Acquisition Strategies

in European Emerging Economies

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Eds

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Chapter 4

Acquisition as an Entry and Growth Strategy

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INTRODUCTION

Multinational corporations (MNCs) use acquisitions to pursue strategic objectives. In emerging economies, these objectives often relate to the establishment of a position in a new market or the strengthening of a position in a consolidating market. Organizational forms are selected and customized to match objectives with the prerogatives of the local environment. Consequently, entry modes -- acquisitions in particular -- exhibit a great diversity that would be masked in aggregate data from official statistics (Chapter 2) or even in survey data (Chapter 3). Our case studies illustrate the diverse forms of acquisition by which firms pursue their strategies in the idiosyncratic context of each emerging economy.

This chapter analyses international acquisitions from the perspective of the specific foreign investor, its global strategy and its strategic adaptation to the local context. The main focus is on three research questions: Why do firms enter or grow by acquisition, what new forms of acquisitions are they developing, and what are the underlying strategic objectives? I thus aim to provide a deeper understanding of strategies in emerging economies, and the specificities and communalities of business strategies within European emerging economies (EEE) and other emerging economies. In addition to analyzing the case studies in chapters 9 to 17 of this book,

I set them in a broader perspective by making comparisons with similar case studies in our earlier research project (Estrin and Meyer, 2004). Table 4.1 lists the cases in this book along with cases in Egypt, India, South Africa and Vietnam.

*** *Table 4.1 approximately here* ***

The acquisitions in the case studies are large and, in themselves, important for both the multinational investor and local stakeholders. Each acquired operation had, at the time of the take-over, between 700 and over 68,000 employees. Most investors originate in Western Europe, which reflects the strong role of West European businesses in the EEE (Chapter 3). All investors focus on local markets – some are selling to private consumers, while others, notably the banking and telecom companies, also sell to corporate customers. None of the EEE cases has a substantive export orientation, as customers outside the host economy are, at best, of secondary importance. This reflects the general pattern of FDI in the region, especially for the industries we have selected. Food and beverage products typically face high transportation costs and are therefore not heavily traded on an international level. The banking and telecommunication sectors usually require a presence close to the customer.

This chapter explores why and how foreign investors have used acquisitions to establish and grow market positions in EEE. The next section discusses entry strategies and sets acquisitions within the context of the firm's strategy. Thereafter, the varieties of acquisitions are explored to develop a richer and more differentiated classification of entry modes. I then discuss how they are being implemented.

ENTRY STRATEGIES

An entry strategy involves a complex set of decisions to position an operation in its market. The scholarly literature has focused in particular on entry mode decisions, namely the choice between acquisition and Greenfield entry, and the decision over the foreign ownership stake in the operation. However, the entry mode decision forms part of a broader set of decisions. Firms may decide to enter a particular region or country, and then develop, compare and assess alternative scenarios for in-country location, timing, mode and other key variables. Most scholarly interest has probably focused on entry modes: export, contractual co-operation, or FDI (Young et al., 1989). Furthermore, direct investors have to decide on their share of equity ownership (Hennart, 1988; Meyer, 2001a), and whether to invest in a Greenfield project or acquire an existing firm (Hennart and Park, 1993; Barkema and Vermeulen, 1998).

The choice of entry mode is interdependent with other decisions. For example, if timing and speed of entry are crucial – as they are for those pursuing a first-mover advantage – an acquisition or a joint-venture (JV) may offer quick market access. On the other hand, acquisitions pose greater challenges in terms of marketing, logistics and human resource management, as the acquired firm's personnel, routines, and local brand names have to be integrated with the investor's global operations. Entry strategy is, therefore, a multidimensional construct. Any decision on one dimension has to not only take account of decisions made for other dimensions, but also consider the implications of each decision on the other dimensions. The weight attributed to different aspects of entry strategy decisions varies across firms with different investment objectives.

*** Figure 4.1 approximately here ***

It is therefore useful to think of 'entry strategy' as a package of interrelated strategic decisions. Figure 4.1 illustrates this idea. The design of an entry strategy requires strategic decisions over location, entry mode, timing, marketing, human resources, logistics, and possibly other aspects of business. Entry decisions are motivated by the investors' global strategy, yet they have to relate this global strategy to the specific local environment, which may require considerable adaptation. For expansion strategies, the some considerations apply, except that certain parameters are given by the existing operations, and changing them may involve considerable sunk costs.

