The Cross-border Mergers and Acquisitions in Hungary in the View of Foreign Direct Investments

© **László Zoltán Kucséber**
**Széchenyi István University**
Doctoral School of Regional-and Economic Sciences, Győr, Hungary
kucseber.laszlo.zoltan@sze.hu

I open my study with a reference: The **C**ross-**B**order **M**ergers and **A**cquisitions (CBM&A) represent a quarter of all mergers and acquisitions, while the value of CBM&A increased from 75 billion dollar in 1987 to 720 billion dollar in 1999, the latter amount in 1999 was equal to 81% of foreign direct investments in world economy (Csáki, 2011:279-280 and *Figure 1*). In 2011 the value of greenfield investments is higher, but the value of CBM&A increases again within the value of Foreign Direct Investment (FDI) (UNTCAD, 2012:14).

Figure 1. World FDI outflows and CBM&A *(billion U.S. dollar)*
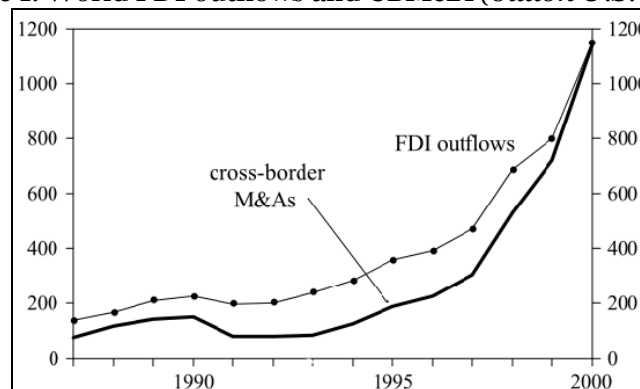
Source: Kleinert & Klodt, 2002:11

I have two goals in this study:
- o I analyse how this tendency occured in Hungary.
- o I investigate the market, financial and geographical characteristics of CBM&A in the view of FDI.

I give answers to the following questions:
- ⇨ What similarities and differencies are there between the features of FDI and the CMB&A?
- ⇨ What correlation is there between them?
- ⇨ How did the foreign portfolio investments influence the value of CBM&A?
- ⇨ What part does the value of CBM&A represent from FDI ?

The decisions of *Hungarian Competition Authority* (Gazdasági Versenyhivatal, further GVH) contain important information concerning e.g. the number of acquirers or even the fine imposed of GVH and a lot more. [1] The investigation refers to a period

---

[1] Permit is required to M&A by GVH if net sales of the concerned companies was over 15 billion HUF and there are minimum two companies between the concerned companies, which net sales was over

from the beginning of January, 1997. until the end of June, 2013, because you can find the decisions on the homepage of GVH only for this period. My paper is an exploratory research, one of its methods is comparison: I compare my results with the features of FDI, which can give answers to the referred questions.

In the focus is the fifth wave: CBM&A's appear

In the history of M&A the literature differentiates merger waves. Nowadays this is the fifth wave, which can be characterized by the high proportion of CBM&A (Balogh, 2004). There is only one difference between the CBM&A and the domestic M&A: in the case of CBM&A the acquirer company has headquarters abroad. In Hungary the law LVII. of 1996 defines the M&A as follows: A merger occures when two or more companies, independent from each other merge, or one company merges into another, or a part of a company becomes a part of another company."

