieve competitive advantage. What we understand is the market structure do have strong role in choosing entry mode. For instance; if the market is evolving, it is likely to see many investors. However, there will not be enough appropriate firms to be acquired and the costs were likely to be high. At this point, many investors would like to go with a Greenfield Investment. On the contrary, the market becomes saturated with enhancement of supply. Therefore it is not likely for the investors to enter in the market since the return will be zero and competition will be harsher due to the greater supply than the demand. Companies would likely to cut prices. In this kind of an environment companies mostly chooses M&A. Increase in M&A activity creates low costs, increase in production capacity and increase in market share. Furthermore, market competition is also determined by the industry cycle. The industry evolves through four stages: start-up, development, maturity, and decline. Through technology, industry experiences new products and techniques. At this point, company would like to go with Greenfield Investment since the competition is less. However, as the cycle reaches maturity step by step, competition goes hand in hand with it. At this point a firm seeks economies of scale and excess production capacity. Therefore best mode of entry is M&A (Wang 2009, p.241).

Competition is driven mainly by product and for production company is bind to resources. Thus, we may say that, the competitive advantage can be brought by the resources itself. However, the resources can be limited and may be naturally binding. At this point M&A with a company which has a better access in the resource would be the best way. China is a good example for this particular situation and their natural gas and oil company CNOOC is taking acquisitions in order to overcome the lack of resources. Another important resource for the companies is the human capital and knowledge. It is an asset and not easy to transfer not even within a country. Therefore, companies tend to choose M&A because they seek a competitive advantage through human capital, knowledge or know-how. Through M&A risks are reduced, costs in R&D and technological improvement are declined (Wang 2009, p.241).

In an industry as Wang (2009) states, where demand is volatile, a firm is tend to choose M&A for an investment because the investing company might lack in the forecasting of the demand changes in the industry and therefore should have to cooperate with the other party. If the industry is not volatile, then the entrant would choose Greenfield Investment. By choosing M&A, company gets into the industry immediately. However, with the Greenfield Investment, company becomes liable to the construction costs which take significant amount of time and money. German automobile company Daimler-Benz chose merging with Chrysler and created Daimler-Chrysler in order to take part in the US automobile market. By this, Germans avoided the costs of building new factories and entering into a new local market which they do not have experience in.

On the other hand Lall (2002) defines the different motives for different investment motives in a more summarized way. First she talks about the research and development aspect of mergers. Companies with low research and development budget are much more inclined to mergers with high technological advancement. In an opposite situation, where the buying company is richer in research and development capacity they tend to choose Greenfield investment method. Another interesting subject which Lall assures is that companies which operate in many different markets and/or in countries mainly chooses acquisition type of investment. Also within the last two decades companies which have an experience in the international arena are much more interested in acquisitions. Furthermore, since transaction costs of M&Aactivity have reasonably declined smaller companies are now more prone in acquisitions as well. On the contrary to this fact, up until the very last decades only bigger companies were more inclined towards acquisitions due to the high costs of transaction.

Next, Lall (2002) considers the effect of cultural and economical differences. According to her affirmation, as economic and cultural gap gets wider between the home and host company, the possibility of an acquisition declines. However, this particular research challenges itself by the content itself in the continuing examples of Lenovo and Ülker case. Nevertheless, one of the other major points of Lall's study is the power of brand value. If the brands of the target company have a greater advertising capacity, then this will lead the company to the acquisition model. Moreover if the target comoany has a

significant distribution power and knowledge of the local market the inclination towards acquisition is accelerated. On the contrary to the acquisition method, Greenfield investments present a greater possibility of structuring the system accordingly since acquired firms have their own systems, cultural and economical background which challenges the acquirer. Moreover, because of the reason stated above Greenfield investment create a greater possibility in the intracompany trade than the possibility of mergers or acquisitions.

As also stated within this particular research, acquisitions tend to increase with the increase of capital market imperfections which ends up with the undervaluation of company assets (Gonzalez *et al* 1997, pp.30-32).

We may argue from this point onwards by claiming that economic turmoils and crisis can end up with a decline in asset prices and increase in acquisitions. Eve further we can support this argument by the last major crisis of 2008-2009 where there were many companies sold to overcome the debt.

If we come to the case of horizontal mergers, the reason lies behind is the search for different markets, products and brands. Cost reduction follows these aspects (Capron 1999).

Both Ülker and Lonovo cases proves the prior fact. They were both the players of the same market with the companies they have acquired. What they were looking is to enlarge their portfolio, increase their know-how, playing in an international market and make their brand renown globally.

Next, we can refer to the technological aspect of the investments. Soon after the acquisition period there is a one way technology transfer from buyer to seller. Even this may occur in imposing way. Over time technology transfer becomes a two wy process from buyer to seller and seller to buyer (Bresmann *et al* 1999, p.440).

When we look at the advantages of M&A over Greenfield investment, we see that M&A's provide a rapid entry to the market and access to resources and assets like technology, networks, information etc. If the local market is distress this would also

create an advantage in accessing the undervalued assets. In the case of developing countries, the main advantage is to reach the technology. Through acquisitions, mainly by privatization, countires may reach the resources that may otherwise cannot reach (Lall 2002, p.4).

On the contrary, when we consider the disadvantages that may rise, we can see the cultural disintegration. This may lead that the merged firm could not be brought to international levels. This situation may come to being in developing economies since they have not been integrated in the international competition earlier. Global mergers and acquisitions have rapidly increase because transnational companies spent significantly large sums of money in buying other companies in other parts of the world. M&A's are much more favorable in global FDI rather than Greenfield investment (Lall 2002, p.4).

It has been also suggested that although M&As are mostly seen in the industrialized world, in the developing world this type of investment has a growing importance. In the host country, M&As do have a power in restructuring the existing facilities. It is also been claimed that mergers and acquisitions have the ability to reposition the firm in both the global and the local market, as well as restructure the networks in production, marketing and innovation. Lall also attributes to asset stripping which means the selling of useless assets to bring the enterprise in a productive operation (Lall 2002, p.4).

M&A's also differ from other types of FDI in channeling the investment directly. They do have a power, as said in the beginning, in creating synergies between national and foreign firms which may lead up to restructure of national economies in the global market more effectively, in accordance with the rising technological advancement. On the contrary, M&A's can lead to failure in circumstances where there is not an efficient capital market to allocate resources. Moreover the informational asymmetry may lead to wrong decisions, thus companies and/or host countries confront with high economic and social consequences. Also, the difference in interests may lead to dissatisfaction of both parties and failure of the deal. Nevertheless, there can be outflow of scarce assets and resources other than creating an efficient synergy (Lall 2002, p.4).

Thus companies have to analyze the pros and cons of each entry mode.

5.DEVELOPING ECONOMIES AND CROSS BORDER M&A

5.1. CASE OF ASIA

There are four features in analyzing cross border mergers and acquisitions. First one is, since it has discussed, it is most common FDI type. The second one is the companies which are considering a merger or acquisitions are generally market seeking companies. Thirdly, since it has been discussed earlier either, mergers come in waves. Fourthly, international deregulation of the markets and economic integration enhanced cross border mergers and acquisitions (Brakman *et al.* 2006, pp.5-7).

For most of the twentieth century, economic prosperity was only in the hands of the developed economies of the west. However during the last the two decades the so called underdeveloped economies were on the move to become a "developing "one.

It has been suggested that outward FDI from emerging markets is relatively small when comparing to the large scale economies, however sustain high growth rates (Böwer *et al.* 2009, p.4).