Despite the multidimensionality of entry and expansion strategies, most scholarly research to date has taken a theory-driven approach, applying existing theories to partial aspects of entry decisions. This approach implicitly assumes that other strategic decisions are exogenous – for example, timing and location are assumed to be independent of mode choice. However, this is a rough simplification that is not supported by case evidence. For instance, mode choice decisions may, in some cases, precede locational decision but follow locational decisions in other cases. The case studies demonstrate interesting similarities and differences on various aspects of entry strategy, although this study focuses on one entry mode, acquisition. The variation of timing, location and marketing is depicted in Table 4.2.

**** Table 4.2 approximately here ****

Timing

The timing of the acquisitions in this study was driven by market considerations: all case firms were either involved in early mover advantages or in industry consolidation on a national level.

Market-seeking foreign investors aim to be number one or two in their industry or market segment, as this allows for the generation of substantially higher profits. However, the dynamics vary across industries. The early movers include first movers, such as France Telecom, T-Mobile, MOL or SEB (Table 4.2). Others entered the host country shortly after the first mover in the industry, aiming for a strong market position before the first mover had a well-established position. For instance, Carlsberg entered Poland later than key competitors Heinecken and South African Breweries, but acted soon after these first movers to build a strong market position. Early mover advantages have similarly been important in the case studies in Vietnam (ABB, Carlsberg), India (Baccardi) and Egypt (ECMS, Heinz).

Foreign investors that do not achieve a strong market position with their initial investment often end up with a small operation and unsatisfactory profitability. From such a position, they can either move forward aggressively, or cut their losses and exit. The case studies show several ways in which foreign investors aim to strengthen their position, including taking advantage of another foreign investor's intention to exit the market. Cadbury had a small Greenfield operation, but its own brands failed to make major inroads with Polish consumers. At the same time, PepsiCo redesigned its global strategy and wished to exit confectionary manufacturing in Poland, although the operation itself was operating successfully. Cadbury's struggling Polish subsidiary then took over PepsiCo's successful one, and obtained a strong market position. Carlsberg engaged in a series of smaller acquisitions a few years after its initial entry, thereby participating in the rapid concentration process in the Polish brewing industry. Both ABN Amro and K&H in Hungary were dissatisfied with their market position and decided to merge their local operations. In India, ABN Amro grew by taking over the retail banking operations of Bank of America, which divested from India. In South Africa, ABN Amro took over smaller operations or created JVs to expand into other segments of finance.

The strengthening of a secondary market position thus emerges as a major strategy motivating acquisition, in addition to first mover or fast follower.

Acquisitions are used to implement an aggressive – at the outset providing a strong foothold, or to strengthen a position in the local market at a mature stage. The only case that does not fit this pattern is the acquisition of South African Ziton whose superior fire detection technology strengthened the global capabilities of the acquirer EST. In emerging economies, however, this technology-seeking motive is an exception.

Location and Marketing Strategies

All of our EEE cases focus on selling products in the local market, but their marketing and branding strategies vary. Acquisitions are often used to access local brands and distribution channels, and these marketing-related objectives have also been important in the cases studied here. Firms selling products with global brands, on the other hand, may serve the market through exports or by setting up a Greenfield plant. The cases suggest that foreign investors targeting private consumers primarily use dual branding strategies, with one or more brands for the local mass market, plus an international brand serving the premium market. Over time, the relative emphasis between local and global brands may shift (Meyer and Tran, 2006), but this varies across industries. Brewing, confectionary and banks rely on local brands, while the telecoms move to global brands after a transitional phase. Most remarkably, Deutsche Telecom replaced its well-established Hungarian brand ‘Westel’ with its ‘T-Mobile’ brand ten years after the initial entry. The reasons for such a shift may be the maturing of the local market, the convergence of consumer spending patterns, and the increased integration of operations across national borders, in particular as EEE countries become members of the EU.

