Department of Business and Management

Chair of M&A and Investment Banking

The Roles of the Governments in the Cross-Border M&As: Impact on the performance of each type of enterprise

Supervisor:
Prof. De Vecchi Luigi

Co-supervisor:
Prof. Pattofatto Leone

Candidate:
Malfitano Giovanni
ID: 718421

Academic Year:

2020-2021

Index

Abstract

Every day, all the traders around the world work on several businesses that pass by their hands. This is a fundamental aspect of the stock exchange market that is more and more globally connected.

In this era the profit may not be the sole motivation for all the calls that they receive; there may be non-profit motivations behind the requests. The result that the clients may want to achieve could be to gain or balance the power of their nation; currently they are the frontline soldiers of a different version of war. The modern conflict does not request any formal statement or diplomatic action, the weapons used are the cross-border mergers and acquisitions. Those are one of the most important form of corporate investment and they can influence the fate and the balances among the countries.

As all the wars even this one is based on the power balance among the actors and the transactions are used to acquire an advantage on the opposite side, either from an economical either from a strategical point of view.

During the negotiation between a national firm, which is the seller, and a foreign one, that is the buyer, the governments have to understand the real implication of the deal and find how to maximize their benefits, so they have to correctly evaluate the situation and take actions, neither too "strong" or too "soft", or to not take any actions. Governments know that indirectly a business has a fundamental impact on their future with the global power balance that can change in their favour or against them. They may have a benefit from an expansion of one enterprise, for this reason an intervention to facilitate it cannot be excluded a priori and it is a common practice. Politics does not necessarily intervene at the moment of the negotiation; it could have done its move before through the subscription of an agreement that regulates the outward investment from one to another market.

This argument, the cross-border M&As, was analysed on detail by the scholars. It is one of the most important type of transaction because it is able to move a huge amount of sources and impact on several economies. However, the focus has always been on other aspects (cultural similarities, legal framework, payment method, etc..) and never on how the politics can impact on it. This variable was just analysed in relation to the domestic Mergers and Acquisitions and how it could be exploited from the two parties for having a rent.

1ST CHAPTER

For decades, the main driver of the globalization has been the cross-border M&As. In an "investment liberalization" environment, theoretically, the companies would face the same issues that they would have experienced with a national M&A. The investments considered in this category are the foreign direct investments (FDI) that occur when there is the acquisition of shares that give the control over a non-national firm. At the international level there is an operative rule that makes a distinction between a portfolio investment and a FDI (below the 10% of shares or of the voting power it is considered as a foreign personal investment). Usually, in the takeover context the participation rate is higher.

The investors of emerging and developed countries have different strategies in cross-border M&As: the emerging countries prefer to focus their attention on natural resources, while the investors of developed countries tend to invest in different sectors with the purpose of increasing their fame.

Decisions about the authorization of a foreign investment must be based on objective criteria that were known by the investors in advance. It has the aim to promote the principle of freedom to invest against the protectionist tendencies.

In this type of acquisition, foreign acquirers encounter more impediments and a stricter scrutiny compared to a domestic deal. The reason is the national security, which could be in danger if the deal is approved. The nations have the right to veto the attempted acquisition of the domestically based companies if the business would damage the national security. It is an extreme scenario that rarely occurs because, usually, the bid is retired as soon as the government expresses any concern about the potential deal or before any action is officialised.

The government interventions are a threat against the globalization, they are against and not compatible with a liberal economy, sometimes, they are even used against the desire of the corporate shareholders and the advice of the economists.

Starting from the 2000s a series of national legislations updated the mechanisms or set up formal regulatory procedures to screen cross-border takeovers for their compatibility with national interests, the previous legislations were replaced with new more clear or less ad hoc one. The era of reforms matched with the return of the nationalistic feeling all around the world. In the same period there was a similar pattern even about the direct interventions of the government that now is more frequent than in the past. The only motivation behind the higher number of interventions are the government interests that are affected when a domestic firm falls under the control of a non-domestic owner.

Each case is different from the previous one: nations think about their interests without making any reference to how they acted in the past, obviously, taking into consideration their national security criteria, but there is a tendency to take decisions similar to the ones taken in the past. Each country has different legal and regulatory frameworks, the acquirers have to take into consideration the different requests and problems that they could face, if they want to operate in a foreign country.

The new focal point, in some transactions, for a government is not the defence of the nation from the foreign threats (espionage, intellectual properties, raw resources…), obviously if there is any risk, but the defence or the creation of job positions for the citizens and avoidance of "social dumping" (deterioration in labour right). The shift of employees could bring the transfer and the reduction of innovation from the home country. In case of technology know-how movement, it has to be paid a higher amount of money to compensate the loss of this knowledge but the experience has shown that the knowledge transfer is not in only one direction. The movement of knowledge and devices may trigger general spill-over effects to the benefits of a third party (positive externalities).

In the last years there has been a complete change on the perception of bids, some countries even started a battle to be the most foreign investment friendly with a series of reforms. Acquirers have started to play regulatory arbitrage among the different nations to choose the one that fitted better with their needs.

From a theoretical point of view, the only reason for blocking a cross-border M&As is political. The politicians, and not just the economic actors, as it should be, try to maximize their personal utility by proposing and taking measures that have the unique aim to increase his/her popularity and votes.

Ideally, if we do not consider the personal objective of the external individuals, this is a positive sum-game where both investor and investee have a benefit. All the experts agree with this statement for the short term, while in the long term the situation could be the opposite and become a zero sum-game. Some have compared the Trojan horse with the foreign transactions from some countries, where the investments may be used to acquire influence in the foreign state and to impact on the decision-making process and the value-chain of the other nation, this goes against the mainstream political rhetoric about the FDI. At a first glance some offers could be seen as a "gift" but in the long-term they could become a "Faustian bargain". It cannot be a surprise that governments prefer a domestic over a foreign ownership in, at least, the sectors involved in the national security.

The control mechanism is not only used by the governments that historically heavily intervene in their economy, trying to defend and promote their most important companies, but by any nation, no one excluded.

The government interventions are moved, firstly, by a non-military internal balancing concerns. They are the main actors in an internal anarchic system, where they can just rely on themselves for their own security and survival. A state can balance its relative power in two ways: externally (enhancing or strengthening one alliance or shrinking and weakening an opposite one); or internally, (improve its economic and military strengths). The aim is to maximize the present and the future wealth of the state and to secure its position in the economic global competition

There are five independent variables that bring the domestic government to undertake an action rather than another.

$$\begin{aligned} Intervention\,Type = {} & (Geopolitical\ Competition + Economic\ Relationship + \\ & Economic\ Nationalism) + (Competition\ Concern + \\ & Interest\ Groups\ and\ Lobbies\ Presences) \end{aligned}$$

- Geopolitical competition is defined as the potential coercive bargaining interactions of two states in their geopolitical environment. Increasing those interactions boost the geopolitical competition. The variable is influenced by the following dimensions: being in the same Security Community, Relative Military Power, Resource dependency and Inward Foreign Direct Investment (IFDI).
- The Geopolitical Relationship variable is the weight that the relationship among two countries has on the final outcome of the deal. The relationship is influenced by several factors: historical relations, cultures, traditions, interests, visions and if they are part of the same economic communities. The historical relations are the interaction between the two parties through the time.
- The Economic Nationalism variable measures the level of nationalism feelings in the country. Usually, it is a good indicator of nationalism feelings, it can really be understood

if and only if analysed considering the specific state, its environment and nationalism feeling in general, rather than using the conventional economic point of view.

- The Economic Competition represents the effort of the parties to obtain a better deal or position in the market for themselves, so it means a worse one for the counterpart. Easily, we can assert that their final aim is to have the highest profit possible. In order to have a competition there must not be any barriers to enter the market.
- Interest Groups and Lobbies Presence variable are used for studying the weight of the interest groups' and lobbies' actions in the final decision of the government about a cross-border M&A, as well as the effectiveness of their actions in blocking the deal. They are characterized by a complexity and a heterogeneity of interests that derive from the vertical and horizontal separation of power. Those groups have to be able to adapt themselves and their actions to: their final objective, the government and the topic that is discussed (insider versus outsider or strategies to voice versus strategies of access).

When considering those variables, a government has the goals of: protecting its national security and its roots. With national security it is meant the maintaining and the survival of the state and preserving its autonomy of actions and decisions in an international environment

Each state has a different legal and regulatory approach to manage foreign investments in national security fields, but commonly are 3 approaches are recognized. The first approach expresses the partial or total prohibition of the foreign investments in some strategic or vital sectors, fundamental in the safety defence. The second approach is focused on the review of the offer of investments that falls under certain "legally defined" categories. The criteria used to define the categories usually involve the monetary value of the investment, the sector of the company that could be acquired and the share of stakes that could be bought. The third approach is a scrutiny system used to identify potential problems in the transaction, which will be subjected to a review.

There are three forms of government intervention: Unbounded, Bounded and Internal.

- The Unbounded Intervention is the most aggressive tool available for a country to manage cross-border mergers and acquisitions. It could be a formal or an effective block of a cross-border M&As, it results from a concern of the government about national security. Such intervention strictly depends on the intention of the government actors, who try to prevent a successful conclusion of the bid, which could bring an immediate threat. It can be considered as an instance of overbalancing.

- The Bounded intervention, like the Unbounded intervention, is a non-military internal balancing action moved by the same motivations. It is used to balance the power of another state, without disrupting the diplomatic relationships. It is not fixed and varies from country to country. The main difference is given by the degree, the intensity and the intent of the countermoves. This is an intervention where the government is able to alter, in its favour, the bid proposed, which will be accepted, rather than blocking the all business. Differently from the Unbounded Intervention that has as outcome a denial, the Bounded Intervention may be either accepted or rejected by the government, but the main intent of the government is to allow the deal in a different form which is more beneficial for the state. It is divided in "high" and "low", depending on the intensity of the measures done by the government.
- The Internal Intervention is the alternative to a direct intervention of the government. It is an indirect tool which is seeking to protect a specific company from a foreign takeover, it may take all the precautions before or during an offer or a rumour. The company has to be vital for national security and a foreign ownership and control could be detrimental to relative power position or future survival. It allows the state to have a greater degree of latitude and strategic flexibility because it lets to achieve the same result of the Unbounded and the Bounded Intervention but with a larger time to do it. The Internal Intervention can be used in three different forms: a proactively seek (encourage and then support a domestic firm to act as an alternative option for the vulnerable target); an aggressive encouragement to the domestic investors and/or companies (the government hunts for a domestic alternative); the promotion or the support of a merger between two weak entities, in order to create a national champion.

The government can also decide to not intervene at all.

2ND CHAPTER

Each enterprise is different from the others. They have different goals, some can be more focused on the earning, while some others focus their attention on different aspects. Anyway, all of them have to respect the market mechanism that regulates the environment where they operate.

Almost all the most important companies in the world have a direct (the state is a shareholder) or indirect connection (the CEO or the acting chairman are subscribed in a party or they have had an official role in a political institution) with the political environment. There are 2 two types of influence from the government: a formal institutional pressure (a direct intervention or control by the government) or an informal relation influence (the government cannot directly control the companies, but there are figures that are directly linked with it in the decisional positions).

A first broad classification can be done dividing the companies in SOEs and non-SOE.

SOEs are a particular type of company where the state has the power to influence and/or take the decisions about the most important topics. It is possible because it may be the biggest shareholder, or it has “special” shares that give it the opportunity to have the last word on crucial discussions or with different kinds of tools that allows the government to have the same decisional power. This type of entity has a key role in the global economies. In the emerging countries the government has a preeminent role with an absolute control, while in the developed countries it has a minor role. SOEs are forced to conform their actions to the government’s expectations, if it does not happen all the management will be substituted with one more inclined to accept the “advices” from the government. Unlike the private peers, they have to satisfy the citizen and the government needs.

SOE can be divided in: Central Government Owned Companies and Central Regional/ Local Owned Companies.