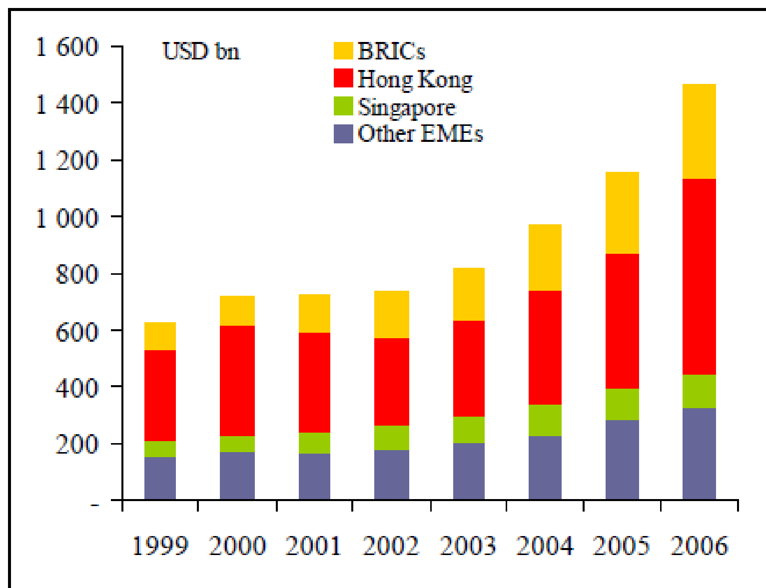

Figure 5.1 : EME overall outward FDI stocks

Source: (Böwer *et al.* 2009).

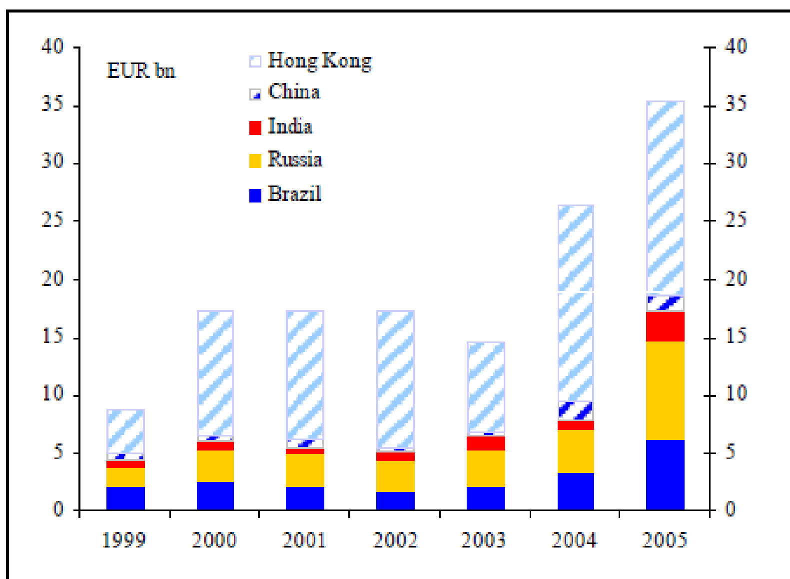

Figure 5.2 : Outward FDI stocks in the EU-15.

Source: (Böwer *et al.* 2009).

As it has been shown in Figure 5.1 and 5.2, FDI stock has significantly risen between 1999 and 2006. The amount of FDI from developing and emerging economies summed up to 13% of global FDI in 2005 (Böwer *et al.* 2009, p.4).

According to the Convergence Theory, poorer economies tend to grow more than the richer ones. The growth rate is the sole mechanism in reducing the gap between low starting values and higher starting values. This case can be explained by higher growth rates of Japan after their collapse in the Second World War. (Barro 1997, p:397)

As former theory suggests, emerging markets have an increasing potential in attempting outward FDI. Below we may see this by using UNCTAD outward FDI performance index for emerging markets. FDI performance is measured by country's share in global outward FDI divided by its' share in world GDP (Böwer *et al.* 2009, pp.4-5).

In Figure 5.3, above the line countries, are much more integrated in the world avarage in terms of outward FDI with respect to their own incme level. On the other hand, being below the line shows us the potential that those countries posses. As the gap becomes wider the amount of growth that may generate is higher as well.

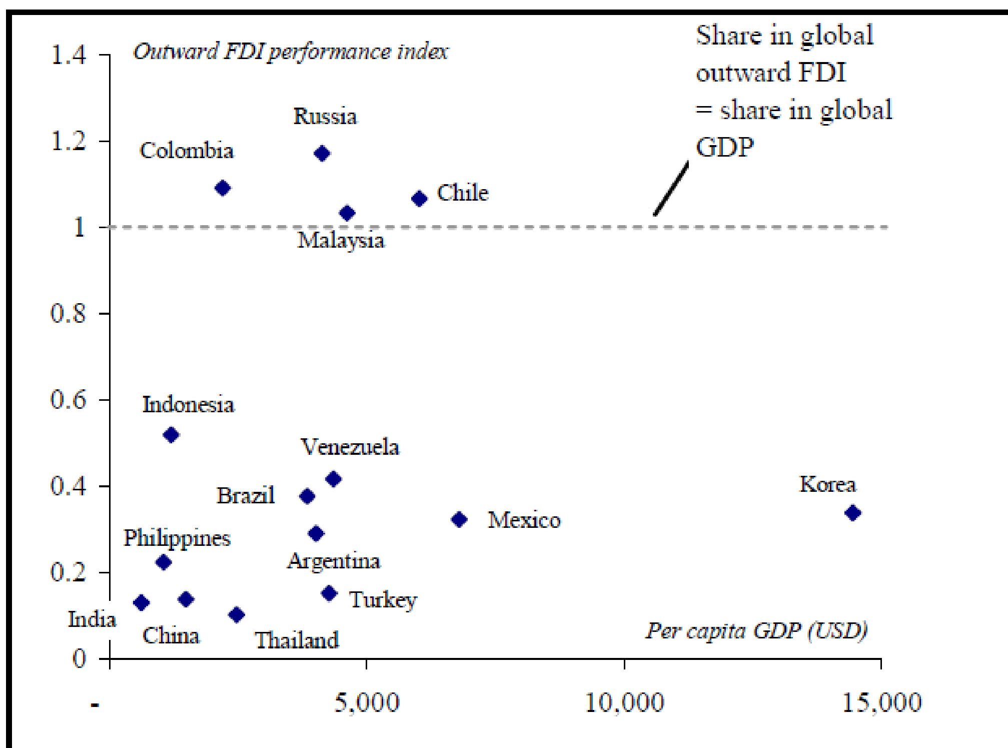

Figure 5.3 : Outward FDI performance index and per capita GDP

Sources: (Böwer *et al.* 2009).

Developing economies have experienced two types of model in general to find the way out for a developed economy. One is the inward looking model which has been practiced by the India and Latin America. This model was applied by France and Soviet Union earlier too. The other alternative serving their aim was outward looking model which has been experienced by the Asian Tigers and in the past, the post-war Japan development. With 1990's onwards, the models have been reshaped through the impending globalization. The globalization effect has added the issue of global opportunities and obstacles (Balaam and Veseth 2008, pp.370-375).

In the 2nd Copenhagen Conference on Emerging Multinationals, within the discussion paper prepared by Wenjie Chen and Alvaro Cuervo, it has been shown that target companies bought by developing country multinationals are financially less sophisticated than those bought by advance economy multinationals. The reason behind yhis phenomenon is simply because that many of the developing countries multinationals are financially less incapable of analyzing the performance of the target

company. This is due to the fact that most of the developing countries had been closed economies and/or colonies of the developed countries before they could establish their own market within the global one (Chen and Cuervo-Cazurra 2000).

In contrast to the previous argument, when we look at the post acquisition performance conducted by the developing country multinationals as the former article suggests, we see that it is greater than the acquisition performance of the advanced country multinationals. This phenomenon is explained by the cost cutting capabilities of the developing country multinationals. Developing country multinationals is more sensible in making cost reduction since consumers in those companies are more sensitive than in developed countries and has a lower level income when compared. Developing country multinationals usually compete by price reduction which makes them more resilient in a competitive market. Moreover, developing country multinationals are more into improving the quality of the machinery, direct labor and process used in production to seek a more efficient way in manufacturing. We may say that they are sophisticated in efficiency capabilities which in the end help supporting to restructure of the target company (Chen and Cuervo-Cazurra 2000).