The intra-country location is often linked to the existing location of the acquired firm. Thus, in contrast to Greenfield operations, acquirers have only a few degrees of freedom when it comes to locational choice. If they wanted to change the location of certain units of the acquired operation, they may face considerable resistance from the workforce. We noted two motives for foreign investors to change the location of local operations. First, they may wish to consolidate operations and increase economies of scale if existing operations are highly fragmented with multiple production sites, or if multiple smaller operations have been acquired (see the Carlsberg Poland case). Such a consolidation may take the form of heavy investment in a selected site to increase its productivity and scale economies. Minor operations are then used as supplements for peak demand or specialty products, and phased out over time. Second, national headquarters can be moved to the capital of the country, as in Poland where foreign investors prefer to establish themselves in Warsaw. An exception to this trend is Cadbury, which moved its Polish headquarters from its Greenfield site to Wedel's existing operations to facilitate the integration process. Foreign investors' preference for the capital city may arise from the need to access important networks in both business and politics. Moreover, the capital may offer better living conditions for expatriates and better infrastructure. In Poland, Warsaw's centrality is also advantageous in terms of reaching markets in all parts of the country.

This discussion of other aspects of the entry strategy illustrates both the subtleties of entry strategies, and the motivations for using an acquisition to achieve strategic goals. Building an early market position or strengthening an existing one are important motives. Hence, access to marketing-related assets is also important to acquisitions. On the other hand, intra-country location seems to be of secondary importance for acquirers.

**** Table 4.3 approximately here ****

ACQUISITIONS AS AN ENTRY STRATEGY

The cases present a large range of strategies and organizational arrangements, although all constitute a form of acquisition (Table 4.3). Many deals were very complex and, in fact, difficult to trace. To review these different methods of implementing an acquisition strategy, I propose new classifications and point to strategies that, while presumably common, have not received due attention in the scholarly literature.

The first observation is that large acquisitions in EEE are rarely one-off deals where one owner hands over 100 per cent ownership and control to another for a cash payment. Cadbury's takeover of Wedel from Pepsi seems to be an exception, but even this deal was made possible by PepsiCo increasing its ownership stake to be able to sell the company outright. The normal pattern seems to be a gradual changeover of ownership for a variety of reasons related to both the seller and the buyer. Initially, the foreign investor often acquires a stake in the existing firm, usually with the intention to increase ownership later. The partial ownership is the start of a process aiming at achieving full ownership and control. It may therefore be appropriate to describe these acquisitions as *'staged acquisitions'* rather than as *'partial acquisitions'*.

The increase of the foreign investor's equity stake may be pre-planned at the outset or occur in response to changes in the environment. Like JVs, partial acquisitions are potentially subject to many conflicts that require compromises among shareholders and the ownership structure is rarely stable. In some cases, the temporary nature of the shared ownership structure is already

reflected in the initial control arrangements, with the acquirer allotted key positions on the board. For instance, in the case of MOL/Slovnaft, the tender specified that the strategic investor would receive 50 per cent of management control along with 36.2 per cent of equity. On the other hand, many local stakeholders expected the firm to retain its national identity and predominantly local control, which is reflected by local scholars and journalists at the time of the initial investment. Interviews at corporate headquarters tend to point in a different direction -- *ex post* managers tend to emphasize that they prefer full control over their operation and that sharing ownership is second best option.

The causes of the staged nature of acquisitions in our cases are mainly related to the supply-side, i.e. the sellers willingness and ability to sell the company. Theoretically, buyers may also prefer staged ownership implementation, as the continued involvement of the previous owner may also be advantageous for the acquirer (Meyer, 2002). If the state or an influential local conglomerate shares the risks as well as the profits, they may also help alleviate potential interference by bureaucrats. Networks with authorities are important in many emerging economies and shared ownership may align the interests of the local community with the prosperity of the business. Moreover, staged acquisition stretches the financial commitment over time, which can be an advantage for financially constrained investors.

However, such motives are not apparent in our cases. Where firms were bought from a privatization agency, the tender conditions have stipulated the equity stake available for sale, or the agency has implicitly or explicitly favored tenders by consortia with local participation. These constraints have been particularly evident in the telecommunications industry. For instance, France Telecom acquired its initial stakes in both Poland and Egypt through a privatization agency tender and Deutsche Telecom initially entered Hungary through a partial

acquisition of MATAV, the local telecom operator. Partial tenders also occur for private businesses, as seen in the case of Slovakian Slovnaft, which was eventually entirely taken over by Hungarian MOL.