There are several reasons for mergers: to achieve economies of scale, withdrawal from an industry, management efficiency, increasing market power. According to *Copeland and Weston* (1992) M&A is one of the most significant factors in the company growht and *Katits* (2002) claims that the M&A is one type of corporate crisis management.
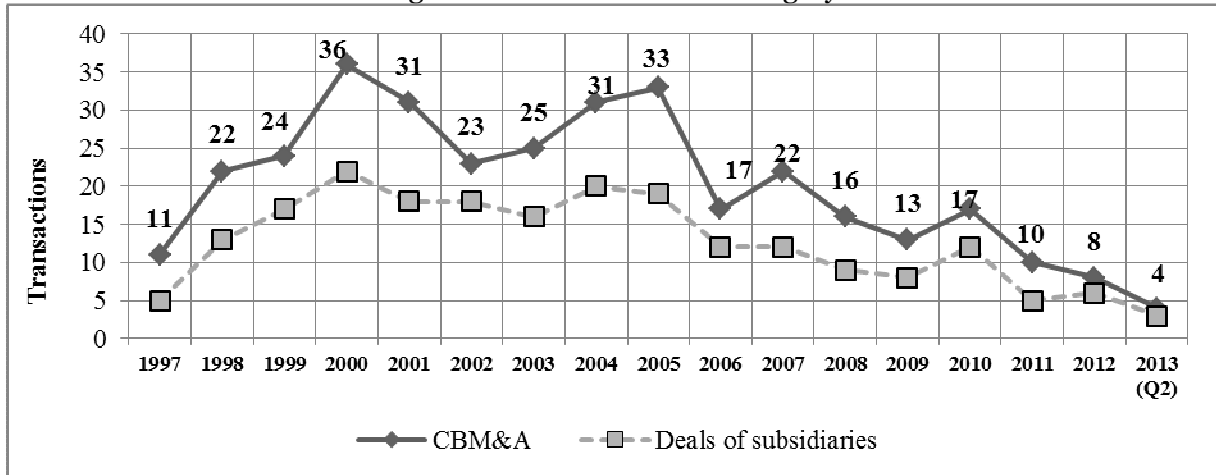
The M&A of foreign property subsidiaries belongs to FDI, as well (Krugman & Obstfeld, 2008). Therefore, I also analyse the M&A of foreign property subsidiaries. The CBM&A transactions have numerous positive economic effects, but most importantly they support economic growht (Calderón et al., 2002; Neto et al., 2010). Naturally, CBM&A have disadvantages e.g.: „*There is a high risk that a foreign investor acquires a domestic company in order to terminate the operation of the domestic company and thus to reduce market competiton*"(Lőrinczné, 1999:427).

Further important negative effect of the M&A is the redundancies. „*In 2001 an investigation showed that on avarege 160 employees were made redundant in 60 companies after mergers, and on average 224 emloyees lost their jobs in 62 companies after acquisition*" (Akar, 2001:19-23).

The characteristics of CBM&A in Hungary – the results of the analysis

So far I have discussed the general characteristics of CBM&As with bibliographic reference. Now I present the results compiled from database analysis, which I made myself. In the examined period 343 CBM&A occured, annually 20 on average. The *Figure 2*. shows the M&As of foreign property subsidiaries, as well. (I separeted the transactions of subsidiaries only in the geographical investigations.) In the examined period a total of 821 companies merged or acquired, from them 424 were target companies.

---

500 million HUF in previous business year. Source retrieved from
http://www.gvh.hu/domain2/files/modules/module25/9571A4E139A74B2A.pdf [17.09.2013]

Figure 2. CBM&A deals in Hungary

Source: Own editing based on the data of GVH

The market features of CBM&A

There are different types of M&As: horizontal, vertical and conglomerate. In the international literatur we can find referencies to the dominance of horizontal transactions: The number of the horizontal CBM&A stagnated at 45,1 and 51,5% between 1985 and 2005 (Brakman et al., 2006). In Hungary the share of horizontal transactions was higher compering with the data abroad. The transaction was horizontal in 73,1% of the examined cases. The proportion of both the vertical and the conglomerate M&A was only 9%. In the examined period as many as 29 deals occured, with horizontal, vertical and also conglomerate features.

As I would like to reveall the market characteristics of CBM&A, I cannot neglect sector features. I classified the transactions in 11 groups of Hungarian standard industrial classification (TEÁOR 2008).