We can also discuss the motives for M&A for emerging markets. These motives can be summarized into three categories. First one is the access to natural resources. Many emerging markets seemed to be interested in natural resources. One of them major ones is China. Second is the know-how and technology transfer. Former developing countries like Japan and Korea already established their position in technological advancement throughout years. Today's emerging companies want to merge with a strong player with know-how in technology and establish their brands. Third one is going global. By going global we can attribute it to expanding market power and distribution. With increasing number of players in the local market of the emerging market multinationals, they tend to seek alternative channels and regions in the global arena to boost their performance (Böwer *et al.* 2009, p.6).

In 1997, Asia has experienced a major crisis. As world got smaller with the increasing globalization, the turmoil in the world economy has spread to Asian countries as well. With the depreciation of Thai currency, the domino effect started and whole Asia

suffered from the economic downturn and got into recession. The negative impact has lasted up until 1999 which economic growth resumed since before the start. The uneven growth in the economy has been sustained until another turmoil in world economy in 2001.The recession caused a challenge in the manufacturing industries which has enormously impeded an outward looking economy. On the contrary, after the crisis, the growth rate in most the Asian countries remained above the growth average in the world (Krasilshchikov 2005, pp.6-7).

In contrast to the Latin American countries, Asian countries avoided the economic distortions while they were seeking inward looking development. The distortions that they have come across were high wages, high prices and exchange rate volatility which may favor some sectors in the economy. By avoiding the prior economical facts, Asian countries have maintained economic efficiency and flexibility; thus enhanced the saving rates and stabilized the macroeconomic parameters. The export-pushing model that the Asia have adopted became much more successful with the “state” factor. However, the affect of state in this case, does not mean a heavy involvement, rather avoiding the mistakes that may affect the export rates. The final effort that they have put into their development scheme is their encouragement in education. Eastern countries put a greater emphasize on “human capital” thus their policies became much more education oriented in seek for development (Balaam and Veseth 2008, pp.375-384).

With the latest crisis, whole world experienced a recession. There is an impending improvement in the world economy. Asian countries are some of the few that came faster from the depths of economic doom. Economic output has diminished more in Asia with the beginning of crisis, than the countries which remained in the center of it. Although they have been hit hard at the beginning, surprisingly as the world economy is improving Asia is the leader. The reason behind the fall of their economic output is the fall in international trade by the end of 2008 as US hit the button of crisis. US, in contrast, remain as their reason for pulling out of recession. As US economy normalizes, international trade rises. Thus economic activity in export oriented countries revives. The progress made by China is extra ordinary. The growth that they have been experiencing is far beyond their long term forecasts. With improvement of global financial market, companies in the developing world have regained their access to the

long-term debt, therefore equity financing. It is for sure that their greater return in the global economy is highly correlated with the positive mood felt overall (IMF Regional Economic Outlook 2009).

Asia’s role in the global world has been intensified by IMF as well. Strauss-Kahn emphasizes this fact as follows in 2009: “I believe that Asia should play a leadership role in guiding the global economy to a new, more sustainable path for growth. This is not only appropriate given Asia's economic weight but also necessary, since Asia is such an important part of the solution.” Kahn’s priorities for the recovery of the global economy were global rebalancing, strengthening the international monetary system and creating a safer and more stable financial system (www.imf.org, Jan 2011).

Dominique Strauss-Kahn himself called Asia to lead the global economy. He said that Asia’s economic weight will help the world to pull out from the ongoing situation. For him the reason behind their surge is their fundamentals and the quick responses to policy changes. It is also added that their quick adaptation of policy will help them in the new challenges in the post-crisis environment. Kahn underpins the importance of domestic and regional demand in times of recovery (www.imf.org, Jan 2011).

Kahn’s priorities can be explained further. By rebalancing global demand, he mainly emphasizes on managing the demand. In countries where there is current account deficit, their main issue is to increase national savings. Therefore they should undergo a fiscal reconciliation. On the other hand, where there is current account surplus, in China for instance, they should boost the domestic demand. By supporting high return investment capital surplus will reduce and domestic demand will rise. There is a high potential for investment in Asian countries in many areas like education, infrastructure and technology. To support the international monetary system, there should be a linkage between the resources of IMF and Asian countries to achieve a sounder credit line offered by IMF itself. Thanks to the adjustment made after the Asian crisis in 1997, Asian financial system has not been under the same pressure that many developed countries have suffered from. Kahn advises to maintain the already settled financial institutions and framework however should keep alarmed as well and learn the lesson to

go forward. While moving ahead, region will use the savings to boost the domestic demand (www.imf.org, Jan 2011).

Kahn also emphasized the representation of Asian countries in G-20 and the positive affect that it would create in reshaping the financials of the global economy. He said that IMF is looking for ways to engage more in Asia. The fund is interested in linkages between ASEAN and other regional groups as well (www.imf.org, Jan 2011).

Multinational Corporations (MNCs) from emerging markets has shown interest in FDI about 25 years ago within a small group of countries like Argentina, Brazil, Hong-Kong, India, Korea, Singapore, and Taiwan started to focus on cross-border M&A. With 1980's onwards, Chile, China, Egypt, Malaysia, Mexico, Russia, South Africa, Thailand and Turkey joined the group of the first-comers stated above. On the contrary, since 2003, the growth rate of outward FDI from developing markets started to pass beyond the growth by developed countries' MNCs. Some examples of the developing countries MNC's are as follows: Cemex which is an industry giant from Mexico used acquisitions in US, Wind, Italian based company bought by Egyptian Orascom, and P&O is bought by DP World of Dubai. While in 1990 outward FDI from developing countries accounted 147 billion, it rose up to $ 1trillion (OECD Working Paper no: 257 2006).

Overall together with other countries developing economies percentage in worlds outward FDI stock rose up to 13% in 2005 (OECD Working Paper no: 257 2006).

In table 5.1 and 5.2, we may see the summed up data of the M&A's by the acquirer country and the target country.

As we can see in Table 5.1 the leading acquirer company is Singapore and the target company with highest outward FDI from developing countries is EU-15.

5.1 : Overview of M&A cases by acquirer country, 1999-2008Q1

	1999•2003		2004•2008Q1		1999•2008Q1	
	Number	Value	Number	Value	Number	Value
Argentina	12	353	20	3,807	32	4,161
Brazil	18	3,529	59	34,543	77	38,072
Chile	7	302	35	1,512	42	1,814
China	31	2,069	143	27,038	174	29,107
Colombia	4	198	15	2,065	19	2,263
Hong Kong	113	6,778	360	13,028	473	19,806
Indonesia	0	0	13	509	13	509
India	65	2,166	261	20,481	326	22,647
Korea	31	923	95	11,130	126	12,053
Mexico	29	11,748	48	30,754	77	42,502
Malaysia	64	6,097	149	6,571	213	12,668
Philippines	2	42	20	906	22	948
Russia	68	4,629	179	31,260	247	35,889
Singapore	213	25,398	523	67,610	736	93,008
Thailand	11	648	18	398	29	1,045
Turkey	14	828	16	1,399	30	2,227
Venezuela	3	38	6	91	9	128
Total	***685***	***65,745***	***1,960***	***253,102***	***2,645***	***318,848***

Source: Authors' compilation from Zephyr Database (Böwer *et al.* 2009).

Table 5.2 : Overview of M&Acases by target country, 1999-2008Q1

	1999•2003		2004•2008Q1		1999•2008Q1	
	Number	Value	Number	Value	Number	Value
EU 15	108	7,817	259	50,877	367	58,694
Austria	2	4	2	12	4	17
Belgium	2	473	13	4,403	15	4,876
Denmark	1	1	4	209	5	210
Finland	1	100	6	922	7	1,022
France	7	1,702	22	1,813	29	3,514
Germany	13	480	21	1,553	34	2,033
Greece	0	0	1	153	1	153
Ireland	4	192	7	608	11	800
Italy	3	40	19	3,939	22	3,979
Luxembourg	1	50	6	2,483	7	2,533
Netherlands	10	1,746	24	4,833	34	6,579
Portugal	3	94	6	837	9	931
Spain	6	346	39	1,017	45	1,362
Sweden	2	125	3	155	5	280
United Kingdom	53	2,465	86	27,940	139	30,405
Australia	29	10,747	96	36,857	125	47,604
Canada	6	34	51	41,670	57	41,704
Japan	8	61	40	2,223	48	2,285
Switzerland	5	1,058	6	863	11	1,921
United States	127	10,230	175	21,311	302	31,542
Remaining countries	402	35,797	1,333	99,302	1,735	135,098
Total	***685***	***65,745***	***1,960***	***253,102***	***2,645***	***318,848***

Source: Authors' compilation from Zephyr Database (Böwer *et al.* 2009).