Why are sellers, and privatization agencies in particular, interested in selling a firm in a staged manner, at least when it comes to large firms? First, governments may wish to retain some influence over privatized firms to secure certain political objectives, such as to secure employment or the continuation of a local brand. Second, staged sales might generate higher revenues if it is hard to establish the true value of a firm at the outset. This would be a major concern in highly uncertain environments, as those which characterized the EEE in the 1990s. When the foreign investor later acquires the outstanding stock, a better valuation may be available to strengthen the seller's bargaining position.

Privatization agencies have often placed part of the equity on the stock exchange, either through an initial public offering or through variants of voucher privatization. At the same time, a substantive bloc of shares is usually sold to a 'strategic' foreign investor. Wedel was initially sold to PepsiCo of the USA and Okocim to Brau & Brunnen of Germany. Gradually, foreign investors then acquire stock from the minority shareholders and eventually de-list the firm from the stock exchange. In the case of Wedel, PepsiCo acquired the remaining outstanding shares in order to sell the company to Cadbury. With Okocim, there was an additional complication in that Carlsberg bought out Brau and Brunnen in 1996, and then gradually increased its equity stake in Okocim to 100 per cent over the next eight years.

Foreign investors may prefer to buy out minority shareholders in their subsidiary for several reasons. Decision making processes are easier if there are no minority stakeholders to consult,

and the operation can also be more easily integrated into global organizational structures. For example, production can be moved between countries, as was the case with Carlsberg. Moreover, less information needs to be provided to the public and crucial data can be kept confidential, out of sight from competitors (and unfortunately also scholarly researchers). In addition, unified accounting and financial management may reduce capital costs. Finally, full ownership may make it easier to sell major units of the business, or the entire business, to third parties, as happened when PepsiCo sold Wedel.

An alternative scenario can be seen in the case of BCP, where the staged acquisition of BIG Bank occurred via the stock exchange and involved a hostile battle between several potential acquirers. Here, the pace of acquisition was driven by the interplay between the unwanted suitor, Deutsche Bank, and the local management and its favored investor, BCP. Each aimed for a controlling equity stake, but only for a price reflecting the value of the firm. The local management's own initiatives and politicking played an important role, as did court decisions concerning the interpretation of corporate governance and takeover legislation.

In some countries, ownership restrictions defined by law may explain why foreign investors hold only minority stakes in their local affiliates. As ownership restrictions are relaxed, foreign investors increase their equity stake. This appears to have played a role in, for example, India and Vietnam, but it does not seem to be of major importance in EEE as most ownership restrictions were removed in the early 1990s.

**** Table 4.4 approximately here ****

"Staged acquisitions" thus emerge as a major type of acquisition in EEE. Table 4.4 presents staged acquisitions along with other modes of entry that we have observed in the region. *Multiple acquisitions* are probably the most aggressive entry strategy observed in emerging economies. In fragmented markets, a single acquisition may not suffice to attain a strong market position, especially when targeting the mass market where economies of scale and market power are important. Still, foreign investors would normally aim to become a leader in the local market. Multiple acquisitions can, therefore, build a strong nationwide position in a market that traditionally has been highly fragmented, and provide a portfolio of local brands that serves multiple regional or niche markets. Consequently, an acquisition is often only a small building block of the envisaged new operations in an emerging economy. For instance, Carlsberg engaged in three further acquisitions in Poland following its initial investment in Okocim, becoming part of the rapid concentration process within the Polish brewing industry (Meyer and Tran, 2006).

Multiple acquisitions, however, pose additional challenges in terms of the integration of the acquired businesses. These may include the concentration of head-office functions in one location – foreign investors often prefer the country's capital – and the construction of new production facilities that realize economies of scale and apply the latest technology. Organizational integration may also transcend national borders, for instance with integrated logistics and production capacity sharing between multiple brands.