Central Government Owned Companies are enterprises almost directly managed by the government, it is or the ultimate controller or its holding body. The Regional and Local counterparts are companies where the ultimate controller is still a political entity but which operates at a lower level. Central Government Owned Companies are bigger and used to achieved the most important and expensive desires of the government, while the Regional and Local Owned companies are smaller and are used to fix the issues at lower levels.

Non-SOEs are not directly linked with the government. Their final aim is the maximization of its shareholders’ profit. The political and economic favours offered by the government are lower but on exchange non-SOEs suffer a minor influence from the politics. The institutional support received is substantially weaker so they must resort on their personal connections to obtain loans from financial institutions or to their private and informal sources of credit. They have the opportunity to decide how strong is the tie with the politics.

When they decide to undertake a cross-border M&As, both have to consider seven non-economic main factors that may influence the decision and the final outcome of the deal: cultural similarities, diplomatic relationship between the two governments, the seller's country law, the ways of communicating, the consideration of the other country about the buyer's nation, the presence of corruption and how to manage it and the quality of institutions in the host bound.

The complex nature of M&A transactions, especially for the cross-border one, many times lead to a direct or an indirect intervention by the seller's government. The politics tries its best to develop a favourable environment with the adoption of measures that encourage local enterprises to go global. The Nobel Prize North and Davis originated an institutional theory which is the base for explaining how the formal and informal institutions are able to decide the "rules of the game" through: regulative, normative and cognitive elements. The government encourages some actions, while discourages others; it is done with the aim to take an advantage on the international chessboard and raise its power and its influence on the other nations. The push received by institutions has a major impact on the investment decision, the firms tend to have an incautious behaviour with an apparent lack of risk analysis and a preference to the short-term economic rents that may arise in a very "dangerous" host country. Sometimes, the management of emerging countries is not experienced and skilled in making outbound investment strategies as, usually, are the ones from the developed nations.

Political and economic global events coupled with a new generation of technological advances, are the cause behind the birth of a new scenario where the governments of the emerging countries are "forced" to give their support to the local firms for "going global". So, the institutions in this nation, if it is possible, has to leverage their support to their domestic companies that want to compete on outbound markets.

There are two phases during the internationalization process, whose aim is to increase the pool of strategic assets and the efficiency of the enterprises and of the domestic economy. It cannot be a surprise that there are differences between those moments: in the first phase there is not a specific preference and many investments are located in non-developed countries; while during the second phase there is a marked preference for investing in developed nations for acquiring their knowledge, know-how, brands, technology, etc… There is the trust that with those acquisitions they will strengthen their competitiveness of the domestic market.

Many studies examine the channels through which the politics can influence or even impose its desire on a company. States, through the use of institutions, as understood and claimed by North, have a major spot in the final decision about if, where and how to invest abroad. The influence is exercised at the national level and not at the lower one, regional or local. It is done for promoting the interests and satisfying the needs that are presents among the citizens.

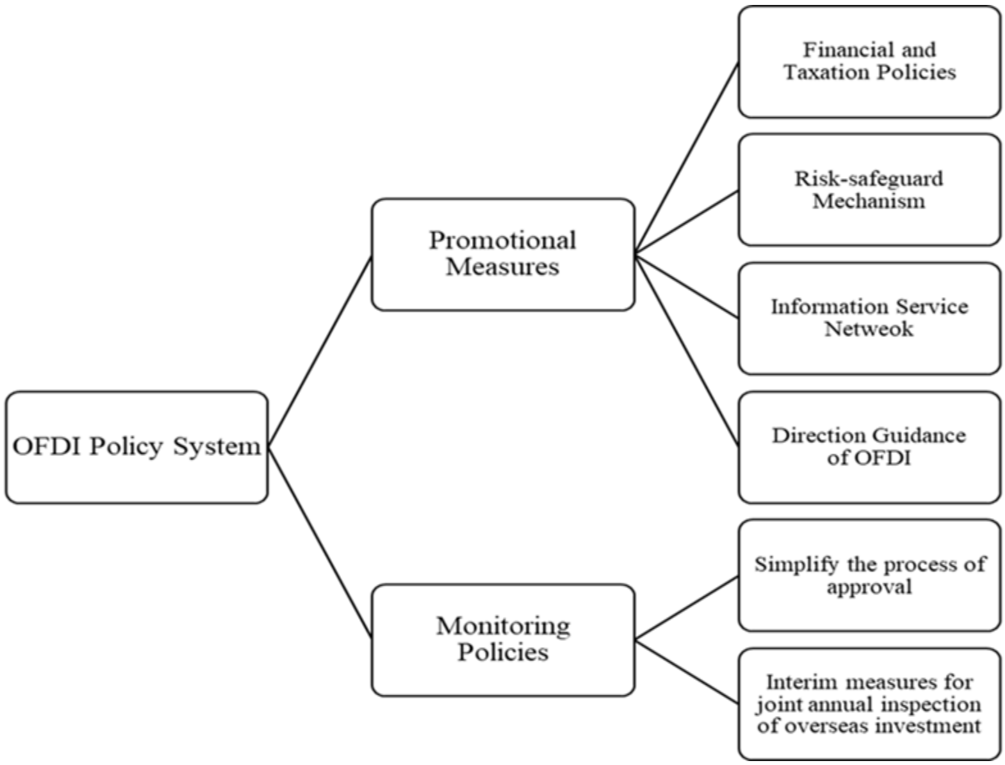
According to the political economy theory, the government is the controller, the regulator and the judge of all the business sectors. With its power it is able to: create legislations to regulate the national economy; frame the competitive environment and factor endowment; last but not least, to model the regulatory environment where the businesses will be conducted. In such environment the national enterprises can be more intensively engaged in global competition, they become more and more important to governments because they can fulfil the role of accommodator of social and economic concerns (steering economic growth, advancing technological infrastructure and/or enhancing national competitiveness).

The home country politics can be a powerful and strict ally to those which want to expand their interests, the institutions may offer various institutional supports to the domestic challenger: a low-interest-rate financing that arrives directly, with a preferential channel, from a State-Owned bank; fiscal incentives, a direct subsidy; a cut of the cost or extra-sources that would not occur in a "normal" situation. Governments reduce the need of the firm to find access to resources through their own effort. Those special financing assistants are used for supporting the investment for: setting up the research in the foreign nation and developing centres. They may play an important role in using the new advanced assets acquired.

From a non-financial point of view, there are several ways on how a company can be helped; the most immediate is a political support that works through a cooperative tie with the host-country governments, but it could also facilitate the business through some advices about the foreign bureaucracy or with more relaxed standards required for supporting the investment. The other aids that may be offered are: an insurance against political risk; assisting the private during the negotiation with foreign agencies; signing double taxation avoidance agreement enacting bilateral and regional treaties to protect investment abroad; arranging a bilateral or multilateral framework to liberalize investment in the host country; etc… This type of assistance is fundamental when the takeover is located in a nation where the approval of the government is required, otherwise even if an agreement is found the acquisition cannot be officialised. Another important help may be the access to sensitive information in advance (faster and easier identification of the most interesting investment opportunities abroad).

The aid provided on supporting national enterprises can be classified in two different categories: promotional measures and monitoring policies.

Promotional measures are the exemplification of all the direct financial and non-financial interventions provided by the state. In addition to those potential aids the government may choose to use its risk-safeguard mechanism to reinforce the immunity to risk avoidance for the companies that go abroad. The second one, the monitoring policies, is done for facilitating the investment abroad. There is a try to facilitate, as much as possible, the approval process (delegate to lower level institutions and to not exceed a predetermined number of working days for receiving the approval). Once the agreement is founded the role of the government is over.



3RD CHAPTER

Almost all the scholars agree with the Porter's idea that the M&A deals are the easiest and fastest way through which a company can go beyond its limit but at the meantime this option is really risky. This a critical strategic and organizational change. Foreign investments extremes both pros and cons of a M&As, it allows to have a potential unlimited growth but with a higher chance to fail and lose the resources invested, for this reason it is so intriguing and so scary at the same time.

Through the time there has been periods when it was easier to receive the government approval and other when controls were stricter. The presence of a good relationship between the domestic and the foreign government has a key-role because it allows the buyer to have more opportunities and to bargain for the most appealing M&A opportunities. Forward-looking investors know how crucial is the politics role when going abroad and how it has to be considered when a foreign investment is done.

In a cross-border M&A is fundamental the political affinity between the two countries. Closer are the countries and lower are the reasons to fight, so there are less conflicts. The bilateral agreements imperfectly reveal the similarity in countries' national interests, it could reflect competitive economic pressure to gain access to capital, regional security needs, etc…

Closeness has a key role during the negotiations and has a major impact on the initial acquisition premium offered (difference between the price proposed for the target company and the pre-acquisition market value). Lower is the affinity and more likely is an intervention by the domestic government against foreign firms in an acquisition deal. On the other hand, higher is the level of similarities and lower is the probability of an intervention from the domestic politicians.

The size of the acquisition is a key decision because, as it is known, premium is a crucial component in the acquirer's bid strategy and it is a major strategic decision during the pre-acquisition process. Ceteris paribus, a price that is correctly settled should avoid at all the government intervention

If the government intervenes, the position of the buyer will be weaker and it will be harder to conclude a deal that is profitable or, more in general, to terminate it. Consequently, there is the need to open the negotiation with a more lucrative initial offer in cash for dissuading target company from leveraging a government intervention that would use an aggressive regulatory defence strategy that would lead in higher costs to carry on the negotiation or in a block of the business. This "fear" can be used as a regulatory strategy from increasing the bid premium offered.

The effect of political affinity might be contingent by the ability of the host country government to intervene against a foreign acquirer. When there are difficulties to take actions there is no or less need for the buyers to consider such scenario. Consequently, the variables that may lead to an intervention by the politics have a lower relevance in the pricing decision.

During a confrontation between two governments, there is one that has a dominant position and the other that has a minor bargaining power. The initial positions are determined considering the variables studied in the first chapter. The bargaining positions of the parties involved in the negotiations are indirectly revealed by the initial bid premium offered. When the domestic government enters in the discussion the bargaining positions always change in favour of the seller. If the local government has a dominant position it may exploit it for gaining more from the deal or even after it. Thanks to its strength it may expropriate some assets or even all the company, require a higher taxation or subscribe an unfair regulation. Domestic government can find a profitable deal that allows it to have: a greater influence on the decision and to increase the cash inflow from the taxation, to extract knowledge and technology, new know-how (R&D and patents), increase of GDP, increase the competition and the efficiency of the local market.

On the other side also the acquirer may benefit from various sources of value gains (scales economies, complementary assets-based synergies, market power effects) and when it will make its offer those represent the limit over which the deal will not be profitable and it would be better to give up on the research of an agreement. For the buyer's shareholders there could be a convenience if and only if the acquisition proposal is above the value of the firm, otherwise they will not sell. To sum up, both want to have a profit and in this case the agreement will be found with a split of the extra value added by the profit deriving from the forecasted synergies between the acquirer and the seller. There are few reasons why a firm undertakes this pattern: for financial gains or for diversifying its risk exposure related to resource revenues.

Every type of enterprise is influenced by its link with the government differently. The cumulative abnormal returns (CARs) of shares either for the short-term and the long-term stock market is the method used for understanding if this tie is a value creator or destroyer. Studies that utilize the event study method indicate that investors use information about a firm's cross-border M&A to correct their expectations about potential future performance, so it is supposed that there is a semi-strong efficiency market where the actors are able to react to the new information spread and nobody can obtain them before the release (no cyber-trading). This method is widely used to capture market reaction to an announced event that was unexpected.

The abnormal return is estimated based on standard market model; the equation used is the following:

$$AR_{it} = R_{it} - (\alpha_i + \beta_i * R_{mt})$$

AR_{it} = Abnormal Return α and β = OLS parameters estimated through the regression

R_{it} = Actual Daily Stock R_{mt} = Daily Return from the Market Stock Exchange Composite Index

$$CAR_t = \sum_{t=1}^{n} AR_t$$

The calculations were done considering a 3-day and 5-day event windows, in this way the market has all the time to evaluate it and adjust the price in the following days. It was also calculated the CAR for the following 3 years because it offered a glace to the efficiency of the investment done by government-linked firms.