Table 5.1 and Table 5.2 shows us that there is an increasing number of M&Afrom emerging country multinationals. This has a positive impact on global financial integration. The increasing amount of FDI to EU-15 countries means a new source of capital which eventually pointing those countries as an

attractive source of investment. Both parties benefit the multinational bonding in terms of risk sharing. Risk sharing makes them resilient to region specific shocks and economic turmoil (Böwer *et al.* 2009, pp.8-9).

Moreover, Böwer, Fernandez and Thimann finalize their findings by attributing to EU's Lisbon Agenda. One of the main aspects of EU's Lisbon Agenda is to create a structural reform that will eventually nourish knowledge based economy. Since emerging company multinationals are more inclined towards western businesses they will eventually acquire western business know-how and technology (Böwer *et al.* 2009, p.19).

For instance for the case of Turkey, adopting western business structure through increase number of engagement with European firms will eventually lead up to high skilled work force, comparative advantage, decline in unemployment level. Micro level graduation in the economy may also have a positive impact on the candidate status of Turkey as well.

It is truly seen that there has been a stronger emphasis on the developing economies. Europe and US pioneered the 20th century economy. Once those countries were developing but today there is a shift in the motive of the global economy. We can not deny the fact US still is the global power, however day by day the East rises. Especially there have been debates about China whether being the next global power.

5.2. CASE OF TURKEY

If we look at Turkey, other main character in this particular study, it's power in the Middle East, South East Europe and even in Asia is not mistakable.

Turkey had suffered from a major crisis in 2001. Since globalization phenomena turns the world into a village, the crisis experienced in different parts of the world, Latin America, Russia, Asia, spread to Turkey as well by the beginning of the new century. After the collapse of Turkish economy, Turkey had rough times to sustain the growth

back. Since 2001, Turkey had committed to sound economic policies to achieve growth. One of the major problems was the high inflation and interest rates were declined. In 2004, inflation rate has declined to single digits (9.3%), which is the first time in 35 years. It has been a major success since during the crisis period inflation have risen 70%. Moreover, Turkish economy became one of the fastest growing economies. During the recovery period many key sectors have been liberalized and financial sector and the business environment have been restructured since the fall of the economy (World Bank Country Economic Memorandum 2006).

Turkey's main aim is to match the economic parameters into the levels of first tier EU countries. Beginning with the candidateship, EU became a major anchor in sustaining sound macroeconomic stability where the income gap would eventually converge to EU level. Also Turkey is trying to raise the per capita income which would equalize with the wealthier economies of the European Union. All of the positive aspects stated above have also affected the FDI inflows. More ad more companies and individual investors show more interest in investing the country (siteresources.worldbank.org, Feb 2011).

It is not deniable that, the end of contagious crisis and the good mood in global economy have favored Turkish economy. However, Turkey has a matter of delicacy in current account deficit and high unemployment rate. High current account deficit with increasing inflation rate may affect the decline of interest rates which would eventually impact the fiscal balances and public debt. Moreover growth in Turkish economy could not create enough jobs to pull down the unemployment. Turkey's working-age population is significantly higher, thus if Turkey can manage to use the resources effectively to create jobs then it will generate higher economic output in the future (siteresources.worldbank.org, Feb 2011).

Thanks to the last global crisis, Turkish economy had another turbulence as with the other emerging and developed countries. On the contrary to the many emerging countries, preventions and reforms taken with the banking crisis of 2001 have helped Turkey to rebound the last global crisis. Turkish case is very similar to Asian developing countries since it is also an export oriented country. With decline in foreign demand and confidence, there was a sharp decline in the output. Also unemployment

rate reached to 14 percent in 2009. On the contrary, second quarter of 2009 was the start of the rebound. There was an upturn in export and private consumption. Cumulative GDP increase from the lowest point to the first quarter of 2010 was calculated over 10 percent (www.oecd.org, Feb 2011).

Liberalization of capital account has helped with increasing capital supply to Turkey. Real interest rates have declined, and availability of funds widened. This has a positive impact on both the recovery from the crisis and the medium and long term growth. To help to boost the integration to the global capital market, Turkey should focus more on the fiscal situation, trade performance and political stability to increase its credit rating in the future (www.oecd.org, Feb 2011).

OECD Turkey Desk, explains the sustainable growth parameters for Turkey. First since Turkey had survived from the crisis in a more reasonable way, the foremost subject is to maintain an even stronger and sustainable growth. It has been mentioned by OECD is that there are two major areas that Turkey should focus on. One of them is macroeconomic sustainability which leads in high credibility. Other one is maintaining a microeconomic efficiency (www.oecd.org, Feb 2011).

By focusing on macroeconomic credibility Turkey should be focusing on reducing macroeconomic vulnerability. To achieve this macroeconomic policy should be predictable by maintaining a better fiscal transparency and completing disinflation. Also Turkey’s external balances should equilibrated by bettering price and non price competitiveness (www.oecd.org, Feb 2011).

On the other hand for the improvement of microeconomic efficiency productivity gains should increase. Thus informalities should be banished. Growth of bigger and more modern companies/firms should be boosted. These players along with the others should be able access capital markets, professional workforce and global cooperation. Also labor regulations should be liberalized and there must be a reduction in labor costs. By these two prior means labor utilization should be facilitated (www.oecd.org, Feb 2011).

All of the criteria stated above are aiming a better standing for Turkey in the global arena. Through high macroeconomic efficiency Turkey’s positions in the global markets

will be much more credible. Especially after the crisis where there are many economically bigger countries suffered more, Turkey stands a better chance in proving itself a sustainable developing country.

As we can see there are many similarities among the developing countries from Asia and Turkey. They have gone through similar crisis which helped them to reframe their economies. This restructuring have helped them to rebound from the latest global crisis. The working age population has a significant potential in increasing the GDP. As the international trade rises through time, their potential for growth will be much more visible in the future.

Turkey's candidate position in EU has a positive impact on maintaining a sound economic performance. Because of the disparities in Euro-zone, and the ongoing financial imbalances in the new comers, made Turkey to stand out. On the other hand, Turkey has a growing potential of working age population, in comparison the aging European countries.

It is not deniable that there is a much more significant wiggle in the emerging economies after the crisis. This change will definitely affect the global pattern.

With emergence of globalization, the last century has seen different types of merger waves. These waves had different motives for merger which market seeking through cartelization, inter-firm alliances or asset seeking activities can be given as example. However, as technology evolves through time companies wanted to have an access to new techniques and completing technologies in research and development, also reducing cost spent in R&D (Jiang *et al.* 2007, p.3).

Developing countries involve in cross border M&A by the four of the following; market, efficiency, resources, strategic assets. Developed countries tend to secure the market position or to increase market share in strategic markets. After 1980's, the end of communism and closed economy, developed country firms came across to increasing market opportunity although most of the countries still needed to reform their economies and investment policies (Jiang *et al.* 2007, pp.3-4).

Cross-Border Mergers today constitutes 85 percent of world's foreign direct investment. Another complementary argument proposed is that through industrial globalization motives of M&A differentiates to get a greater comparative advantage meaning to find new market opportunities in high-technology sectors, competitive technological infrastructure, sound human capital and valuable brand names. M&A's took place among a range of industries including mature manufacturing sectors, service and technology field. The main of the companies involved in cross border M&Ais to achieve a global comparative advantage by strengthening their core businesses or a desire to reduce competition in global markets. On the other hand, emerging countries, gathered 27% of inward cross-border M&Aduring the period 1991-1998. Up until the Asian financial crises of 1997-1998, there has been a rapid increase from $14 billion to $108 billion from 1991 to 1998. With the negative impact of the Asian crisis, although some of the emerging markets like Korea experienced an increase in M&Avolume, in general developing countries encountered a 27 percent decrease which they have never witnessed in 1990's (Kang and Johansson 2000, pp.6-7).