Deep restructuring is also at the core of *Brownfield acquisitions*, acquisitions where the post-acquisition investment replaces major parts of the original operation, so that the new operation almost resembles a Greenfield project. Some firms in emerging markets require such extensive restructuring that foreign investors essentially replace all resources except for a few sought-

after assets, such as local brand names, licenses or distribution channels. Meyer and Estrin (2001) first observed this phenomenon in acquisitions related to the EEE privatization process but later found it in other emerging economies (Meyer and Estrin, 2004). Foreign investors are willing to shoulder the burden of transforming uncompetitive enterprises if the perceived value of the key assets exceeds the restructuring costs. By combining aspects of traditional acquisitions and Greenfield operations, Brownfield investments provide an aggressive route into a market.

Indirect acquisitions occur as a by-product of an acquisition in a different country. In rare cases, the operation in an emerging economy is actually the strategic asset that inspired the third-country acquisition. An indirect acquisition may be a short-cut to gaining market share quickly, especially if the acquired firm has strong global and local brands. At the same time, complex negotiations with authorities and labor unions are bypassed. If, on the other hand, the global merger or acquisition had entirely unrelated objectives, local synergies may be limited and operations may have to be run as separate business units.

ACQUISITION TARGETS

The details of an acquisition depend not only on the wishes of the acquirer, but also on the resource endowment, ownership and bargaining position of the target firm. For instance, aspects of acquisitions vary across different types of pre-acquisition owners: privatization agencies rarely sell large companies in one-off deals, but frequently retain a government equity stake for a limited period of time. With dispersed and diverse owners, acquirers almost inevitably buy their respective shareholdings in a sequential manner (as with Carlsberg Poland

and MOL Slovakia). However, domestic entrepreneurs may also retain a partial stake for a while, as seen in the case of SEB. With a single foreign owner controlling 100 per cent of the equity, the deal is the straightforward with the business changing hands for cash, as when Cadbury Poland acquired Wedel from PepsiCo (Table 4.5).

**** Table 4.5 approximately here ****

An interesting phenomenon emerged in the late 1990s in the EEE, known as *second round privatization.* Some of the ownership arrangements that emerged from the initial privatization proved to be instable, especially when employee owners sold out to managers and to outside investors facilitating a process of ownership concentration (Jones and Mygind, 1999; Kalmi 2002). With the exception of SEB's acquisition of Bankas Vilniaus, our cases of acquisition from private owners actually concerned firms that were, at least in part, owned by other foreign investors who had, in turn, acquired their stake in the privatization process: Carlsberg acquired its initial stake from Brau und Brunnen, Cadbury acquired full ownership from PepsiCo, Deutsche Telecom bought out its consortium partners, and KBC/ABN Amro merged their Hungarian operations. Slovnaft was privatized to domestic owners before it was taken over by MOL. Of our cases, only SEB acquired a private business that was newly created in the early years of economic transition.

How are these second round privatizations different from an acquisition of a state-owned firm directly from the state, as in the cases of Kraft or TPSA? In second round privatization acquisitions, the foreign investor does not have to deal with the complexity of privatization negotiations, which can often become highly political, especially for large or high profile firms. This reduces negotiation costs and uncertainty. However, they may still have to engage

in deep restructuring if the inheritances from the central plan regime dominate the acquired organization. In some cases, such as Wedel, the first private owner engages in deep restructuring, which lowers the burden for the second buyer. Second round privatizations are normal business transactions that bring in investors who best know how to manage the operation. Still, these transactions seem unpopular among local policy makers who are used to having an influence on business and they may receive negative commentary in local media, especially if they are accompanied by a reduction in or reorganization of employment.

Acquisition targets also vary in terms of what they contribute to the MNC. A variety of resources are crucial in inducing the acquisition. Keeping in mind that some resources, including human resources, can be bought or hired on markets, the local firm must possess organizationally-embedded resources that are not available in an unbundled form to become the target of an acquisition. Our cases suggest that these resources are typically related to assets that ease access to local consumers, such as local brands and distribution channels (as in the brewing and confectionary industries), or operating licenses and existing customer bases (as in the telecommunications and banking industries), and other business networks. Motives for seeking a local partner are, therefore, largely related to intangible assets, as we would expect in Western Europe, which suggests a convergence of business strategies. In some cases, the local firms also contribute valuable physical assets such as real estate or distribution infrastructure, but these seem less common than in the other emerging economies studied by Meyer and Estrin (2004). Human capital is presumably also very important, especially with respect to managerial teams, or specialist or technical staff, yet the case studies do not explore this aspect in great detail.