SOEs in the 3-day event window have an average abnormal return of 0.59%, while in the 5-day event window it is equal to 1.14%. In countries where there is a high legal quality SOEs experience an abnormal return of 0.72% in the first year, 1.46% in the second year and 2.18% in the third year following the acquisition. When SOES operate in a country characterized by a low legal system and the presence of corruption experience a negative abnormal return of 18.14% which is a negative return but it is higher compared to the other firms.

The non-SOEs have a positive abnormal return in a 3-day event window with an increase of 1.18% and of 2.62% in the 5-day-event window. In the first year the results achieved are in line with the one of the State Owned Enterprise, while in the second it is 7.22% and in the third it is 13.48%. When non-SOES operate in a country characterized by a low level of legal quality if they have a strong tie with the politics they have a result that is similar to a SOE, otherwise they face an abnormal return that it is minus 22.83%. In case of corruption those firms have better results because can cut the relation with the politicians and avoid their rent seeking. In an environment not characterized by either any critical or positive situation non-SOEs over perform compared to the SOE, their abnormal return is higher of 15% in a time horizon of over 3-year period.

The non-SOEs can be divided in Family and non-Family Owned Businesses. Family firms have a better response from the stock exchange market when they complete a cross-border deal. In the 3-day event window there is an average abnormal return of 1.40% while for the 5-day event window the value is 2.68%. The non-family owned businesses have slightly worse results both for the 3-day and the 5-day event windows. In the shorter one the average value is 1.09%, while for the longest one the average abnormal return is 2.59%.

Combining all the results obtained by SOEs and non-SOEs, it was possible to estimate the impact of the government tie in the cross-border M&As in the cumulative abnormal return. In a 3-day event window there is a rise of the company's shares of the 1.00%, while extending the study period to the 5-day event window there is an increase of the 2.17%. In the next 3 years there still is a positive correlation between the results achieved by the enterprises and a relationship with the government.

A study carried on by Megginson and Netter calculated the average abnormal return of a company in a domestic M&A. In their work they found how in a 3-day (0.84%) and 5-day (0.80%) event window there is a positive abnormal return but the values are lower if compared to those achieved by companies with a tie with the politics. They did the same also for the cross-border deals when it is not involved the government, in this case the values are 0.83% in a 3-day event window and 1.15% in 5-day event window.

CONCLUSIONS

All began with two questions: "Do the governments have or not a role in the cross-border M&As?" and "If they have it, do they bring an extra-value to the companies involved? Do not?". The answers for both questions have to be affirmative. The link between the politics and a company can be a fundamental asset that can make all the difference, otherwise it would be not accepted and sought by the enterprises. This could be perceived as a self-evidence.

With an average abnormal return of 1.00% in a 3-day event window and 2.17% in the 5-day event window it is possible to state without any doubt that this link is not just perceived but it is beneficial for the market. Also in the long run this closeness help to have better performances than the one experienced by companies that do not have it.

State-Owned Enterprises have to follow the government's desire but since they start to operate abroad they have more freedom and they need to operate as a private company, so they have abundancy of resources followed with an organization that will be more in line with the ones of the private; this means to have all the pros from the one model and minimize the cons. By the way, they are the type of company which achieved the lowest values (0,59% and 1,14%) but it can be explained by the larger number of deals concluded where the seller operated in strategic sector for the national security and so it is necessary to offer a bigger premium. In a three-year time period the result achieved by those companies are superior than those of the non-politically connected but inferior to the non-SOEs, this can be explained because even if they operate as a common company at the higher levels have to follow the government's desire and that could bring to take unprofitable decision.

Non-SOEs' results are superior to the ones of the counterpart. The cumulative abnormal return experienced on average are more than the double in the short-term (1,18% and 2,62%) while in the long-term the difference is even bigger. In this case the firm has a unique objective that is to increase the wealth of the shareholders. They do not need to maximize the collective benefit and this allow to undertake only the deals that are economically profitable and this difference is even more important in a medium-long time horizon.

The family and the non-family owned company have a different structure but with the same objectives. The divergence is on who fill the decisional spots and on the desire to pass, from a generation to the following one, an asset at its best, it probably makes the difference (short-term profit is not important because the long-term one is the focus and the centrepiece of every actions, from the daily to the extraordinary one). On the other hand, in the non-family businesses the managers have to satisfy the shareholders' desires, this may lead to undertake wrong decisions to follow the needs and ideas of the owners. They are the explanation for a 22% lower result in the 3-day event window and for a 3% lower result in the 5-day event window. In the long-run there is almost no differences in the outcomes.

Introduction

Every day, all the traders around the world work on several businesses that pass by their hands. This is a fundamental aspect of the stock exchange market that is more and more globally connected. Those figures coordinate the international market and interact with different clients that usually have the main goal to maximize their profit. By the way, this is not the sole motivation for all the calls that they receive; there may be non-profit motivations behind the requests. The result that the clients may want to achieve could be to gain or balance the power of their nation; currently they are the frontline soldiers of a different version of war. The modern conflict does not request any formal statement or diplomatic action, the weapons used are the cross-border mergers and acquisitions. Those are one of the most important form of corporate investment and they can influence the fate and the balances among the countries.

As all the wars, even this one is based on the power balance among the actors and the transactions are used to acquire an advantage on the opposite side, either from an economical either from a strategical point of view.

During the negotiation between a national firm, which is the seller, and a foreign one, that is the buyer, the domestic government has to understand the real implication of the deal and find how to maximize its benefits, so they have to correctly evaluate the situation and take actions, neither too "strong" or too "soft", or to not take any actions.

The same reasoning has to be made by the buyers, when they undertake this process, they have to study all the aspects of the deal and how it will impact in the future. During the decisional process there are many variables that have to be analysed because it could make all the difference between the success and the failure of the company. The government of the nation where investors headquarter is located knows that indirectly this business has a fundamental impact on its future with the global power balance that can change in its favour or against it. Indirectly that country may have a benefit from an expansion of its enterprise, for this reason an intervention to facilitate it cannot be excluded a priori but it is a common practice. The politics does not necessarily intervene at the moment of the negotiation; it could have done its move before through the subscription of an agreement that regulates the outward investment from one to the other.

Since the 60s with the Cold War the most important powers shifted their belligerent intentions from the warfare industry to the economic field. In the next couple of decades, the tension was high but it never broke out in a war and this new mode to challenge each other became the standard one with the greatest implication on the internal security and the external decisional power. Radical political and economic changes pushed through by Mikhail Gorbachev in the 1980s began to modify drastically the politicians' vision of the reality. With the end of the Cold War, it was perceived that everything was different and it could not be possible to go back, this new system was the only available option.

The cross-border M&As is a topic that the scholars have analysed on detail. It is one of the most important type of transaction because it is able to move a huge amount of sources and impact on several economies. However, the focus has always been on other aspects (cultural similarities, legal framework, payment method, etc..) and never on how the politics can impact on it. This variable was just analysed in relation to the domestic Mergers and Acquisitions and how it could be exploited from the two parties for having a rent.

The aim of this thesis is to explain the political implication behind the cross-border M&A, the institutional pressure that the firms receive, the possible actions undertaken by the governments and the variables behind them for either the domestic and the foreign nations and how they impact on the answer of the stock exchange market to the information that an agreement was successfully subscripted.

In this thesis, all the aspects just mentioned aspects will be analysed in details and how they effectively impact on the enterprise performance. The division in three chapters was a natural consequence of the work done during the months spent for the research and the composition of this work. In the first two chapters, there will be a theoretical analysis of the role filled by the governments through the cross-border M&As, while in the third chapter there will be a more practical study with a final estimation of those deals and if they are profitable or not.

The first part is dedicated to the domestic country, where the target is located. It is divided in three sections. In the first one there will a briefly introduction of the phenomenon that is the core topic of this elaborate. In the second one there will be a detailed analysis of each variable that has to be considered in order to try to forecast which will be the reaction of the government to the information and how external entities may draw its attention. The last section is about the potential actions that a government may undertake and a couple of examples to make it easier to understand what could happen in a real case.

The second chapter is similar to the first one but the focus will be on the foreign buyers. At the beginning it will be discussed all the potential relations between firms and the government, from the SOEs to the non-SOEs and the pros and cons of the tie. Following, as for the first chapter, there is a discussion of all the variables that have to be studied before undertaking a negotiation; while in the next sub-chapter, how the government can influence the decisions and again few examples to make it easier to understand the process.

In the last chapter, as anticipated, there is a more practical discussion and analysis. It is divided in two main bodies. In the first one there will be a summary of what previously analysed and how the two forces will effectively impact and then the introduction of the method used for the estimation of the data obtained. In other words, it will be shown how the governments can impact on a deal, which government has a greater influence on it and the most proper way to study it. In the last section, it is discussed how the stock exchange market answers to an agreement of a cross-border M&A, starting from a generic point of view and then considering each type of enterprise, from SOEs to non-SOEs with a focus on the family and the non-family businesses. As in the first two chapters, some examples will be used to make easier to understand the process and to give the opportunity to see on the real life if the values calculated are in line with some of the most iconic contemporary cases.

Obviously, at the end, there will be a conclusion that will summarize the results of this work. There will be all the final observations, that are the natural consequences of all the observations done in this thesis.

Of course the aim of this thesis is not to give a final answer to a topic that did not receive the proper importance by the scholars but to give a starting point for future works. It is necessary to expand the comprehension of a topic that is more and more important in a world that every day is more and more interconnected and where the decision taken by a person can affect the life of thousands or even billions of individuals.

Chapter 1

Host Country

1.1 HISTORICAL EVOLUTION

For decades, the main driver of the globalization has been the cross-border M&As of companies which were not in the same national borders. In an "investment liberalization" environment, theoretically, the companies would face the same issues that they would have experienced with a national M&A[1]. The investments considered in this category are the foreign direct investments (FDI) that occur when there is the acquisition of shares that give the control over a non-national firm. At the international level there is an operative rule that makes a distinction between a portfolio investment and a FDI. It is adopted the criteria under which below the 10% of shares or of the voting power, it is considered as a foreign personal investment. Usually, in the takeover context the participation rate is higher, often involving a major number of stakes of the involved company.

Nowadays, it is a common practice that iconic brands are owned by foreign investors. The investors of emerging and developed countries have different strategies in cross-border M&As: the emerging countries prefer to focus their attention on natural resources (a good example is provided by the takeovers done by China at the beginning of its Go Global strategy); while the investors of developed countries tend to invest in different sectors (fashion, luxury, etc…) with the purpose of increasing their fame.

Decisions about the authorization of a foreign investment must be based on objective criteria that were known by the investors in advance. In some cases, as in the European Union, there could be extra-national courts that decide if the measures undertaken were too restrictive and eventually impose a new negotiation that is in line with the requests that would have be done to a domestic company[2]. Whereas the SWF's (Sovereign Wealth Funds) problems are regulated by the Santiago Principles[3], the OECD (Organization for Economic Co-Operation and Development) is the counterpart adopted to give the guidelines for the receiving countries. It has the aim to promote the principle of freedom to invest against the protectionist tendencies. As for the Santiago Principles, it

[1] Those principles are based on the Bretton Woods Agreement, which was the first step to create a military and economic situation of pace

[2] The court studies the case and decides if the same government's goal could be achieved with less restrictive measures and following the principle of proportionality, it cannot go beyond it to achieve the scope of the country. This is an ex post facto scheme where the case is viewed and analysed just once the agreement has been found

[3] 24 generally accepted principles and practices voluntarily endorsed by Sovereign Wealth Funds. It was drafted in 2008 by the International Working Group of SWFs and accepted, the same year, by the International Monetary Fund Committee. It promotes the good governance, the transparency, accountability, and prudent investment practices while encouraging a more open dialogue and a deeper understanding of SFW activities

is based on transparency but also on predictability and responsibility. Usually, they are checked with a common peer review by most countries.