The situation does not much change in case of outward cross-border M&A's. US, UK, Germany, France and Canada dominate the overall outward M&Avolume during 1991-1998. European Union accounted roughly the 50 percent of overall outward M&Ain the same period (Kang and Johansson 2000, pp.6-7).

6.CROSS BORDER M&A-CASES

6.1. LENOVO-IBM CASE

Although most of the research have been made in the perspective in developed countries and ones in developing countries seen as resilient partners, through the rise of the East literature have changed accordingly. According to UN World Investment Report in 2006, China is the first in Asian countries with the increasing number of transnational firms (Jiang *et al.* 2007, pp.10-11).

According to recent research Chinese firms motivated by strategic asset seeking and in more detail by technology seeking in merging with developed country multinationals. On the other hand with increasing scarcity in resources, other developing country multinationals tend to merge due to resource-seeking. Chinese motive can be justified by to reduce competition in the market and getting ahead in technological advancement (Jiang *et al.* 2007, pp.11-12).

Moreover, Chinese firms sought to have more alliances with the western world with their entrance in the WTO. Chinese companies would likely to learn more about the international market, since their economy has not been open to the western economy, through making alliances with the western world (Saebi and Dong 2008).

Saebi and Dong assures that there are four motives for Chinese companies in forming alliances with the western economy. First is the access to international market. Since many of the Chinese companies lack in the know-how, they would much likely be vulnerable alone in the global competition. Thus they sought forming alliances (Saebi and Dong 2008).

The first affirmation is most likely for any country seeking a market share in another market. This would definitely be applicable in Turkish Ülker and Godiva case where although Ülker is a powerful and well-known brand, it was the first when they were entering the luxury chocolate market with widely renowned brand.

Second, the access to technology and technology related products is a motive for Chinese companies in forming alliances. Some of the Chinese companies do lack in the technological advancement. Therefore in order to increase the product range and offer widely competitive products, they want to form mergers with companies which are developed (Saebi and Dong 2008).

Thirdly, Chinese companies may usually seek to enhance their managerial capabilities. The reason behind this fact is that many of the Chinese companies were owned by state and they were privatized not long ago. In order to compete in the international market, management skills should be changed. Thus they are interested in business partners who have competed in a competitive market (Saebi and Dong 2008).

Finally, Chinese want to reach for the partner's intangible assets. Chinese capital market is rather unstable in comparison to the western economies. Thus, to be a financial player in the capital markets, Chinese companies would like to form bonds with an international partner. On the other hand, Chinese companies aim for reputation in the international arena. They use the names of the western companies, in order to draw attention (Saebi and Dong 2008).

Chinese Lenovo's acquisition of IBM's PC is a strong example of how a developing country might enter into technology market in a developed country.

In 2005, Lenovo group bought IBM's personal computing division for $1.25 billion. Lenovo group aimed to found a global technology manufacturer. In order to erase the financial, corporate and cultural asymmetries, Texas Pacific Group, General Atlantic Partners, and New Bridge Capital took part in the acquisition process. The lesson after the acquisition can be explained as follows. This was one of the milestones in China's economic history and more Chinese MNC will emerge globally through cross border M&A. This section will present the Lenovo-IBM case before and after the acquisition (Ackerly and Larsson 2005, pp.2-3).

The underlying issues behind the acquisition definitely present a win-win game. First, the business itself is complementary across borders. China is a growing economy where there is huge technology market potential but also represents a different cultural which

developed world is not very familiar of. Moreover, IBM's financials were not sound as numbers present: net loss $258 million in 2003, $171 million in 2002. Personal computer part also did not fit in overall IBM business plan. Before Lenovo, private equities came with an offer to buy IBM-PC. What they had in mind was cost savings and to focus on consumers in emerging markets (Ackerly and Larsson 2005, p.3).

Before the acquisition, Lenovo had a market share of 27 percent and gross margin of 13.3% in China which made the company market leader but it was not a global player where IBM was operating in 160 countries worldwide. Also IBM had a brand value associated with innovation. Also IBM has service capabilities. The combined business was to create the the 3rd competitior in the market, overall 8 percent market share across desktop, laptop and consumer segments, global market reach and for Lenovo 72 percent of sales to be outside China. Furthermore, the acquisition would end up in large cost reduction. The impact of cost reduction is explained as follows by Ackerly and Larson : "The parties estimated that Lenovo-IBM's scale would create cost synergies of $150-200 million a year on procurement savings alone,as Lenovo could get better pricing on such components as Intel chips by purchasing in bulk." Analysts have estimated that these procurement savings account for 60-70 percent of total savings. These benefits would be further enhanced by sharing of best practices, consolidation of vendor lists, and increasing the use of standardized parts by consolidating product lines. In addition, analysts estimate that Lenovo and IBM would be able consolidate 16 functional areas achieving savings of $10-30 million. Revenue Synergies from the deal was also expected to be high by the parties and the private equities involved. Low cost products by Lenovo were to be sold in emerging markets with IBM's extensive distribution line. On the other hand, it was expected that after the deal, Lenovo would steal market share from the Dell and HP (Ackerly and Larsson 2005, p.9).

IBM is the parent company of IBM PC unit. Before the transaction IBM PC had to be carved out from the parent company. This was a major risk defined by the private equities involved. PC unit was benefiting from the parent company in sales and distribution, finance and accountancy, global renounce, human resources etc. The interconnectedness and dependency added extra risks in the purchase agreement of IBM PC. Other than that, financial transparency of the unit itself was hardly to monitor

because of the high dependency on the parent and its' resources (Ackerly and Larsson 2005, P.12).

Among the most east-west cross border M&A in the world, one of the issues that arises is the cultural motives of the companies. It is for sure that US firms and Chinese firms do have different company culture. IBM has the American business mind where Lenovo was established by the Chinese culture. Moreover, IBM was worldly renowned company with a diversified line in logistic and manufacturing. The acquisition had to end up with low operating costs globally with a different cost infrastructure. This also meant that Lenovo should change the IBM's operating loss to operating profit. The challenge is that it is not very common to a less developed country firm is on the buyer side of the equation (Ackerly and Larsson 2005, p.12).

Cross border M&A moves have always a side touching the politics. In US when Lenovo's acquisition attempt was announced, US politicians were anxious about the Chinese government through Lenovo will be using IBM's technology in spying Chinese army. Even Congressmen argued that the US technology and company's corporate assets may be in danger of transferring to the Chinese government. They were also intimated the fact that Chinese Academy of Sciences was one of the big shareholders of the Lenovo. At the end another risk posted after the US Committee of Foreign Investment investigation which is the fact that IBM might lose its contract to US government which is the 7 percent of its sales approximately (Ackerly and Larsson 2005, p.13).

The uncertainties listed about would demolish the company's future market share which was also declining recently. It is because that Dell and HP, two major competitors in the pc market will use the time, which was to be affected by the uncertainties, between the announcement and the close of the deal to target the IBM pc customers. After the deal and resurrection in the market, IBM might need aggressive pricing but that would lead to decline in profitability and make the deal unsuccessful (Ackerly and Larsson 2005, pp.13-14).

Furthermore the customer affiliation to IBM's "ThinkPad" might be deteriorated. To the consumer it is not easy to match the high brand value IBM to merge with low brand value Lenovo. Also since Lenovo would lose to use IBM name after 5 years from the transaction, the company had to spent much more money on the recognition of the brand worldwide (Ackerly and Larsson 2005, p.15).