Figure 3. CBM&A activity by sector (%)
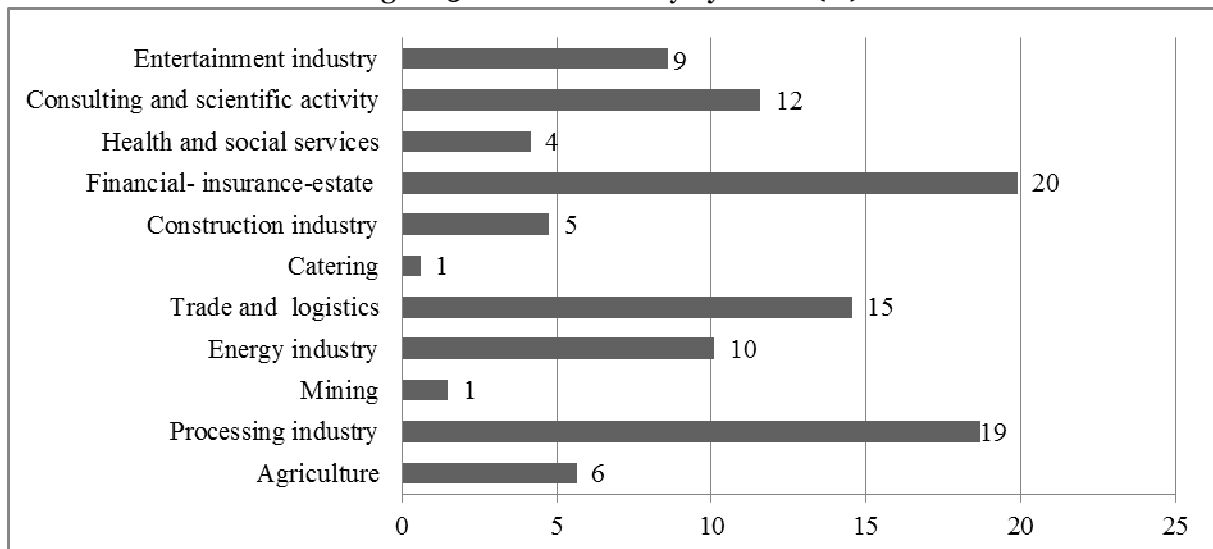
Source: Own editing based on the data of GVH

You can see the results on *Figure 3*, on the basis of which we can state that the financial- insurance-estate sector has the largest share. The processing industry is on

the second place. Than come commerce and logistics. Catering and mining sectors had the least transactions. In my analysis I compared the results with the features of FDI sectors (Ausländische Direktinvestitionen in Ungarn, 2012; Unternehmen mit ausländischer Beteiligung in Ungarn, 2012).

I found the following differences: For CBM&A the proportion of energy and financial-insurance-estate was higher, than for FDI. The proportion of processing industry and the commerce showed similarities.

The financial features of CBM&A

In the conduct of empirical investigation I examine one of the features of CBM&A, the proportion of acquired business shares and shares.

Firstly, I overview international data from the literature. In 1999 only 3% of all the CBM&A cases were mergers in the world. In the majority of cases (50%) complete companies were acquired (Calderón, 2002). „*In general, a large proportion of shares – on average 75,5% - is acquired during the transactions, which leads to a majority share (average 80,1%) in the acquired company.This indicates that most acquirer companies had been in contact with the company, which was taken over*" (Brakman et al., 2006:5).

The Hungarian values are similar to the international data: the acquirer firms bought average 77,65% share in the target companies. The other similarity is that in most Hungarian cases the acquirer had been also connected also previously with the target company. 0,01% is the lowest share acquired. This deal occured in 2004 when Heidelberg Cement Central Europe East Holding BV raised its share to 50,01% in Duna-Dráva Cement Kft. The acquired share from the target companies in 21 cases was 50%, in 32 less than 50%. In 85 cases the acquired share was between 50 and 100%. In 17 cases business branch was acquired, in 6 cases factories, in 7 premises. Similarly to international data the number of mergers is low, altogether 8 cases.