Now, the reality is different: companies, in this type of acquisition, encounter more impediments and a stricter scrutiny compared to a domestic deal. The reason is the national security, which could be in danger if the deal is approved (usually, the sectors listed as politically sensitive are: finance; internal security, telecommunication and strategic resources)[4]. The nations have the right to veto the attempted acquisition of the domestically based companies if the business would damage the national security. It is an extreme scenario that rarely occurs because, usually, the bid is retired as soon as the government expresses any concern about the potential deal (see Danone-PepsiCo. case) or before any action is officialised. Indeed, the usage of domestic barriers to stop a foreign acquisition for national security reasons is a phenomenon that the global economic actors have to take into consideration, with the introduction of wider legal and regulatory measures that differ from country to country.

The government interventions are a threat against the globalization, they are against and not compatible with a liberal economy, sometimes, they are even used against the desire of the corporate shareholders and the advice of the economists. Experts have provided data for about two decades to support a more globalized economy; anyway, the purpose of this thesis is not to consider the shareholders' desires and their role on the selling of their enterprise.

Just recently, the economic interdependence has reached the levels obtained prior to War World 1, the scholars are not sure that the globalization process is inevitable. Reports by the US National Intelligence Council (NIC) highlighted that it is still possible a deceleration in the globalization process, the world's greatest powers fragmentise in response to an increasing perception of level of threat abroad, due to a global pandemic, terrorism or a rejection by the crowd[5].

As mentioned previously, cross-border M&A is a new and different way to fight a "war", in this conflict even the alliances are not out of risk of having problems. The barriers are used as a tool for the non-military internal balancing[6]. In this era, where we are more and more globalized, the states

[4] The companies of those type of sector have a lower rate of success if involved in an acquisition by a foreign investor

[5] NIC 2010, 14. It has suggested that such backlash may result from a "white collar" rejection in the wealthy countries or a resistance in the poorest country that see the phenomena as a new way exploit them

[6] Actions that have as main goal to enhance a state's relative power without damaging the greater meta-relationship between the countries

have more reasons to be concerned about their economic sovereignty, so they seek to balance their relative power. An overuse of state intervention into the cross-border M&As could have a negative impact on their total.

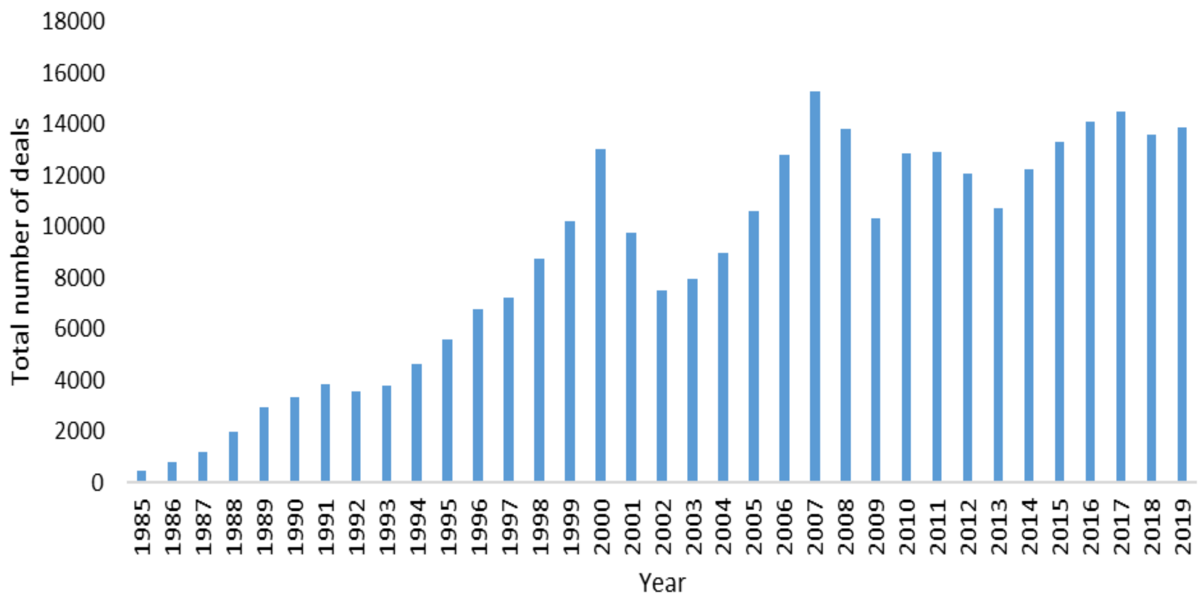


Figure 1: value of the M&A through the time: data provided by: *https://www.statista.com/statistics/955594/worldwide-number-of-cross-border-merger-and-acquisition-deals/*

The forward progression of globalization needs the presence of a benign hegemonic power that wants a liberal economic order and ensures an economic integration by showing its willingness to protect the order.

The interventions started in the 2000s: a series of national legislations updated the mechanisms or set up formal regulatory procedures, replacing the previous ones which were less clear or more ad hoc. Those eras of reforms matched with the return of the nationalistic feeling all around the world. Through the period of the financial crisis, there was a trend where several countries installed or modified their control mechanism, with the creation of regulations or the amendment of new ones, that attempted to screen cross-border takeovers for their compatibility with national interests. In the same period there was a similar pattern even about the direct interventions of the government which is more frequent than in the past, they should not be linked with the crisis. The only motivation behind the higher number of interventions are the government interests that are affected when a domestic firm falls under the control of a non-domestic owner.

Each case is different from the previous one: nations think about their interests without making any reference to how they acted in the past, obviously, taking into consideration their national security criteria, but there is a tendency to take decisions similar to the ones taken in the past. Each country has different legal and regulatory frameworks, the acquirers have to take into consideration the different requests and problems that they could face, if they want to operate in a foreign country.[7]

By the way in the last years there has been a complete change on the perception of bids, some countries even started a battle to be the most foreign investment friendly with a series of reforms. Acquirers have started to play regulatory arbitrage among the different nations to choose the one that fits better with their needs. It may have an impact on the domestic policies, with a major influence on the environmental and labour standards. The most important countries, such as the United States of America, believe that this new behaviour is coming from a free riding: the countries where the acquirer company is located enjoy the influx of capital, while the one who has rejected the bid defends and guarantees the security of the allies (this critic was done by the USA to the European Union due to the rising number of Chinese's takeovers in the Old Continent).

Now, they are well-accepted by the governments because the nations do not have all the resources needed to protect every firms, due to the losses occurred through the financial crisis, so they prefer to give up on the protection of the not fundamental ones for the safety of the country, if this means to save the firms that risk a bankrupt and gives them a new lease of life. In the short term it is beneficial, while in the long run it could become a fool's bargain.

The new focal point, in some transactions, is not the defence of the nation from the foreign threat, obviously if there is any risk, but the defence or the creation of job positions for the citizens. One of the positive effect of a transaction is the arrival of fresh capital, it may allow the acquired company to improve its efficiency of the chain production and maybe the entrance in a new market (see Pirelli-ChemChina Case), but at the meantime the value chain can go to the opposite direction and potentially create a "social dumping" (deterioration in labour right), those two are the main problems that has to be faced before the approval by the government.

[7] Ashley Thomas Lenihan; Balancing Power without Weapons: State Intervention Cross-Border Mergers and Acquisitions; Cambridge University Press; 22nd March 2018

The empirical data, provided by previous studies, showed that there is no direct correlation between the number of jobs in a given company and the nationality of the owner. For the “social dumping” the risk is that the new owners want to use their softer labour standards (retirement age, wages, time schedule, etc..) and, if the domestic workers do not accept them, to bring foreign ones ready to followed them (Chinese investments are the best example; in Africa the domestic employees constantly receive warnings of a potential dismissing or physical ultimatum, some managers even shot to the crowd during a strike), the blind eye of the government on labour violation, that effects the rights and the safety of the workers, in order to court and keep the outbound investment.

Even with several pieces of evidence that go against this scenario, at least in the developed countries, those two ideas are the starting points that push any anti-globalisation movement. Anyway, an intense commercial relationship with other countries is frequently solidified by a direct investment with a positive effect on jobs. So, when there is a deal, one of the main fears is the cut back on jobs or the shift of them to another country.

The shift of employees could bring the transfer and the reduction of innovation from the home country, it is a fundamental field with a strategic importance for the survival of the nation. In case of technology know-how movement, it has to be paid a higher amount of money to compensate the loss of this knowledge but the experience has shown that it is, almost, never in one direction because also the bought firm will benefit by technology development of its headquarter. Finally, the movement of knowledge and devices may trigger general spill-over effects to the benefits of a third party, for example with the rise of positive externalities. For this reason, there should not be any concern about the sale of companies that operate in this sector, unless they are linked in any way with the defence industry.

Other concerns that have been rising for the last years, thanks to the higher number of takeovers from the emerging nations, are the running out of the national raw resources, the espionage and the insufficient protection of intellectual properties. The concern is bigger when the acquirer is a state-controlled investor that could try to enter in the decision making process of the politicians and influence the government, so with those entities there is a higher attention on the protection mechanism and to ensure the independence of the actions undertaken.

We have to always consider that it is not important who is the acquirer, it will be, always, subjected to all rules applicable in the country. A fundamental requirement for the acquisition of a stake in a media enterprise is the respect of the most important value of the target country and if they are not accepted, the takeover will be blocked, it is not important if it is a state-controlled or a private company.

If the buyer is a SWFs from a state that does not meet the minimum democratic standards, the home country has to pay more attention to the potential deal. The transparency in this case has to be improved. In several countries the government simply obliges the investors to reveal their identities. However, all those practices have to follow the OECD mechanism to ensure an equal treatment to all the potential parts involved.

The focus of the international economic laws is the extent to which cross-border investments are protected once they have been accepted by the government, but it does not grant any rights to the investors that their investment will be admitted. There is not a unique set of laws that are used in every nation: in the USA there are formal procedures for vetting inbound foreign investments, which have been designed and refined in the wake of successive crisis provoked by specific instances of FDI; in Europe, on the contrary, there is not a commonly agreed procedure and every nation has its own rules that have to follow the principles provided by the European Union; last but not least, there are all the others countries which are independent from each other with different procedures. A first study showed that international economic laws do not provide any important restrictions on states regarding the control of cross-border takeovers.

A case where there is a higher probability that the investment is accepted is when the two nations involved are part of a bilateral treaty (BIT). Currently, the total number worldwide of those agreements is estimated to be over 2800 and almost every country have signed at least one[8]. In kind of agreements, there is a higher mutual trust between the parties involved, than in the case of two nations that do not have any way to regulate their relations. At the beginning, the scope of toese treaties was restricted to the investment already made in the past, while the new ones have the aim to promote and admit future investments and to avoid every inefficient non-cooperative trap

[8] At this moment 2897 BITs have been signed but just 2343 are in force. Germany with 155 is the nation with the higher number of Bilateral treaties, followed by China (145) and Switzerland (127), with the Asian country which is filling the gap in the last years (the data are provided by Investment Policy Hub)

(prisoner's dilemma). The advantage of those contracts, rather than the public international laws, concerns the dispute settlements that were solved at the beginning and the possibility to gain a larger market share more easily. Those contracts are characterised by the presence of the "the best efforts" clauses, so there are not legal constraints but just the "promise" to do as much as possible. Since the start of the previous decade in this type of agreement, the nations started to include the principles of "national treatments" and "most favoured nation" (MFN) in the entry phase of the investment, so the two parts when investing in the other country have the right to have the same privileges given to a third part that subscribed a different treat. However, the countries that undertake those agreements, usually, can still refuse an outbound investment if the sector involved is fundamental for national security, it remains under the judgement of the home nation. Similar considerations can be done for the multilateral treaties; they are the same type of agreement but with more than two parties involved. In order to be subscribed an agreement, the nations involved need to have a high level of trust, this factor is heavily influenced by the historical interaction among all the parties interested.