After the first year of the acquisition Lenovo achieved the first year objectives of smooth transition, stability and profitability. The model they keep prosecuting was targeting a diversified through large companies, small and medium sized enterprises and also private customers. After the smooth transition which Lenovo was aiming at the first year, they also gained a significant growth in profit in China and noticed a global market share worldwide. Lenovo's primary focus was IBM's "Think" trademark and ThinkPad notebook and desktop line before launching Lenovo 3000 series outside China. Lenovo for the first time brought sales and distribution channels outside China and targetted focusing on faster growing and emerging markets for instance India in 2006 (Siddhanta and Chakraborty 2008, pp.10-11).

When acquisition is realized, market analysts reacted negatively. IBM was the 3rd company in the global pc market after Dell and HP before the Lenovo acquisition. It was reported that the market share and therefore profitability loss was due to high prices. The total loss was about $965 million during 2002-2004. Lenovo started using IBM's technology (which is used in "Think" series) in its own products but offered a cheaper price compared the prices of IBM before the transaction. The new company was now mainly targeting the small business market and competing with those two, Dell and HP, through aggressive price strategies. However, the analysts remained skeptical, because even if the product is cheaper the western consumers will be more likely to affiliate to products of Dell and HP. Furthermore, analysts have argued the fact that most of the manufacturers started producing in Asia due to the lower cost concerns. Further, customers might change their preferences if they see a change in the quality or other services provided after purchasing the product. Not surprisingly, customers have proven the fact that they care the quality more than the price which became a challenge for Lenovo to assure that quality of the products is still superior although the price is low (Siddhanta and Chakraborty 2008, pp.13-15).

However, Lenovo became aggressive in the brand building process. First they removed the IBM brand from the advertisements. They kept "Think" name and IBM logo on the Lenovo's laptops. For the first fiscal quarter of 2006, company announced $3.5 billion revenue which meant 38 percent increase to 2005. Analysts also criticized the financials. They accused the data misleading and claimed that 2005 data summed the two months, where 2007 data is the sum of three months. That one month, according to the critiques, made the company look like they have grown 38 percent more in revenue compared to the previous year. Also in 2006, Market analysis showed that PC shipments of the company grew by 14%, where worldwide average remains at 11% but analysts here challenged this fact by claiming that China boosted the growth however in other parts of the world Lenovo faced aggressive pricing strategy from Dell and HP. Further, Dell kept attacking the company by openening up a manufacturing plant in Asia to be more active in Asian markets. Although Lenovo could maintain higher sales volume in US market by its new series, the retail and direct sales performance was below the US average. Also customers were complaining about the long waits and the lack of the services provided after (Siddhanta and Chakraborty 2008, p.16).

The challenges proposed by the various analysts are mostly the views from the skeptical American market which was highly disturbed by the Chinese intruder. In 2006 Lenovo took the sponsorship of the Olympic games with companies like Visa International and Coca-Cola which leveraged the companies brand value worldwide. It was also a bold move to stop using the IBM name that quickly. It helped their brand building. By launching their new series by their own name in 2006, they targeted small and medium sized enterprises and private consumers. Through that they also gave the consumer and opportunity to choose Intel and AMD base systems. The new series raised the brand awareness not only in China but worldwide. They also kept selling "Think" products of IBM to large enterprises and governments to not lose the market share. After the first quarter of the fiscal year 2006-2007 company started reducing the restructuring cost which ended by a higher operating profit. Also Lenovo never lost its top position in the Chinese PC market. Nevertheless, company was still aware the fact they had a lot to do. CEO of the time, William J. Amelio declared that (Siddhanta&Chakraborty 2008, p16):

We are encouraged with the progress we are making in transforming the company while at the same time growing market share and maintaining our overall profit margin in a hihly competitive market. That said, we still have much to do; and we are moving swiftly and aggressively to take the necessary steps needed to make Lenovo a truly world class competitor. This will not be easy and it will take time, but I am confident in our ability to execute our action plan to transform this company.

Lenovo company today estimates $16.6 billions revenue and generating $129 million net income for 2010. Company is successful since they could able to erase the negative effects (net loss due to the crisis) of 2009 and managed to increase their revenue approximately 11 percent. Also they reduced their percentage of sales to general and administrative expenses from 10.51 percent to 8.47 percent which generated a gain from the loss of $226.4 million of last year (Businessweek 2010).

6.2. ÜLKER-GODIVA CASE

After the emergence of Turkish economy in the global market, Turkey became one of the significant players in the M&Amarket, especially after year 2000 and onwards. The large numbers of companies are now seeking strategic alliances in other countries, mostly in the developed ones.

There are a number of examples from Turkish companies that have concluded successful mergers and/or acquisitions. Eczacıbaşı, Ülker, Zorlu Group, Sabanci Group are just the well known ones. Especially, with the recent crisis, many companies in US and Europe, were on the market for the new acquirers. For instance, Turk Telekom bought Invitel for 197 million €. Through Invitel's operations in central and south eastern Europe, company has strengthened its position in the market. Now, they are seeking an opportunity to buy the Bulgarian Telecom (www.hurriyetdailynews.com, Feb 2011).

It is also important for Turkish companies to have a strong position in Middle East and Africa due to the increasing global strategic position of the country. Therefore it is not only European market that companies seek advantage, they have a broad range from Balkans to North Africa, Russia, and the growing Middle East market which they are in chase for company or brand acquisition (www.hurriyetdailynews.com, Feb 2011).

In order to discuss the significance of Turkish companies in the market, Yıldız Holding can be one the prime candidates. The company has long been in the M&Amarket with the sound mergers like Cargill, Hero, Kellogg's, Gumlik, Milford, Eckes-Granini and McCormick (www.hurriyetdailynews.com, Feb 2011).

Another case that Ülker group was in is the Godiva acquisition, the Belgian Premium Chocolate Producer.

Godiva brand was belonging to Campbell Soup Co. before its acquisition. It was and still is producing premium class Belgian chocolate. Headquarter was located in New York and two production facilities one is located in Belgium. The product range included, chocolate, baked goods, biscuits, coffee, cocoa. The annual sales of the company accounted more than 500 million $ with more than 4000 employees globally (www.candyindustry.com, Feb 2011).

Here rises the question: Why would a brand like Godiva would be sold to a Turkish company?

The previous owner, Campbell states that Chocolate business does not fit in their strategy which is based on mainly soup and vegetable juices. In July 2007, company's operations reached to China and Russia which are known for their high consumption of soup and vegetable beverages. Campbell seeks to have a competitive advantage in the markets where there is high potential for their strategic products. They seek to enlarge their business through exploring new markets by their simple meals, baked snacks and vegetable based business. Also the company is proud to say that Godiva is one of the few mostly known luxury brands with sales more than US$500 Million. It is stated in the article in August 2007 from foodanddrinkeurope.com that "Operating earnings for the third quarter were down $4m to $23m within Campbell's other businesses, which it said was due to declines in Godiva (www.foodanddrinkeurope.com, Jan 2011).

Sales were affected by storms over Valentine's Day, and the business saw increased costs due to marketing in Asia and North America, the company said earlier this year. Clearly, it is seen that the American group has lost interest in the brand (www.foodanddrinkeurope.com 3rd Jan 2011).

Moreover, if we take a look on the global chocolate market, the total value is estimated US$ 75 Billion. Premium chocolate production, which is US$ 8 per pound, is the fast growing side of the industry since the global awareness increase; however it still represents 10 percent of the global market. It is valued US$ 7 Billion in 2009 and this meant a 65 percent increase from 2002 onwards. Super Premium category is the category which customers pay US$ 40 per pound. Market size in this category is estimated US$ 1.25 billion (issuu.com, Jan 2011).

Godiva Chocolatier, was founded in 1926 in Belgium. The first boutique outside Belgium was opened in Paris in 1958. Onwards, company expanded more to UK, Germany and Italy. In 1966 Godiva brand reached to North America and in 1972 opened up the first boutique on Fifth Avenue, NY. Also the very same year with NY, the company also expanded to Tokyo. In 1974, Godiva was purchased by Campbell Soup Co. Today in more than 80 countries there is a Godiva boutique (www.godiva.com, Mar 2011).