There is no indication of local firms in EEE contributing resources that enhance the investors' global competitiveness, as seen in South Africa. However, in some industries we do see the emergence of pan-European patterns of competition with strategic interdependence among different markets in EEE, as is evident in the telephone industry. In the case of MOL's acquisition of Slovnaft, the competitive dynamics between MOL and ÖMV both aiming to become the industry leader in the central European region have been a major driving force and strengthened MOL as a regional player.

Finally, acquisitions are not necessarily initiated by the acquirer although they have to fit with the acquirer's global strategy (Graebner and Eisenhardt, 2004). The management of a strong local firm may take the initiative to find the foreign investor they want -- one who will provide what local management seeks, such as high degrees of strategic autonomy and fresh resources. In fact, financially constrained but otherwise competitive firms are most likely to search for a new home within a multinational firm. For example, the management of BIG Bank in Poland brought in a 'white knight' to prevent takeover by an unwanted suitor, and thus became an affiliate of BCP instead, presumably with a higher degree of autonomy and unchanged local management. The strategic issue is then to find and negotiate with a strategic investor, rather than being (passively) selecting by an MNC as an acquisition target.

CONCLUSIONS

Despite the diversity of industries, the cases have two common features: the acquisitions are large projects, and they aim at establishing or strengthening the investor's market position. Consequently, they illustrate the variety of ways in which multinational investors can

implement an acquisition strategy. Given the variety, it is hard to generalize, but it appears that all of the cases roughly follow the following steps:

- Envisage the market position that the firm would like to attain,
- Identify one or more target firms that may help attain this position,
- Find ways to acquire control over the sought resources at acceptable costs, and
- Implement the strategy, over a period of several years if necessary, and flexibly readjust to changes in the environment.

The case discussions raise many issues for future research. First, the cases point to the interdependence of entry mode decisions and other aspects of entry strategy, especially timing and intra-country location. This interdependence is not yet well understood. Second, we observe a diversity of acquisition modes. Researchers may want to investigate under which circumstances investors choose a certain mode. In particular, why do investors accept partial ownership in acquired firms, and how do they manage their subsidiaries under this circumstance? Third, how do acquisitions vary for different targets? In particular how does the identity of the seller affect the negotiation and integration processes? Finally, acquisitions of firms where employees hold a substantial share, a common phenomenon in some EEE, may pose particular challenges for both the employees as owners and the foreign investors. These challenges need to be explored.