The bilateral and the multilateral agreements are fundamental because they are the best example of reciprocity. With them there is a different behaviour depending on the actions undertaken by the other country in the previous bid, if the conditions were favourable the government will have a friendly behaviour, vice versa if it was hostile the home country will have the same attitude. This is a focal point for nations such as China, Russia and the Arabic countries which are active investors, but who, at least partially, shield their capital market from foreign investments. However, for the classical literature, this argument is not true because a foreign direct investment will always bring capital stock in the country of destination and so it will be beneficial independently from the reciprocity point of view or if arrived from a private or public entity. This is the reasoning behind the thinking of the majority of economists that push for a more and more open economy[9].

From a theoretical point of view, the only reason for undertaking those actions is political. The politicians, and not just the economic actors, as it should be, try to maximize their personal utility by proposing and taking measures that have the unique aim to increase his/her popularity and votes. In this scenario the politicians use the FDIs as screening instruments because they think that they

[9] Shi Li & Shizhong Huang; Politics, culture and M&As' transaction completion; Nankai Business Review International (Vol.9 No. 3); 6th August 2018; pages 264-288

will be rewarded by voters for such initiatives. The expectation of such individuals is that there is a resentment for the "sell-out" of the domestic economy that could be mobilized in their favour with the job argument. With this topic they justify their protectionist measures and often they are even rewarded. Those who refer to the welfare-enhancing effect of investment and to the necessity of an overall balance will have more difficulty to convey this more complicated message[10].

Ideally, if we do not consider the personal objective of the external individuals, this is a positive sum-game where both investor and investee have a benefit. All the experts agree with this statement for the short term, while in the long term the situation could be the opposite and become a zero sum-game. For this reason, the government has to deeply analyse the offer and choose the best for their country both in the short and in the long term.

Some have compared the Trojan horse with the foreign transactions from some countries, where the investments may be used to acquire influence in the foreign state and to impact on the decision-making process and the value-chain of the other nation, this goes against the mainstream political rhetoric about the FDI. At a first glance some offers could be seen as a "gift" but in the long-term they could become a "Faustian bargain", a dangerous deal where in exchange for an immediate economic relief the government trades the moral principles and the social democratic policies of the country. If it is true, "we're going to put ourselves in the wolf's mouth once" the nations "have taken this money" as claimed by the French sovereign politician Nicolas Dupont-Aignan to describe the decision undertaken by some governments, which "sold" their citizens. This statement cannot be considered fully wrong because when there is an investment, not in the national border, the acquirer is not just bringing money but also transferring its culture to the rest of the world, as explained by COSCO chairman Wei Jiafu (this declaration rose the concern about the Chinese takeovers, they were not motivated uniquely by economic reasons). The exemplification of this intention is the use of foreign managers, they usually act following their foreign practices and expectation, as result the employees can have a difficult psychological experience and rise xenophobic feelings.

[10] Andreas Heinemann; GOVERNMENT CONTROL OF CROSS-BORDER M&A: LEGITIMATE OR PROTECTIONISM?; Journal of International Economic Law 15 (Version 3); 26th July 2012; pages 843-870

Those worries are not new. In the 60s there was the "coca-colonization"[11], in the 80s the "Disneyfication"[12] to express the major American investment in Europe and in the late 80s Japanese companies acquired several American firms. The three examples were followed with the same concerns previously explained[13]. Actually, there are two nations that are viewed as a potential threat for the inbound security of countries: China and Qatar. Historically the FDI are always followed by a technological spill-over or by an augmentation of the wages, they solve all the doubts. Nowadays, it could not happen, some nations could be feared for a longer time because the result may be not a zero-sum game.

When there is an acquisition by a foreign investor, the main concern for any government is how it could potentially affect the politics through the warning of a punishment (see GdF-Suez case); the outcomes may happen: inside the country, between the two countries and/or with a third country[14].

National security may have a common objective with the company. The state of the acquirer could have a military or economic advantage, if the deal has success. In this situation the threat may be perceived as bigger and that can bring to a stronger reaction by the seller national government. Obviously, some states will really try to have an advantage from the deal and improve their position in the interdependent relation. The states will have different levels of vulnerability and sensitivity. In a deal, both parties could have an exclusive or a disproportionate benefit; this will not bring a change in the relative power position of any state, unless the states pursue policies that enhance the dependencies. The aim of all the states is to increase their economic power, in their domestic market and in the trading partner economies, increasing their global influence. The government's wish is fundamental for a more intense economic competition in the future. All the states will be insecure, if any other state gains power, they seek to rebalance the situation by subscribing advantageous deals for them, rather than accepting a fair one.

Considering what just read, it cannot be a surprise that governments prefer a domestic over a foreign ownership in, at least, the sectors involved in the national security. Anyway, some others have a

[11] Servan-Schreiber used for the first time this expression in their write "The American Challenge" published in 1968

[12] Kuisel used this term for the first time in 2012 in his book "The French way: how France embraced and rejected American values and power"

[13] John H. Makin; Japan's investment in America: is it a threat? Challenge; Taylor & Francis (Challenge Vol. 31 n. 6); November/ December 1988; pages. 8-16

[14] Sophie Meunier; A Faustian bargain or just a good bargain? Chinese foreign direct investment and politics in Europe; Asia Eur Journal (Springer); 8th March 2014; pages 143-158

different point of view and have a general perception of threat with any foreign takeover. There is a similar behaviour even among the investors, some nations do not make any differences among the different acquirers, while others have a different approach if they are or not allies, members or not of WTO or EU/EFTA.

The control mechanism is not only used by the governments that historically heavily intervene in their economy, trying to defend and promote their most important companies, but by any nation, no one excluded.

The government interventions are moved, firstly, by a non-military internal balancing concerns. They are the main actors in an internal anarchic system, where they can just rely on themselves for their own security and survival. A state can balance its relative power in two ways: externally, moving to enhance or strengthen one alliance or shrinking and to weak an opposite one; or internally, improving their economic and military strengths.

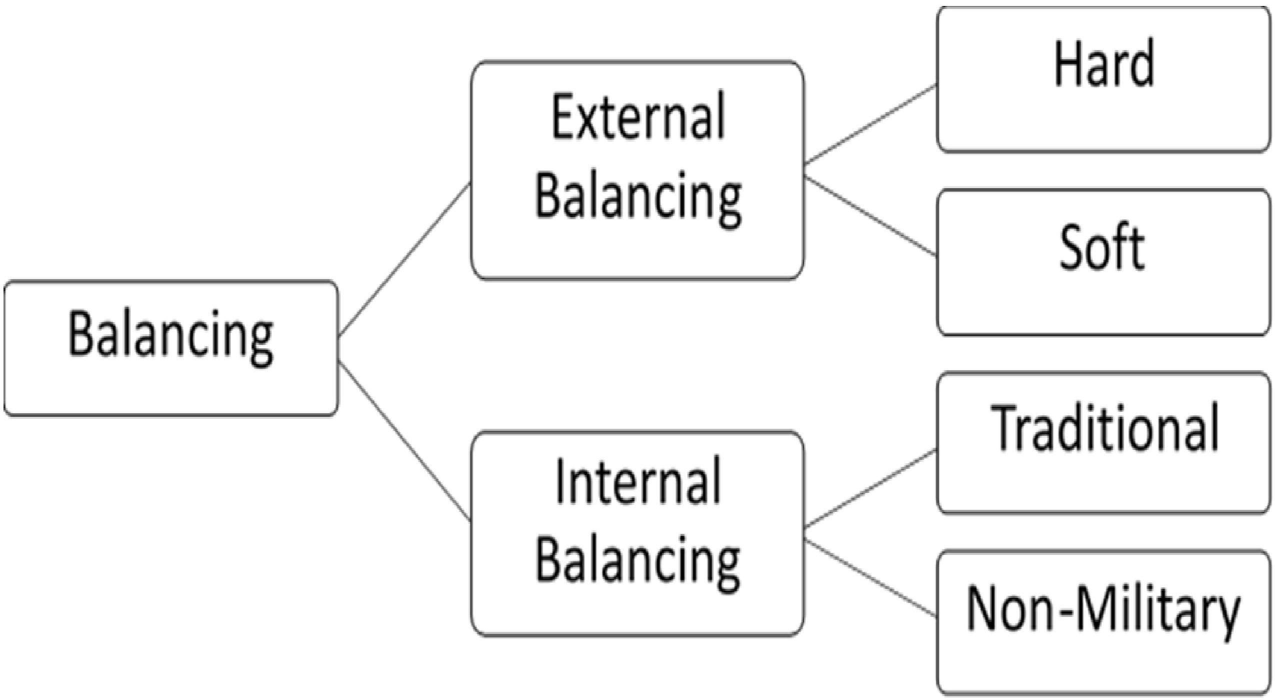


Figure 2: different types of potential balancing interventions

A government's intervention into a cross-border M&A has to be considered as an important tool in the internal balancing, which has a key preventive effect to a potential bid from abroad. The aim is to maximize the present and the future wealth of the state and to secure its position in the economic global competition.

Non-military internal balancing, a very flexible tool, is a strategy that may be employed by hegemonic and weaker powers, whereas soft balancing is only used against a hegemon. The tool is really useful, it allows states to jostle for position within an alliance, without the deterioration of the alliance; the deals are considered as low politics actions, not important enough to break a union. In this field there is a world leader, as in the military realm, but, in the future there will be a multipolar situation, more than one economic figurehead.[15].

Many analysts believe that in the future there will be a cooperation among the allies on the regulation field of the cross-border acquisitions, in this way any free riding action will not be allowed and there will be an environment where the decisions will not be influenced by the difference laws but just by the forecasted profitability of the investment.

1.2 MAIN VARIABLES

If we want to understand the reasons behind the actions undertaken or not by the domestic state, we have to study and fully understand some important variables. In this paragraph, we will discuss how they influence the outcome of a deal. There are five independent variables: geopolitical competition, geopolitical relationship, economic nationalism, economic competition and interest groups and lobbies presence[16].

There are three hypotheses on how those variables work. The first hypothesis is used to understand how a government uses the domestic barriers during a foreign takeover of a national company. They depend on the geostrategic implications/ concerns raised by the potential takeover, the current economic and political relation between the two countries, the level of the economic nationalism feeling in the home country, the economic competition concern raising from the potential deal and the presence of interest by groups that have access to power in the home state.

$$\begin{aligned}\text{Intervention Type} = {} & (\text{Geopolitical Competition} + \text{Economic Relationship} + \\ & \text{Economic Nationalism}) + (\text{Competition Concern} + \\ & \text{Interest Groups and Lobbies Presences})\end{aligned}$$

$$\text{Dependent Variable} = \text{Independent Variables} + \text{Control Variables}$$

$$\textit{Dependent Variables} = \textit{Intervention Type}$$

[15] Idem 7
[16] Idem 7

Independent Variables = Geopolitical Competition + Economic Relationship + Economic Nationalism

Control Variables= Competition Concern + Interest Groups and Lobbies Presences

The second hypothesis is about the outcome of the cross-border bid, it heavily depends on the type of intervention employed by the home state; an Unbounded Intervention, usually, results in a "no deal" outcome, a Bounded Intervention has as final outcome changes or alters the agreement from the original version, and, last but not least, a No Intervention will bring to a successful acquisition without any major change in the deal[17].

The third, a supporting hypothesis, is used to control the presence of economic nationalism, geopolitical competition and the interest groups and lobbies presence.

1.2.1 Geopolitical competition

In the late 19th and early 20th century, the world's powers continued their long "tradition" of projecting and building a military force to compete for the control and access to the territories, trades and resources. However, the actual form of conflict between nations had a major change, from a military to an economic confrontation. States did not stop going on war, did not learn how to avoid bargaining failures, just stopped using coercion on bargains.