Godiva is available on 9500 sales points, and through online and mail order from the web site. Godiva has sales points in four regions of the world including North America, Japan, Pacific Region and Europe. The company also opened up a new store in China to have a sound position in the emerging Asian market (Ülker 2010 Investor Relations Presentation).

Yıldız Holding was founded in 1944 by Sabri Ülker. In 1974 the company started exportation and an R&D department was founded. With 1980's onwards, the product range widened, even the company started producing manufacturing machines. Moreover, other group companies started gathering under the name of Yıldız Group. In 1993, they made their first merger with Cerestar, European starch manufacturer (www.Ülker.com.tr, Mar 2011).

With 2000 onwards Sabri Ülker left the chairman position to Murat Ülker. It is one of the biggest milestones in the History of Yıldız Group (www.Ülker.com.tr, Mar 2011).

Yıldız Holding is one of the most respected countries in Turkey. The company is the market leader in chocolate, cookies and cocoa and in first two in cakes, candies, oil,

fruit juice and milk. The company was chosen by "European Candy Kettle Club" the "Candy Company of the Year in Europe" in 2004. It is the first company to establish a nationwide distribution network. Yıldız Holding owns the 14 companies of Turkey's 500 largest manufacturing companies. It is the first food producer with substantial exports. Furthermore, It is also the market leader in Middle East in cookies and wafers and withholds the first place in the world in BOPP packaging film production capacity under a single roof. When we look at the global partners of the Yıldız Holding we see many successful mergers. Cargill, Europe's leading starch manufacturer, enjoys a 50%-50% partnership with Yıldız. Kellog's, one of the worldly renowned cereal production also in a joint venture with Ülker. Also it is worth saying that Ülker is the only company that Kellog's has ever been in a joint venture with. The group is in chewing gum business with 50%-50% Continental Confectionary Company (2010 Investor Relations Presentation).

In 2007, Ülker bought Godiva, world's one of the leading brands in Premium chocolate and chocolate products, which made a sound effect in the global arena. Acquisition is significant because for the first time a Turkish company acquired a brand leader. The acquisition became official with agreement signed on Dec 20, 2007 proclaiming the purchase of Godiva by Campbell Soup Company for 850 million $ with all its international participations, brands, facilities, trade secrets and patents (www.turkofamerica.com, 2011).

Godiva officially became a member of the many successful brands under the roof of Yıldız Holding. Godiva now belongs 7.69% to Yıldız Holding, 25.23% to Ülker Biskuvi, 67.08% to Ülker Çikolata. Ülker Biskuvi, is being the core business of the Yıldız Holding because it has the highest profitability within other Yıldız Holding companies. Ülker Biskuvi's products are exported to more than 100 countries in Middle East, Russia, Central Asia, Europe, Africa and US (2010 Investor Relations Presentation).

The very same year, 2007, Ülker's gross profit was 322 million TL. Net profit was on the rise of 30% as compared to the previous year and reached to 116 million TL. The total production of 2007 was 129,741 tons and sold 131,758 tons in the same year.

Murat Ülker defines the acquisition as "global brand operations". He claims that their strategy for the future is based on food based growth with new investments and strong partnerships eventually leading the group up to an international level. Thus, he defines the Godiva acquisition as the first step for their future strategy (Ülker Biskuvi Annual Report 2007).

In 2008, Gross Profit of Ülker Biskuvi is 306 million operating profit was 112,5 million TL. Net profit of the year was declined 16 million in 2008, due to negative impact of the global crisis, especially on the last quarter. However, in 2009 company enjoyed a gross profit worth 389 million TL with operating profit of 147 million. Net profit for 2009 jumps up to 103 million TL (Ülker Biskuvi Annual Report 2009).

Other than Ülker, there were other financially strong buyers like, Starbucks, Hershey's, Wm. Wrigley Jr, Mars, Nestle and some other private equity firms. The Campbell group was also trying a new market strategy based on healthy lifestyle and a luxurious and delightful chocolate brand did not fit in the strategy. Moreover, the very same year in the first quarter, Campbell Group reported 7.2 percent decline in net income as a result of higher expenses, mainly due to Godiva (www.nytimes.com, Mar 2011).

Campbell also said that price offered by Ülker is almost equal to the 15 times of company's EBITDA (Earnings before interest, taxes, depreciation and appreciation). On the other hand, Godiva sales was accounted 500 million $ out of 7.8 billion $ of overall sales of the parent company. At the beginning analyst claimed that the sell of the brand would generate 1 billion $ to the Campbell. Also there were rumors reporting that company was aiming a price between 1 to 1.5 million $ (www.reuters.com, Feb 2011).

Although the selling price was relatively small to the estimated CEO of Campbell soup Co. said (www.worldbulletin.com, Feb 2011):

> *We are very pleased with the value we obtained for Godiva. The sale price reflects the strength of the Godiva business. Godiva is one of the world's leading premium chocolate businesses and is an excellent strategic fit within Ülker's portfolio. The agreement allows Ülker to expand and diversify its portfolio with an elite, global luxury brand and enables Campbell to sharpen our strategic focus on simple meals, anchored by soup, baked snacks, and vegetable-based beverages. I truly believe we have reached an agreement that benefits all parties-Campbell, Ülker, and Godiva and its employees.*

Ülker was the withholder the 57% share in chocolate market as of 2006 and the company paid the highest amount that a Turkish company would pay in the history of M&A. The acquisition was seen as a global victory and a giant step into the European and North American market. On the other hand, the bidding power of the company is shown through the numbers estimated and the actual price (www.Ülker.com.tr, Feb 2011).

If we look at the economic environment, in 2006, monetary growth in Turkey was calculated 18.5 %. The government was pursuing a tight monetary policy which resulted in a decline from 34.9 in 2005 to 24.1 in 2006. Increase in broad money due to inflationary effect was controlled by the appreciation of Turkish lira against US dollar (www.ecosecreteriat.org, Dec 2011).

On the other hand, the government's strong fiscal discipline, helped to control inflation rate. The global turmoil experienced in mid 2006, resulted in higher interest rates and reduction in credit growth. However, Turkey was not affected as much as the other emerging markets due to the given policies stated above. Turkey's economic infrastructure had been improved and the financial market has been stabilized by the end of 2006 (www.ecosecreteriat.org, Dec 2011).

While Turkish economy was experiencing the appreciation of Turkish Lira and the depreciation of US dollar, Ülker group enjoyed the benefit of the strengthening of Turkish economy through the acquisition. Also the company' strategy was expanding vertically through strategic alliances (M&A's), instead of horizontally. With 2006 onwards when the global fluctuations started and gave the signals of a global downturn, the group took a bold step to facilitate their portfolio and strengthen their brand image in the global and regional markets (www.dinarstandard.com, Nov 2011).

The brand is owned by Yıldız Holding but the 25.23% share is owned by Ülker Biskuvi. Godiva CEO, Jim Goldman, explained the synergy that two companies formed and how their synergy will widen the brand awareness in emerging markets like Turkey and Middle East that Godiva lacks. He said in 2008 (Ülker Biskuvi Annual Report 2008):

In comparison to us Yıldız Holding has great opportunities for growth in markets such as Turkey and Middle East, where they know the markets better than we do. As a member of the Yıldız family, we intend to increase investments and growth rates. This business can definitely reach a billion dollar level.

Table 6.1 : Consolidated Financial Results for Food Production Operations

In Mn Turkish Lira	2008	2009	Growth (%)
Revenues	7.999	8.855	10,70%
International Sales	1.047	1.361	30%
Operating Income	280	428	52.9%

Source: Ülker Group 2010 Investor Relations Presentation

Consolidated Financials of Ülker Food Production in Table 6.1 shows us that after the acquisition, the group has declared significant growth numbers.

Godiva sales increased after the deal, percentage reached to double digits. The company started growing in East, Turkey and China for instance. Godiva was a luxury brand but also they changed their awareness to an "accessible luxury brand". This changed in their strategy became a shield months before the global crisis and helped the company restore the revenues. Godiva's aim, as Goldman explains, is to become the only brand when people think chocolate (www.hurriyetdailynews.com, Feb 2011).