The geographical features of CBM&A

In this section I examine one geographical characteristics of CBM&A, the place of the headquarters of acquirer companies.

The post-socialist countries are net FDI importers, the West-European countries are net FDI exporters within the European Union (Molle, 2001). This trend could be observed in Hungary, as well, namely a large proportion of FDI flowed from Germany (21%), Netherlands and Austria in 1994 (Rechnitzer, 1998). These proportions not changed by 2002 (Meskó, 2005). My results show similarities to the FDI, because in 89% of transactions the headquarters are in an European country: in Germany 28%, Austria 12%, France 11% and Netherlands 8%. In cases outside of Europe 7% of acquirer compaines were from the USA, and only 11 cases from Asia.

Let's continue the analysis according to the occurence of the different regions! During this investigation I collected the headquarters of foreign subsidiaries, which I classified in 7 groups. In 2000 in 73% of cases, in 2009 in 83% of cases the head offices were in Budapest. The values of The South Great Plain region stand out from the values of other regions in both years (14% and 17%). In 2009, with the exception of the Budapest region, only in the Southern Great Plain region occurred CBM&A transactions.I compared these results with the geographical features of FDI. There are not significant differences between the characteristics of FDI and CBM&A.

Important similarity is the high proportion of Budapest. In 2009 the FDI is geographically strongly concentrated, 68% in Budapest (Ausländische Direktinvestitionen in Ungarn, 2012; Unternehmen mit ausländischer Beteiligung in Ungarn, 2012).

Is CBM&A only a tools of FDI?

For foreign investors the CBM&A is a reliable and popular tool to invest in another country. Is it also true in the case of Hungary?

Szentes (1995) draws attention to the fact that although the evolution of the CBM&As and FDI are related, but not necessarily coincide. Namely, M&A can occur through transactions that do not fall within the category of FDI, such as portfolio investment. Therefore, during my investigations I also involve the data of the foreign portfolio investments in a multivariate correlation analysis. The examined data sets are not normally distributed, so I use a non-parametric Spearman's correlation.

I found that there was a positive, weak (0,305) relationship between FDI and the CBM&As and there is no connection between the CBM&A and portfolio investments. Then, I filtered out the effect of portfolio investments with partial correlation calculation. The value without portfolio investments is 0,665, which indicates a stronger relationship than the results obtained in the multivariate calculation, but the results of the statistical investigations are not significant (*Table 1.*). I completed the calculations with the number of CBM&A transactions. The results are similar to the outputs of previous cases.

Table 1: The results of partial correlation

Control Variables			Value of FDI	Value of CBM&A
Portfolio investments	*Value of FDI*	Sperman's Correlacion	1,000	0,665
		Significance (2-tailed)	-	0,051
		df	0,000	7,000
	Value of CBM&A	Sperman's Correlacion	0,665	1,000
		Significance (2-tailed)	0,051	-
		df	7,000	0,000

Source: Own editing based on the data of GVH

The *Figure 4.* supports the results of the correlation analysis.

Figure 4. FDI, CBM&A and portfolio investments in Hungary (billion U.S. dollar)