The geopolitical competition is defined as the potential coercive bargaining interactions of two states in their geopolitical environment. Increasing those interactions boosts the geopolitical competition.

If we want to fully understand the situation among the different countries, we have to historicize their practices of territorialisation. Anyway, even if the conquest of a land is not considered a goal, as it was the past century or decades, the acquisition of resources, useful for the improvement of the wealth of a nation and their citizens, used to have in the past. The economical actions are motivated with the aim of the gaining a market or a big share of it, and have a monopoly or be part of the oligopoly. To achieve this goal, the nations can undertake a series of actions such as the exclusion of competitors with regulatory practices or with the attempt of establishing an exclusive territorial domain. All those actions are the exemplification of the geopolitical competition that is present

[17] It will be discussed more in detail all the potential interventions or the no interventions of the government in the sub-chapter 1.3

among all the countries, they are not political measures but economical ones, where an advantage in the market is vastly more important than the possession of a new territory or land. The geoconomic power, that is the new exemplification of the geopolitical competition, has as main tool the cross border M&As, which is used, sometimes, to gain influence and information about the other country (the Chinese government pushes the cross border acquisitions for this reason but it has been accused that those acquisitions are viewed as a threat for the national security).

The geopolitical competition has a different way to be used. It depends on the situation of the states, more powerful they are and further is the geographical distance where they may compete. States have a strong stimulus to pursue exclusionary incentives, they pose a greater threat to the interest of the others, that use all the possible instruments to protect their interests.

As Neil Smith claimed, in our neoliberalist era, the political competition cannot be considered irrelevant but the supremacy of the economical version has to be recognized, as the majority has done. Anyway, both play a major role in the production and reproduction of the state territory.

The national practices are not limited to the nation borders, but they also influence other countries. For this reason, the production of a nation is never the outcome of one single state activity but the sum of multiple players interactions (non-exclusively states) and they are not necessary intentional[18]. Some scholars claim that if a country is not bounded to all the others it is not just risky from an economical point of view but from a more perspective[19].

Nowadays, since capitalistic logic has become the main followed theory, the competition is not used to physically conquer a land, but to control or influence people, phenomena and relationships by delimiting and asserting a control over a geographical area from an economical point of view. A higher level of this variable corresponds to a higher probability of interventions by the government in the cross-border M&As. As previously written, the world is going to have several nations which

[18] Seung-Ook & Joel Wainwright & Jim Glassman; Geopolitical Economy and the production of the territory: The Case of the US-China. Geopolitical-Economic competition in Asia, SAGE Journals; 4th April 2017; pages 416-436

[19] This is the idea behind Neoliberal Geopolitics. This theory has as main assumption that every country has to be linked with the others and must accept the free market; if it not accepted it will be overwhelmed by the competitors (this was the reason for the intervention of the USA in Iraq)

will be considered as leaders, this will bring to a situation where all countries will try to maximize their own interests[20].

The variable is influenced by the following dimensions:

- Security Community: it is a strange factor. It represents the chance of the nations to be in the same security community at the moment of the deal. A security system is defined as the formation of a common identity between states that eventually lead to the development of some norms among the players. The result is a series of participants able to solve their disputes through the use of non-violent actions, with the arrival of a sense of "we-ness". This community are uncommon and each one is different from the others.

- Relative Military Power: it is an approximation of the difference between the relative military power of the states that are involved in the deal. It has the purpose to highlight the extent by a state feels threatened by the others because of the military power gap. The military power of each nation is calculated by considering over 50 individual factors (divided in the following macro-categories: Regions, Manpower, Equipment, Finances, Logistics, Natural Resources and Geography)[21], in order to determine a nation's PowerIndex. The final result cannot be lower than zero, no nation can achieve this result, it is just theoretical, and higher is the valuation received and worst is the military situation of the state. That might play a major role on the alternative forms of balancing, used by the home country.

- Resource dependency: this one represents the general resource dependency of the home country. It is calculated using the International Energy Method (IEA), it is the yearly ratio of the energy imported to energy supplied.

---

[20] Jonathan N. Markowitz & Cristopher J. Fariss; Power, proximity, and democracy: geopolitical competition in the international system Journal of Peace Research Volume 55 No.1; 21st December 2017; pages 78-93

[21] The ranking is make out by GlobalFirePower StrenghtinNumber (https://www.globalfirepower.com/) and currently the strongest nations are: USA (0.0718), Russia (0.0791), China (0.0854), etc… The site considers 139 countries and the weakest is the Buthan with a score of 23.2577

- Inward Foreign Direct Investment (IFDI): the variable proxies the relative power position of one state. Many political economists argue that a rapid or sudden increase in the IFDI causes a negative reaction of the government, which tends to use protectionary actions to stop several foreign investments in their country[22].

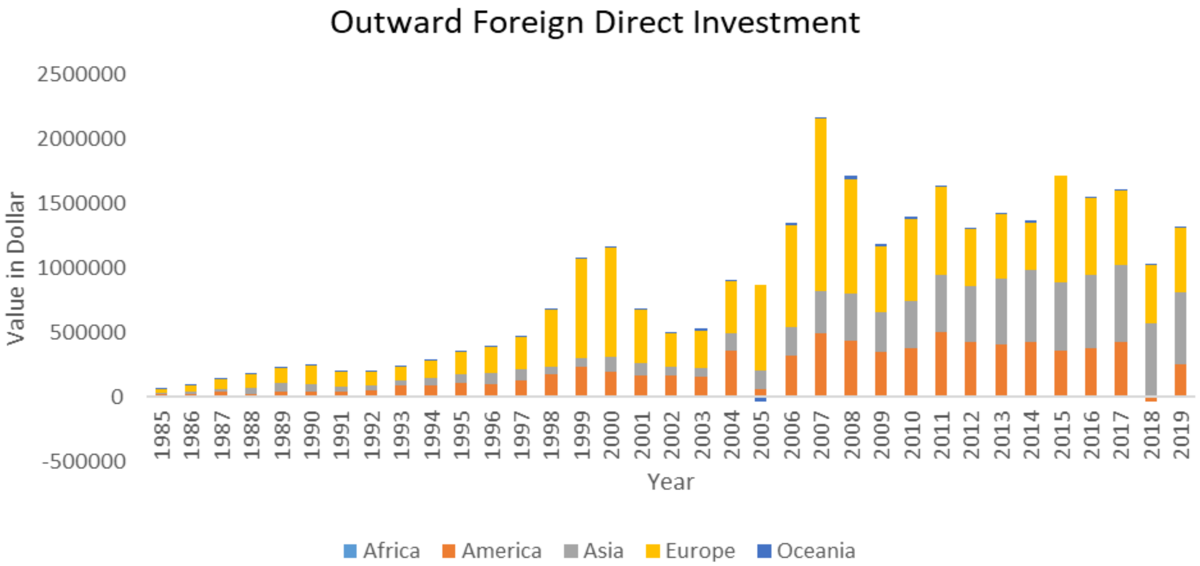


Figure 3: it represents the value of the investments received by the different continents between 1985 and 2019; data provided by UNCTADSTAT (United Nations Conference on Trade and Development): data provided by http://unctadstat.unctad.org/wds/TableViewer/downloadPrompt.aspx

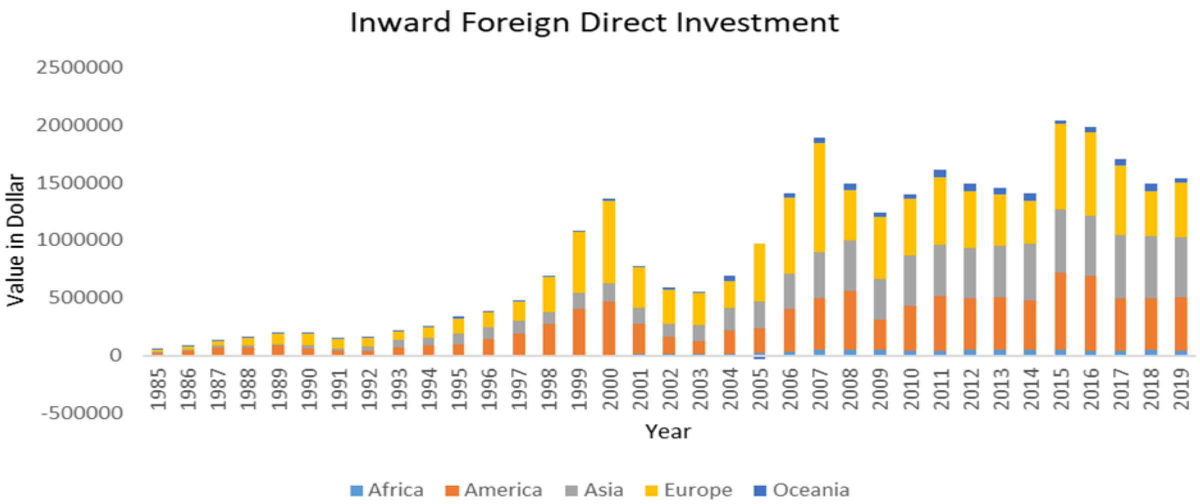


Figure 4: : it represents the value of the investments done by the different continents between 1985 and 2019; data provided by UNCTADSTAT (United Nations Conference on Trade and Development): data provided by http://unctadstat.unctad.org/wds/TableViewer/downloadPrompt.aspx

[22] Idem 7

1.2.2 Geopolitical Relationship

When we consider the Geopolitical Relationship variable, we are weighting the impact of the relationship among two countries on the final outcome of the deal.

The relationship is influenced by several factors: historical relations, cultures, traditions, interests, visions and if they are part of the same economic communities.

The historical relations are the interaction between the two parties through the time. If they were enemies there is a higher probability that they still are in a tense situation; in the same way if they were allies there is a good probability that the situation is still the same. For example, it is not hard to understand that the current disagreement between the United States and Russia has its origin in the past and they have not been able to find a solution. It is more important than the geographical proximity because even if the countries are next to each other, they can have a series of misunderstandings that bring to a situation where even the easiest agreement is hard or impossible to reach it.

When two countries have a similar culture (religion, language, etc…), heritage, there is a higher chance that they see the other as a partner and not a problem to be faced. Obviously, it is easier to have a similar culture if the two or more countries are geographically close or have shared the same important events or language (the UK and USA have a really similar culture because the British people transferred their ideas and influenced the growth of the Americans for several years). Studies have shown that differences in national cultures can also disrupt the collaboration between the partners (Lane and Beamish 1990, Parkhe 1991, Lyles and Salk, 1996, Hennart and Zeng 2002). When the governments are similar, usually, the negotiations are faster and cheaper, both factors are important for the final decision of a deal, so there is a lower chance that one can try to have an opportunistic behaviour due to the miscomprehension.

About tradition, it is meant the way of how to act in different situations and how it is approached the next one. In the international alliances a common tradition is really similar to the culture because it can be assimilated to it, while at the lower level it can have a bigger impact[23].

[23] Michael Downling & Dieter Vanwalleghem; Gulf Cooperation Council cross-border M&A: Institutional determinants of target nation selection; Research in International Business and Finance (Volume 46), December 2018, pages 471-489

As it happens for all the agreements, it is fundamental that the parties have the same interests, or at least that the achievement of one has no negative effects on the final goal of the other. This is an obvious consideration because in order to be allies, or at least not enemies, it is fundamental to have similar objectives, otherwise a dispute is likely.

Vision is the perception that players have of themselves and of the others. In this case it is not important how the participants really are, but their perception of them-self. It is not strange that nations that should not be close are allies or vice versa. In this case the most important thing is the idea of the governments of the current and future situation of their countries.

Last but not least, there is the case of the parties which are part of the same communities or have a bilateral agreement. In a situation there is the chance that even the most different states can be allied. The example that is closer to us is the European Community: nations which were enemies, with different cultures and traditions, at the beginning of the previous century, now are on the same side and it was almost impossible to think that it could happen just a few decades ago[24].