After the acquisition the global crisis boomed in US and from mid 2008 and 2009 onwards, world experienced an enormous recession. Unemployment increased and demand decreased. EU and Japan supplied the financial market through funds. In the food market, the effect of crisis was felt with increase in prices of raw material in 2007. The effect increased as with the emergence of crisis. Other than capital movements, effect of weather, lack in investment, decease in interest rates and credit options crunched investors focused on agricultural food products, also known as soft commodities. This resulted in increase in prices. In the last days of 2009 the price of cocoa beans increased by 28.6%, sugar by 165.1%, and coffee by 30.2% with comparison to the beginning of the year. The preceding products are cultivated in developing countries. Other than the credit crunch and the negative impact of the global crisis, the political disturbances affected the prices as well. In Turkey, manufacturing industry recessed by 10.9%, however food and beverage industry ended up by shrinkage

of 1.3%. Increase in raw material prices, as stated above, was not reflected on the products; thus the companies had to lose profit. Also according to the new regulation which was due as of October 26, 2009, affected prices of imported inputs. The volatility in the prices of milk and meat was another factor affecting the food and beverage industry in Turkey.

Despite the crisis, Ülker has a drastic jump up in the financials (which is stated above) from 2008 and 2009 (Ülker Biskuvi Annual Report 2009).

The acquisition was a success to both parties and the overall global economy. However, one of the main arguments, or even to be called a challenge, that rises in most of the cross border m&a's is the cultural differences. This phenomenon rises since the parties are from the different ends of the world, east and the west. Godiva appreciates how big the Yıldız Group is. Goldman says that they have learned and still have much to learn from the group. Also he mentions the astonishment when a Turkish company becomes the new owner after the race among the world renowned giants like Nestle, Hershey's, Starbucks. However, Ülker group is mostly known for its conservativeness in Turkey whereas Godiva logo is naked woman riding a horse. The very first cultural difference arouses at this point. However, the group still holds the logo but the public awareness is yet to be achieved and the question rises: How will the public react the logo once they know the brand is Ülker's (www.hurriyetdailynews.com, Feb 2011).

Goldman also says that Godiva was not a priority for its previous owner but for Ülker it is not just a strategic move but also it became a major priority. On the contrary to the doubts of cultural difference, Godiva's Valentine's Day campaign is supported by the Group which offered a suite made up of chocolate to a lucky couple. Goldman also praises the first store located in Nişantaşı which is one the luxurious shopping spots in Istanbul. He says it is the best shop ever. The next shop will be opened in Akmerkez, one of the first shopping malls in İstanbul, and another one will be locating in the Anatolian side (www.hurriyetdailynews.com, Feb 2011).

As speaking of the cultural difference and the conservativeness of the Ülker Group, Godiva chocolates sold in Turkey are free of alcohol and Goldman remains silent

whether or not company will change the attitude (www.hurriyetdailynews.com, Feb 2011).

Godiva acquisition was a major topic worldwide. Harvard Business Review published an article suggesting that emerging multinationals tend to allow the business operating independently as if there had been no change in ownership. Thus each organization focuses on their best with learning from the new partner and exploiting the new resources. The article uses the term partnering for Ülker-Godiva types of acquisitions. The acquirer keeps the other party maintaining its own organization and identity. They keep the senior executives and their powers but want the company to adopt their new values. Also seek new synergies without affecting the acquisitions' businesses. In very basic, the acquisition is treated as a strategic alliance. The article gives the example of Ülker-Godiva business and states as follows (hbr.org 21st Feb 2011):

> *The partnering approach is becoming a hallmark of reverse takeovers, even helping emerging giants win takeover battles. For instance, Murat Ülker, the low-profile chairman of the Ülker Group, was asked by Godiva's board why he wanted to buy the company during the auction in 2007. "I have enough businesses to run," he said. "For me, Godiva is the Spoon-maker's Diamond [the 86-carat stone hanging in Istanbul's Topkapi Palace] of the chocolate market. I will polish it, make a pendant with it, and help promote it in different parts of the world." His clear intention not to manage the Belgian-American company in a hands-on fashion helped him bag Godiva.*

On the other hand, the merger success can be challenged through the purchasing power of Turkish customer. Turkey is an emerging market with relatively small amount of per capita income. Although the brand focuses the consumer seeking the "premium" quality, the range becomes narrower in Turkey and other emerging markets. Also Turkish consumer does not have holidays like Christmas, Thanksgiving even usually not a very fond of Valentine's Day and therefore usually does not prefer chocolate as a gift.

On the contrary, the upcoming generation is young and more open to changes. The effect of globalization, advertising and the increase in internet use affects the awareness of young consumer. Also consumers with high level of income are increasing in number. Moreover, Ülker is a successful name with a significant consumer loyalty. Therefore Godiva will eventually hit the Turkish market in the very near future.

7. CONCLUSION

Mergers and Acquisitions have always been one of the major means of boosting the eoconoy. Especially after the last decades of the 20 th century the attention gathered for this investment method has become much more significant. In order to understand this phenomenon first of theoretical background has been discussed to understand the basics of the M&Aactivity. It has been stated that there are Efficiency Theory, Monopoly Theory, Valuation Theory, Empire Building Theory and Disturbance Theory to explain the motives behind mergers and acqusitions.

On the other hand, we need much more reality in realizing the M&A phenomenon. Mergers and Acquisitions are one of the main components of the interconnected world. Since world become much more global, the tie within the multinational companies become stronger. The reason for this interconnectedness is mainly sharing the consequences resulted from the global economy which can be named as high costs, managing human capital, funding research and development, keeping ahead with the technology and so on. Thus many companies all around the world, choose to merge or buy another company.

The process of M&Aas stated above, can differ. They can be in horizontal, vertical or conglomorate type. Also, the merging may occur within a country or crossborder. On the other hand companies may choose a greenfield investment as well.

Cross border M&Ahas a much more emphasis within recent decades. The reason is the accentuated globalization and the diminishing of economical borders. Today companies do have an acces in many parts of the world.

It is also not deniable that merging parties should not effect the competition in the domestic and international markets. Therfore globally competition policy is conserved through clauses on merger and acquisition process. The basics of these clauses are preventing the cartels and abuse of dominant position resulted from the m&a. We have specifically focused on the EU and Turkish competition policy.

Also we have put emphasis on the EU's protective mesures in order to maintain the prosperecy of the Europe based companies. By protective measures we mean the revising of the merger and acquisition process with a tendency in favoring the EU based countries. GE-Honeywell merger has been used as an example.

Another strong discussion point is the emergence of developing countries. It has been strongly emphasized that the developing countires in Asia and Turkey has highly proven themselves in economic convergence. Their developmental history mainly starts with great economical crisis. We have focused on the bottom lines that they hit and the step-by-step development afterwards.

The particular investigation in Chinese development corralates with the example of IBM-Lenovo acquisition. The Chinese development became incredibly signifiicant that one of the biggest American companies, IBM, has been bought by a Chineese company, Lenovo. It can always be debatable whether China will be the next hegemon after US in the upcoming decades. Whether or not being the hegemon, here, we can undoubtly claim that China will gain a more important position because of the manpower it posess and the change in pattern in M&Aand development.

Turkey is the other important side in our second example. Turkey has been hit by many major crisis, most lately in 2001. After that Turkey took a significant position both poltically and economically. Many Turkish companies has a broader penetration in the international markets. Ülker is one of the biggest ones which succesfully formed M&A's in the past. The very recent and the global one is the Godiva acquisition. Godiva Acquisition is particularly important because it is being a worldly renown luxurious brand. Turkish acquisition has been discussed with regards to the financials and global position after the deal.

To sum up, M&A activity has been always on the surge in the world market. It was always considerable that M&Adeals take root from the companies in the developed world. However, as those two prior evidences show that, this mindset has been challenged radically with the evolve of the developing world. Turkish and Chinese cases can be attributed as the start-off of the many takeovers in the upcoming future.

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