Source: Own editing based on the data of GVH
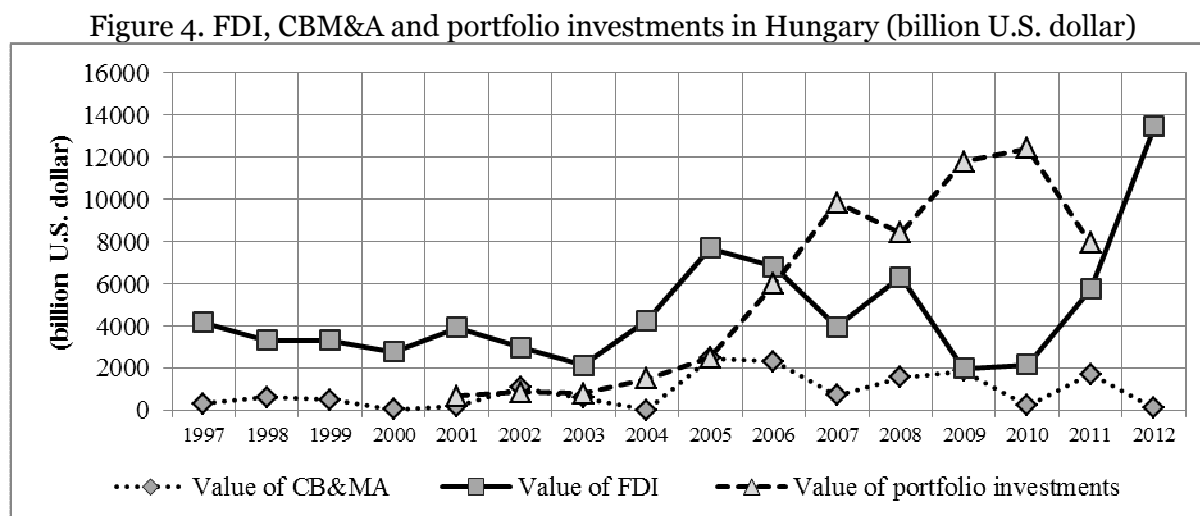
Finally, I examine the proportion of CBM&A in FDI. The value of CBM&A was 22% of the value of FDI and it approached 100% only in 2009. Summarizing the results of my investigations I came to the conclusion that the CBM&A is not a key instrument of FDI in Hungary.

There might be different explanations and assumptions for this result. The FDI has other types besides CBM&A, for example greenfield investments or capacity expansion in an existing investment, which were probably preferred in Hungary. We can suppose that privatization processes may have influenced the downturn of transactions (Calderón et al., 2002). Further explanations could be the role and effect of the export: „*Exporting avoids the non-trivial fixed costs associated with FDI, while FDI avoids the variable shipping and tariff costs associated with exporting*" (Jenniges, 2013:5). The mentioned explanations may be hypotheses of further researches, in which we can find answers through temporal and spatial extension of the investigations.

Summary

One of my aims was to investigate the characteristics of CBM&A in this work. I analysed 343 decisions of GVH according to market, financial and geographical aspects. I compared my results with the features and data of foreign literature. The share of acquirer companies in the target companies and the branch structure in Hungary show similarities to data in the international literature. However, I also found differences, e.g. the proportion of horizontal transactions is higher in Hungary. The results are representative as for the CBM&A, which are subjects to authorization by the GVH.

My other goal was to investigate the composition of FDI, with an emphasis on CBM&A. Firstly, I calculated non-parametric Spearman and partial correlation. The results showed that there is not significant connection between the examined factors. Finally, I established, that the value of CBM&A transactions is only 22% from the value of FDI on average. On the basis of the results of my investigations I concluded that in Hungary the larger proportion of FDI is not realized through the CBM&A.

Revealing the connection between the M&A transactions and the international capital flow activities in detail could be useful for establishing the state and regional economic development concepts and foreign economic plans. The results and conclusions of my investigation could play on important role in the strategy plans concerning the expansion goals, in which CBM&A transactions have a key role, in Hungarian and foreign subsidiaries. It was the purpose of this work.

References

1996. évi LVII. törvény a tisztességtelen piaci magatartás és a versenykorlátozás tilalmáról.

AKAR L. (2001). *A felvásárlások és összeolvadások alakulása Magyarországon*. Budapest: Ernst&Young-GKI Zrt.