Figure 4.1. Entry Strategy as a Package of Decisions

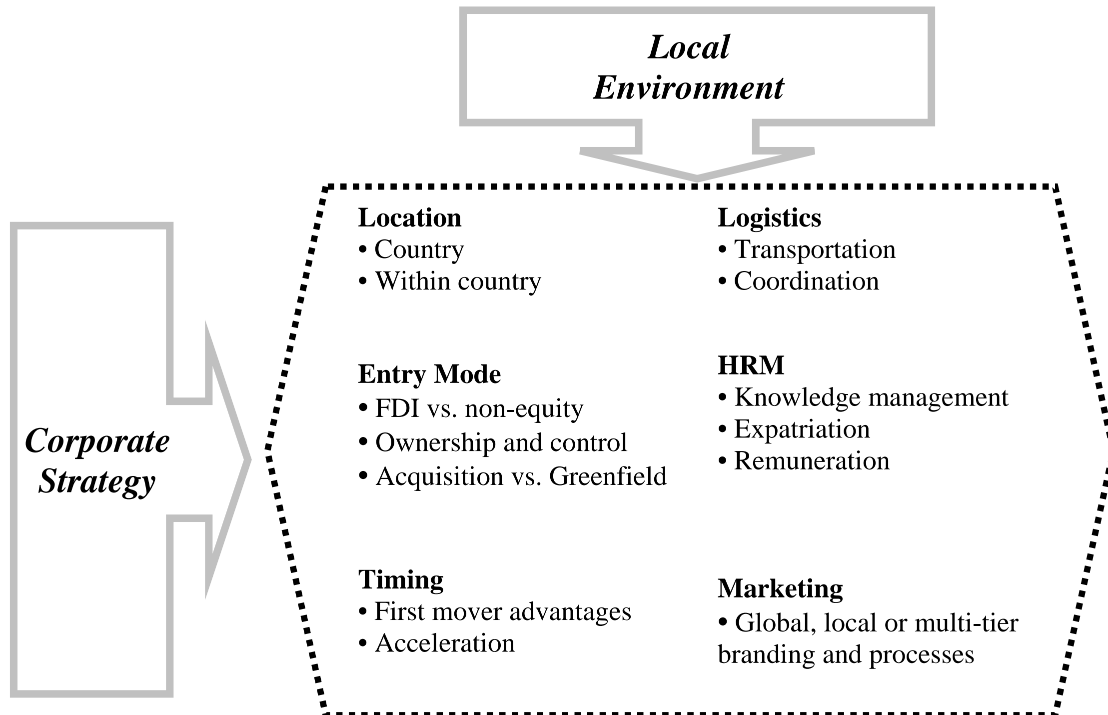

Table 4.1. Overview of case studies

	Foreign Investor	Industry	Motive for entry *	Entry year	Employment
Poland	Cadbury-Schweppes, UK	Confectionary	Local individuals	1998	1250 (2003)
Poland	Carlsberg, Denmark	Brewing	Local individuals	1996	1429 (2001)
Poland	France Telecom, France	Telecom	Local individuals and businesses	2000	68100 (2000)
Poland	Banco Commercial Portugues, Portugal	Banking	Local individuals and businesses	1998	6557 (2001)
Hungary	KBC, Belgium & ABN Amro, Netherlands**	Banking	Local individuals and businesses	2000	4800 (2000)
Hungary	Deutsche Telecom (T-Mobile), Germany	Telecom	Local individuals and businesses	1994	n.a.
Slovakia	MOL, Hungary	Oil and gas	Local individuals and businesses	1999	7540 (1999)
Lithuania	SEB, Sweden	Banking	Local individuals and businesses	1998	900 (1998)
Lithuania	Kraft, USA	Confectionary	Local individuals	1993	700 (1995)
Egypt	France Telecom, France	Telecom	Local individuals and businesses	1998	1700
Egypt	GSK, UK	Pharma-ceuticals	Medical practitioners in Egypt and export	1981, 1997	1057
Egypt	Heinz, USA	Food	Arab-wide individuals and restaurants	1992	200
India	Bacardi-Martini, USA	Beverages	Local individuals	1998	n.a.
India	Packaging, n.a.	Manufacturing	Local businesses	mid 1990s	n.a.
India	ABN Amro, Netherlands	Banking	Local individuals and businesses	1920, 1998	n.a.
S. Africa	Behr, Germany	Manufacturing	Global MNCs (local & export)	1999	1081

S. Africa	EST, USA	Manufacturing	World-wide, mainly businesses	2000	450
S. Africa	ABN Amro, Netherlands	Banking	Local businesses and individuals, global customers.	1995	350 (2000)
Vietnam	Carlsberg, Denmark	Brewing	Local individuals	1993	340 (1995)
Vietnam	ABB, Sweden	Manufacturing	Local state-owned firms	1996	470 (1998)
Vietnam	Honda, Japan	Motorcycles	Local individuals	1996	n.a.

Notes:

*= Motive in terms of main group of targeted customers,

**= merger between two foreign-owned affiliates with respectively 2700 and 2100 employees;

n.a. = data not available.

Sources for Egypt, India, South Africa and Vietnam: Estrin and Meyer (2004).

Table 4.2. Entry strategies of the case firms

Case	Timing	Location	Marketing
Cadbury Schweppes	Unsatisfactory performance of the existing subsidiary	Partner location and existing Greenfield location	Focus on acquired local brand, withdrawal of global brand
Carlsberg	Fast 3rd	Partner location, but closing smaller operations	Three tier branding (global/national/local)
France Telecom	1st	Partner location	Initially local brand, replaced several years after initial entry
BCP	Early	Partner location, nationwide branch network	Development of brand jointly with the foreign investor
KBC / ABN Amro	Unsatisfactory performance of the existing subsidiaries	Unchanged from pre-merger locations	n.a.
T-Mobile	1st	Partner location	Local brand replaced 10 years after initial entry by global brand
MOL	1st	Partner location	n.a.
SEB	1st	Branches in the entire country	Local brand for 5 years, then co-branding
Kraft	1st	Initially partner location	Global and local brands

Note: n.a. = information not available.