Those are the main factors, as previously written, that influence the Geopolitical relationships.

Geopolitics[25] is the subject that studies the relations among different nations and the internal situation of a country: it was really important during WWII but it was abandoned after it because it was the "fundamental" of some of the actions undertaken by the Nazis.

As easily predictable, government action usually is less strict to a cross-border acquisition from a company that is located in a country seen as an ally. It is not impossible that the deal is blocked, but it is an eventuality that is not as probable as it could be with other nations and, usually, the government is more prone to find a solution of a problem that may occur if the deal is accepted[26].

1.2.3 Economic Nationalism

The Economic Nationalism variable measures the level of nationalism feelings in the country. Usually, it is a good indicator of nationalism feelings, it can really be understood if and only if

---

[24] Virgine Mamadouh & Gertjan Dijkink; Geopolitics, International Relations and Political Geography: The Politics of Geopolitical Discourse Geopolitics; 2006, pages 349-366

[25] This term was coined in 1909 by the Swedish geographer and politician scientist R. Kjellén. With this word he wanted to highlight the emergence of a new research direction that was maturing throughout his century.

[26] A. B. Elatskov; Generalized Types of Geopolitical Models; Geography and natural resources Volume 40 part 3; 2nd April 2019; pages 215-220

analysed considering the specific state, its environment and nationalism in general, rather than using the conventional economic point of view. It represents the number of people having nationalistic feelings, "high" or "very high".

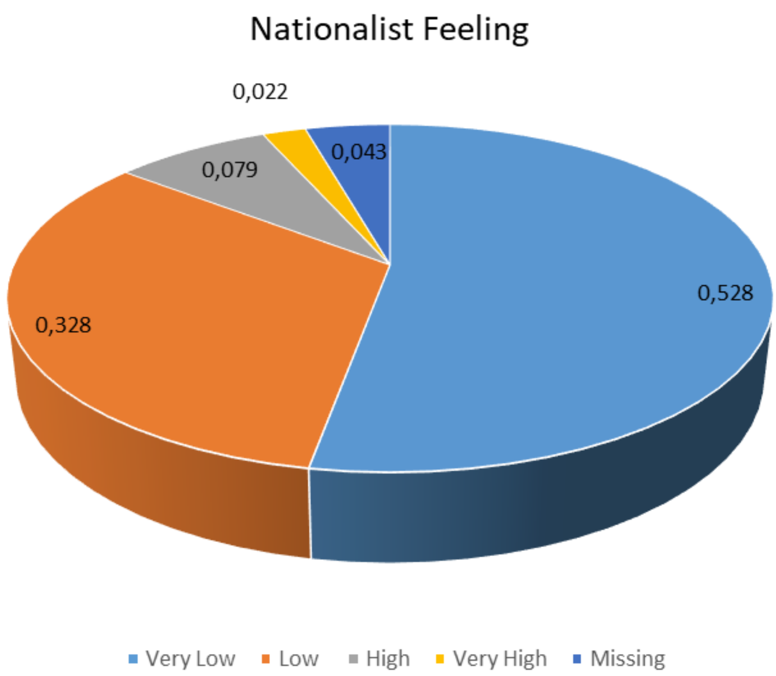


Figure 5: worldwide national pride responses; data provided by World Values Survey Wave7: 2017-2020 NATIONALISM – Welzel: data provided by: http://www.worldvaluessurvey.org/WVSOnline.jsp

Sometimes this variable can lead to make a wrong decision, losing a good opportunity or a strategic advantage. Behind those lost opportunities there are not economic variables, indeed there is an additional dimension which is correlated to the "national sensitivity" and is related with the sentiments of identity, autonomy, union, pride, prestige and distinctiveness, if not, even, a feeling of superiority or uniqueness; it could be part of the cultural code of the society (for this reason the French produce films, the Japanese rice and the German coal, but they will never be competitive on the international market).

Some scholars believe that this ideology is outdated, but it is not true, it has changed but it is still alive. It is not the same as in the neo-mercantilist period with a different meaning in terms of national competitiveness.

Previously the main problem faced by a government was how to defend its territory, while now it is how to defend its cultural sovereignty[27].

The Nationalism feeling is strictly correlated with the term "Economic Nationalism", which evokes a set of practices (from the use of tariff walls to the promotion of autarky). However, in the current era, they are increasingly undesirable and difficult to implement. As the nationalistic ideology, it has changed and it is going beyond the trade protectionism and the industry policy. The government still uses an economic policy to serve and protect the national goals, in a way that better fits with the current global trading regime. Now the politicians follow, to gain the approval of a great part of their national citizens, the protection and the promotion of shared understandings, cultural values or social practices, linked with the evolution of the national security notion. For this reason, for every nation it is fundamental to be economically independent. This is the only way by which a nation (which we identify as a sovereign political body) can safeguard and maintain its independence by its own efforts. It is a duty for them to preserve and to develop their prosperity, culture, nationality, language and freedom, more in general their entire social and political position in the world.

To sum up we can claim that economic nationalism is the opposite of economic liberalism, so it is synonymous with economic protectionism. As the economic liberalism, the nationalism have had several changes through the centuries (with the pass of the different labels: mercantilism, statism, protectionism, etc...), but the main idea is still the same, the economic activities are tools subordinated to the protection of the interest of the nation[28].

The first who wrote about this argument was Adam Smith, in The Wealth of Nations (1776), where "the first duty of the sovereign" was "that of protecting the society from the violence and invasion of other independent societies", so, as other economists agreed, the protectionist policies are the final national security tools available. Presently, any mention of Economic Nationalism in many of the most advanced industrialized states brings the same reaction, ranging from scepticism to outright denunciation. Several analysts and officials, automatically, assume that this feeling brings to the use of protectionist measures (tariffs, quota and subsidies). In the most common thought it has as

---

[27] Idem 7

[28] Robert Gilpin & Jean M. Gilpin; The Political Economy of International Relations; Princeton University press; 21st June 1987

main consequence the denial and the restriction of foreign investments and ownerships, but it may also lead to a distortion of the “natural” patterns of a trade.

The recent formation of the Word Trade organization created an important dispute-settlement mechanism to guarantee a greater compliance with the principles of liberal trade. Due to those principles, which are now institutionalized, it is more and more difficult to avoid the respect of them. In the current era of liberation hard questions about national sovereignty, autonomy, identity and security frequently arise. The problem is not how to defend the national interest just thinking about the national borders issues, but defend them as a bigger entity, based on multilateral agreement, and align them with the needs of several other governments (for instance the different European countries have to defend and battle for their needs but at the same time they also have to respect the necessities of the other parties).

In a world more and more interconnected, the new problem is how to keep alive the national culture, so there was the birth of the “societal security”[29], that is part of the nation’s security, previously analysed.

For this reason, the security threat has a new meaning which is aligned with the nature of the new most common risks faced by the governments. Those risks are not only about goods and money, but also about people, ideas and images, which cross borders brought to an alarming level. Obviously, the autarky is out of question and even the oldest enemies now are allies and in some cases they also use the same currency with an economy inextricably intertwined. The closest example is the German and French situation, both in the European Union. The current regionalized and globalized context there is an integrated and transnational market.

Another important factor, for this variable, is the pro-globalization sentiment, the perception of globalization in a state. It could be considered as the opposite of nationalism, there is an inverse correlation; higher is the globalization sentiment and lower is the pride of a person to be born in his/her country. Usually, anti-globalization attitudes bring to the intervention of the government, into foreign takeovers, they have the desire to protect their “national champions”[30]. Even in the

[29] With the term societal security is meant the ideas and the practices that identify individuals as members of a social group

[30] Corporations, technically private business, that have a dominant position in the national economy, due to the government policy

countries which are more favourable to globalization there is a sentiment of repulsion towards it. The sector where it is more visible is the food sector. Every nation tries, as hard as possible, to “protect” their national products, in Europe there are the PDO and PDI certification for it. This is the exemplification of how no one is really ready to welcome globalisation and liberalisation completely, but there are some categories and sectors that will always be protected. This is a role of the country that has to protect its own entity from the others[31].

1.2.4 Economic Competition

The Economic Competition represents the effort of the parties to obtain a better deal or position in the market for themselves, so it means a worse one for the counterpart. Easily we can assert that their final aim is to have the highest profit that is possible. There is not a defined market, it depends on the type of goods and services offered.

In order to have a competition there must not be any barriers to enter the market, so there must be the freedom to operate in any segment with the coercion of no one. Adam Smith was the first to point out that the competition is beneficial when it corresponds to the “laws of justice[32]” and not in any case, as the neoliberalist thinkers thought.

The traditional theorists are almost obsessed with the fear of the “monopoly” and aspire to a perfect competition, a situation where no one has the power to coercively impose his/her needs. Actually the coercive power is a problem if, and only if, the subject exploits the situation to gain an advantage over the others (such as deny the access to the market both to a private and an institutional subject), that is also the reason why a government stops or changes the form of the cross-border M&As. By the way, even with the fierce competition the cross-border M&As will emerge as part of a non-cooperative equilibrium.

Anyway, it is almost impossible to find the perfect balance between the free market and the protection of the national. Free trade should lead to an improvement of the general wealth, but this is not always true because sometimes it leads to a monopoly situation, so the government uses its tools to solve the problem but it goes against the initial theory. This is the paradox that public

[31] Eric Helleiner & Andreas Pickel; Economic Nationalism in a Globalizing World; Cornell University Press; 2005

[32] “Every man, as long as does not violate the laws of justice, is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man, or order man” (The Wealth of Nations, 1776)

authorities face because on the one hand they want to promote the competition but, on the other hand, they restrict the entry in their markets with a series of protectionist rules.

Some scholars argue that the absence of competition is a problem for the citizens of all the world because the producers exploit the situation to gain more and are less incentivized to invest. So this is the main reason not to block or discourage a foreign investor.

All I have written is partially true when we take into consideration the business between states or governments. So the normal actors that play their roles, the governments and the states, have more tools to use (legal, regulatory and tax monopoly on a given territory) and they act in a competitive market that is close but not the same of private entities.

The reasons for the international competition are not just economical because there could be also reputational and strategic motivations for a potential investment: investing in the home country is less expensive and safer than the cross-border option[33].

The economic competition may lead to a tension between the states if the goods traded in the global market or the resources needed are the same. For this reason, two or more countries that deal the same products have a higher probability to fight and face an economic "war" (tariffs, quotas, etc…), a bargaining version, even if they are part of bilateral trade ties or they are institutional members in the global economic system. So an economic competition can exacerbate the rivalry among countries and complicate a possible deal, thus becoming a source of international conflict.

The two states may face the same situation if their relation is a supplier-customer one. In this case the problem can arise if one takes a bigger portion of the profit.

The scholars have thought that in our era there should be a liberal market and that the exchange between countries must have a positive effect on the international relationship among countries. For them it brings an increase of the national wealth[34]: a higher competition in the country brings to a better distribution of the profit among the producers and the buyers of the goods or services. When a company deals with the host country, it has to accept a series of requests (a minimum number of

[33] Onur A. Koska; Gains from multinational competition for cross-border firm acquisition; Economics Journal; 19th February 2018; pages 376-391

[34] Pascal Salin; Competition and Free Trade; Routledge; December 2019, pages 13-15

goods need to be produced, a number of new assumptions, etc…) that should bring a beneficial effect for both parties, otherwise there will not be a final agreement.

Problems among the countries can arise if a series of events occurs: political issues, which are fundamental, must be faced but not solved; nations must think to have a benefit from the confrontation (the gains are higher than the cost that they will face) otherwise they will find a "better" way to solve their disputes.

The economic competition may lead to a transfer of power with the result of a new power balance in the international market, that brings to a new perception of the risk that a cross-border M&A may bring, so there will be stricter requests to accept the deal. In a situation of economic disputes, a nation will have a higher incentive to overprotect their interest, which leads to the failure of the M&A. The "loser" will have as a result of the "war" a minor bargaining power in a future deal and a minor role in the market. However, the cross-border deal may help to rebalance the equilibrium of the international market.