Ausländische Direktinvestitionen in Ungarn (2012). Budapest: German-Hungarian Chamber of Commerce and Industry = Német-Magyar Kereskedelmi és Iparkamara. Retrieved from http://www.ahkungarn.hu/fileadmin/ahk_ungarn/Dokumente/Wirtschaftsinfos/HU/Statistik/INFO_HU_Direktinvestitionen.pdf [11.01.2014]

BALOGH Cs. (2004). Transznacionális vállalatok határon túli akvizícióinak és fúzióinak környezeti hatásai. *Tér és Társadalom*, 18 (2), 95-106.

BRAKMAN, S., GARRETSEN, H., & MARREWIJK, C. V. (2006). *Cross-border Mergers and Acquisitions:The Fact As A Guide For International Economics*. Cesifo Working Paper no. 1823.

CALDERÓN, C., LOAYZA, N., & SERVÉN, L. (2002). *FDI In Old vs New Assets: Does The Distinction Matter?* World Bank, Latin American Regional Studies program.

COPELAND, T. E., & WESTON, J. F. (1992). *Financial Theory and Corporate Policy*. Addison-Wesley Publishing Company.

CSÁKI György (2011). *A nemzetközi gazdaságtan és a világgazdaságtan alapjai*. Budapest: Napvilág.

Foreign Direct Investments (2000-2012). Budapest: Központi Statisztikai Hivatal. Retrieved from http://www.ksh.hu/docs/hun/xstadat/xstadat_eves/i_int044b.html?271 [10.09.2013]

JENNIGES, D. (2013). *The Determinants of Horizontal and Vertical Cross-border Mergers*. Retrieved from http://gatton.uky.edu/Units/Downloads/Derrick%20Jenniges%20paper%202013.pdf [10.09.2013]

KLEINERT, J., & KLODT, H., (2002). *Causes and Consequences of Merger Waves*. Kiel: Kiel Institute of World Economics.

KATITS, E. (2002). *Pénzügyi döntések a vállalat életciklusaiban*. Budapest: KJK-KERSZÖV.

KRUGMAN, P. R., & OBSTFELD, M. (2008). *International Economics Theory and Policy*. Wesley: Pearson Addision.

LŐRINCZNÉ I. H. (1999). *Nemzetközi pénzügyek*. Budapest: Aula.

MESKÓ A. (2005). *A külföldi működő tőke Magyarországon 2002-2003*. Budapest: Központi Statisztikai Hivatal.

NETO, P., BRANDÃO, A., & CERQUEIRA, A. (2010). The Impact of FDI, Cross-Border Mergers and Acquisitions, and Greenfield Investments on Economic Growth. *The IUP Journal of Business Strategy*, 7 (4), 24-44.

MOLLE, W. (2001). *The Economics of European Integration: Theory, Practice, Policy*. Ashgate: Aldershot.

RECHNITZER, J. (1998). *A privatizáció regionális összefüggései*. Budapest: Kulturtrade.
SZENTES T. (1995). *Világgazdaságtan I. Elméleti és módszertani alapok*. Budapest: Aula.
Unternehmen mit ausländischer Beteiligung in Ungarn (2012). Budapest: German-Hungarian Chamber of Commerce and Industry = Német-Magyar Kereskedelmi és Iparkamara. Retrieved from http://www.ahkungarn.hu/fileadmin/ahk_ungarn/Dokumente/Wirtschaftsinfos/HU/Statistik/INFO_HU_FDI_regional.pdf [11.01.2014]
Vj-056/2009/013. [Decision.] (2009). Budapest: Gazdasági Versenyhivatal. Retrieved from http://www.gvh.hu/domain2/files/modules/module25/9571A4E139A74B2A.pdf [11.01.2014]

United Nations Conference On Trade and Development
http://unctad.org/Sections/dite_dir/docs/wir2010_anxtab_9.pdf
http://unctad.org/en/PublicationsLibrary/wir2013_en.pdf
http://unctad.org/en/PublicationsLibrary/wir2012_embargoed_en.pdf
(download:12. 09. 2013.)