Table 4.3. Entry modes of the case firms

Foreign investor	Acquired firm or JV partner	Type of Firm	Mode	FDI ownership
Cadbury Schweppes	Wedel SA	Firm previously privatized by staged sale to another foreign investor	Initially Greenfield, then acquisition	100% *
Carlsberg	Okocim and three others	Privatized firms with local and foreign shareholders	Multiple acquisitions, partial and staged patterns, later merged.	Initially: 21.6%, 2005: 100%
France Telecom	TPSA	State-owned enterprise	Partial, by bidding for privatization tender	Initially 33.93%
BCP	BIG Bank	Private bank, growing domestically by acquisitions	Partial acquisition, following a hostile battle between investors	2000: 15% 2002: 50%
KBC & ABN Amro (Hungarian affiliates)		Two privatized foreign-owned firms	Merger of two FDI operations built by acquisitions	KBC: 59.01%, ABN: 40.23% Other: 0.76%
T-Mobile	Westel	New business developed by a state-owned enterprise	Initially consortium, then acquired by buying out other foreign partners	1994: pyramid structure ** 2005: 100%
MOL	Slovnaft	Privatized, insider owned firm	Stepwise, initial entry by bidding for a private tender	1999: 36.2% 2003: 72.4%
SEB	Vilniaus Bank	Domestic and foreign financial investors	Stepwise via the stock market	1998: 35.8% 2000: 97.7%
Kraft	Kaunas Confectionary	State-owned enterprise	Stepwise as part of privatization process	1993: 67.0% 2003: 90.1%

Notes:

* Previous owner PepsiCo had acquired Wedel in stages over seven years, increasing its equity stake from 40 per cent to 100 per cent,

** Deutsche Telecom owned 50 per cent in Magyarcom, which owned 59.58 per cent in MATAV, which owned 51 per cent in Westel.

Table 4.4. Typology of acquisition strategies for emerging economies

	Description	Purpose	Drawbacks
Staged acquisition	Occurs in several stages with the foreign investor acquiring only an initial equity stake and gradually increasing it to 100%.	Staged acquisitions allow the continued involvement of previous owners when they are unwilling to sell outright or enhancing legitimacy with local consumers.	Shared control as a source of conflict; uncertainty over eventual full takeover.
Multiple acquisition	Entry by acquiring several independent businesses and subsequently integrating them.	Through multiple acquisitions global players can build a strong nationwide position in a traditionally fragmented market.	Simultaneous integration of multiple acquisitions is challenging
Indirect acquisition	An acquisition outside the focal market of a company that also owns an affiliate in the same emerging economy.	The prime objective of the indirect acquisition may be outside the country. Rarely, the affiliate may be a strategic asset sought by the acquirer.	The local affiliate may or may not fit with existing local operations.
Brownfield acquisition	An acquisition in which the acquirer invests subsequently more resources, such that it almost resembles a Greenfield project.	Brownfield acquisitions provide access to crucial local assets under the control of local firms that are, in many other ways, uncompetitive.	Post-acquisition investments may exceed the price originally paid for the acquired firm.
Joint venture	A new company with two or more parents sharing control and contributing resources.	Accessing local resources without taking responsibility for an entire existing company.	Shared control as a source of conflict.

Table 4.5. The role of acquired firms in acquisitions

Type of Acquisition	**Previous Owner**		
	Foreign investor	Domestic private	State-owned firm
Full	Behr, SA ABN Amro, IN Cadbury, PL	EST-Ziton, SA GSK (APIC), EG	---
Staged	Carlsberg, PL** T-Mobile, HU ** MOL, Slovakia	GSK (ABI), EG Packaging, IN ABN Amro, SA SEB, LIT **	ABB, VN BCP, PL Kraft, LIT ***
Partial	KBC/ABB, HU *	Bacardi-Martini, IN	ECMS, EG TPSA, PL

Note:

* These companies were previously privatized to foreign investors, and then merged,

** Previous owners included both domestic and foreign shareholders,

*** 33 per cent employee-owned, 67 per cent state-owned.