Not all the sectors have the same importance, so the importance of the conflict depends on the industry. Less important may not even bring to have any issue[35].

When we talk about this factor we have to consider to two hypotheses.

The first is the possibility for a foreign takeover to be blocked due to a competition issue, rather than due to a national security issue. The collection of data about this hypothesis is really hard, so it is better to consider the situation case-by-case. It is a really weird variable and would be inadequate to represent the complexity of the phenomena.

Anyway, it measures how competitive the nation feels to be, and not how it actually is, in the international market as a main actor in the liberal economic business practices and foreign investments. We can find a good measure of the competitiveness of a country through the database provided by IMD[36].

---

[35] J. Tyson Chatagnier & Kerim Can Kavakli; From economic competition to military combat: export similarity and international conflict; SAGE; 17th November 2015; pages 1510-1528

[36] Idem 7

Breakdown of Competitiveness Factors

Economic Performance (83 criteria)	Government Efficiency (73 criteria)	Business Efficiency (71 criteria)	Infrastructure (115 criteria)
Domestic Economy	Public Finance	Productivity	Basic Infrastructure
International Trade	Fiscal Policy	Labour Market	Technological Infrastructure
International Investment	Institutional Framework	Finance	Scientific Infrastructure
Employment	Business Legislation	Management Practices	Health and Environment
Prices	Social Framework	Attitudes and Values	Education

Figure 6: information provided by IMD (https://worldcompetitiveness.imd.org/eshop)

1.2.5 Interest Groups and Lobbies Presence

We use the Interest Groups and Lobbies Presence variables to study the weight of the interest groups and lobbies actions in the final decision of the government about a cross-border M&A, as well as the effectiveness of their actions in blocking the deal.

They are characterized by a complexity and a heterogeneity of interests that derive from the vertical and horizontal separation of power. These groups have to be able to adapt themselves and their actions to: their final objective, to the government and the topic that is discussed (insider versus outsider or strategies to voice versus strategies of access). We can easily affirm that they have to master the political systems and its logic, if they want to have an impact on the decision-making process of an institution. In order to achieve this purpose, they have to create a channel through which their message is brought to the target.

They represent two different interests: the interest groups act for the citizens while the lobbies for the shareholders. In the last decade the investment of the companies to buy the service of a lobby has skyrocketed[37].

[37] According to Transparency International: Google, Facebook; Uber and Apple have improved the resources spent of the 240% between 2014-2017

The interest groups tend to be experts in a specific sector or in their field and possess the type of depth policy information required by the government staff, by assistants and by the advisors of the politician groups.

The lobby's reputation is gained due to the money and resources spent that give them the opportunity to have an easier and faster access to the pre-legislative stage, some have even claimed that they buy the attention of the politicians.

The interest groups are similar to the lobbies in the way they act, but they have a better reputation and they are considered as the ambassadors of the citizens' opinion, providing information in order to have access to the policy making process room, so they have the opportunity to impact on the final decision. Lobbies are considered the "evil", they have been regulated in the last couple of decades[38] and they just think of their interests, but this is not always true because they have an important role in a healthy democratic system. Another similarity is the presence of employees that previously worked in the political rooms or they knew the environment well, so they are "specialists of the sector", and they are experts of the rules of the "game". The main difference is that lobbies never tell publicly their intentions while the interest groups have the opportunity to share information with the citizens and the media as a tool.

Both of them consider themselves as "influencers" or artists of political persuasion that use all their actions to push the government to take the "best" available option. In order to use their art, they must have the possibility to have a vis-à-vis meeting and sit next to the Commissioner at the "round table", otherwise the chance to have the "dreamful" result is lower. They can use their skills because the power is concentrated in the hands of few people at the moment of a decision, otherwise it would be much harder. A good indicator of their influence is their capability to shape the final decision of a government in order to match with their goals and strategies. The scholars have called the

[38] The lobby regulation is an important topic and Crapez defined the following eight factors to compute the "robustness" (the level of transparency and accountability that is guaranteed by the regulator) of the regulation about them: definition of lobbyist, individual registration, individual spending disclosure, employer spending disclosure, public access to a registry of lobbyist, electronic filing (to a registry of lobbyist), revolving door provisions and enforcement

attention to the policy agenda and the policy outcome to trace and measure the impact of the actions undertaken by lobbies to fully understand the goodness of their efforts[39].

Those organizations have three different moments where they can enter in contact and discuss with the committee members of the government:

- The draft report phase: when a draft is written by the rapporteurs, the focus is on the main points that will be suggested to the committee. Lobbies and interest groups will provide information (the second often send position papers and amendments to the rapporteur during this phase).
- The amendment phase: the rapporteurs present the draft to the committee, which establishes a deadline. If the lobbies and the interest groups have failed in the previous stage now they can try to convince the members of the committee. If their actions have success someone will launch an amendment in line with lobbies and interest groups idea.
- The debating and voting phase: the amendment is discussed in one or several meetings. Before the voting the rapporteurs and the shadow rapporteurs try to find a common point among the different political positions. Often the final result is a compromise amendment[40] which will be voted on. The final one will be included in the last committee report to be presented and formally adopted by the Parliament. In this phase the lobbies should not have any power to influence the final decision, while the interest groups send a voting list to committee members indicating how they would vote.[41].

It goes without saying that both need to have money, manpower and strategy tools if they want to effectively influence the decisions. The literature has not a unanimous perception of the importance of the interest groups and lobbies' resources in their ability to influence the policy makers. By the way the smaller lobbies and the smaller groups that represent the interest groups have a minor chance to make the final decision. This is due to the lower available financial resources, the lower

[39] Doris Dialer & Margarethe Ritcher; Lobbying in the European Union Strategies, Dynamics and Trends; Richter & Margarethe editor; 2019

[40] The aim of the compromise amendment is to regroup a certain number of amendments or to serve as an alternative to the conflictual ones previously proposed.

[41] Idem 39

access to the technical information and because they cannot afford to hire the best expertise and staff that are in the market.

A structured dialogue is beneficial for the authorities because it brings to have more technical information and a refuge from the populist criticisms.

The value is the result of the average of the two variables above. The measures highlighted the most critical interest groups involved in this type of M&As. The labour unions have an important role because they are one of the most influential voices when there is an opposition against the deal and make it as expensive as possible. The shareholders, due to their ability, directly influence the final outcome of public takeovers.

It is not practical to find a dataset, due to the lack of comparable and available data. There is an index, provided by IMD, that is a good approximation of the concept of interest groups presence, for measuring the impact of the major group in the decision taken by the government.

IMD Measures of Interest Groups Presence/Position in Society	
Labour Relations	"Labour relations are generally productive"
Shareholder's Rights	"Shareholder's Rights are sufficiently protected"

Figure 7: IMD 2007

However, lobbies and interest groups can just help to highlight a potential threat for the nation but at the end of the story they do not have any real impact on the type of counteractions done by the government. The researchers have found that they can have an impact if, and only if, the conflict between the buyers and the government is high and the issues, that are not only technical and public, have an interest on the result of the business[42].

1.3 GOVERNMENT COUNTERACTIONS

All the tools used by the government have the same final result: they protect national security at its roots. With national security, it is meant the maintaining and the survival of the state and preserving its autonomy of actions and decisions in an international environment. Each state has a different

[42] Idem 7

way to follow this scope: every state has a different list of factors that leads to their decisions. Anyway several states are unwilling to share a final definition of this term.

Each state has a different legal and regulatory approach to manage foreign investments in national security fields. The reason is not just given by the different interpretation of the concept of national security that has to be protected, but also by the national legal systems, historical relationships to the market and the previous experiences with the foreign investments; the final result is given by their combination.

There is a first approach that is expressed with the partial or total prohibition of the foreign investments in some sectors, strategic or national security sectors, fundamental in the defence of their safety.

The second approach is focused on the review of the offers that are considered in certain "legally defined" categories. The criteria used to define the categories usually involve the monetary value of the investment, the sector of the company that could be acquired and the share of stakes that could be bought.

The third approach is a scrutiny system used to identify potential problems in the transaction, which will be subjected to a review.

The three different forms of government intervention are classified as: unbounded, bounded and internal intervention. There is also the possibility that any intervention is done.

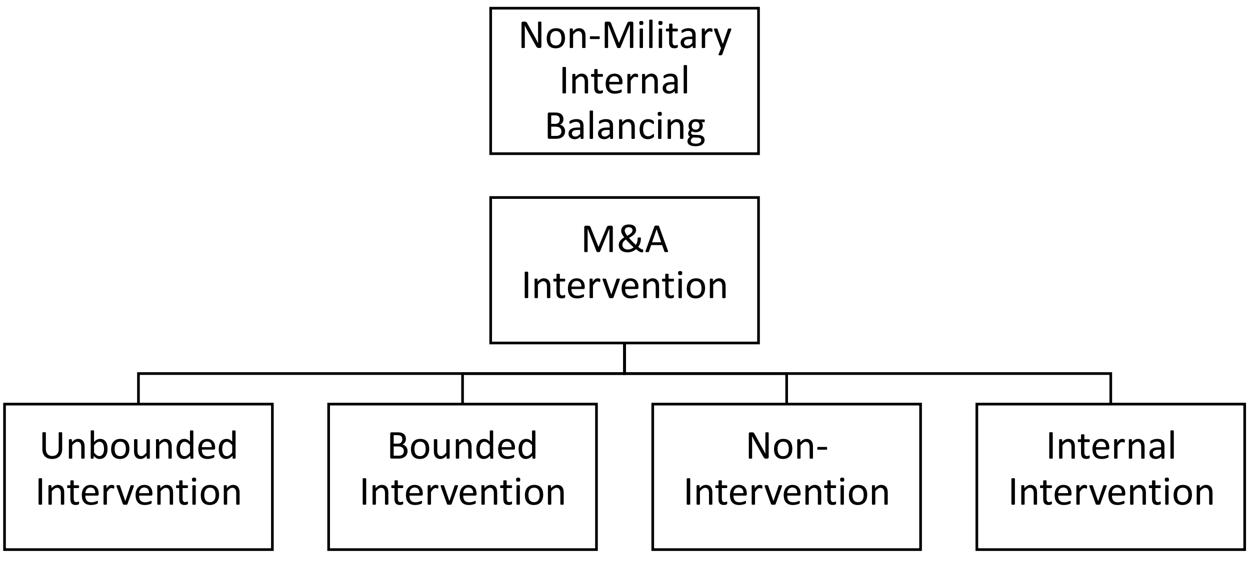


Figure 8: Types of M&A intervention as a tool of non-military internal balancing

States face costs, either, with an over or an under reaction to the threat that arrives from the international system. The four methods, schematized above, are all the potential reactions, now we are going to discuss them.

1.3.1 Unbounded Intervention

From the beginning of the previous decade there has been an increase of direct interventions by governments to block the takeover of a domestic firm by foreign investors. At first, it was thought that the reason behind this new conduct was due the concern originated by the financial and the economic crisis.

Apparently, they are not the reason for this u-turn in the perception of the non-national investors. The real motivation can be found in the government's interests that may be modified or hampered with a non-domestic owner. However, the condition to block a deal remains theoretically the same, the defence of national security, and not the economic security as some nations are getting used to.

This option is the most aggressive tool available for a country to manage cross-border M&As. Such intervention strictly depends on the intention of the government actors, they try to prevent a successful conclusion of the bid, which would bring an immediate threat for the nation.

When we talk about unbounded intervention, we have to be able to demonstrate that a critical mass of government actors or crucial government players want to block the deal. In order to use it the government has to approve the intervention: there are different types of structure that each country can have, from the presence of one or more chambers to a presidentialism system. In any case the majority of the vote from the chambers is requested to block the deal.

There are several studies about how the veto power works, but for this thesis it is enough to know that the presence of multiple chambers, with the same importance and power, makes it harder to block a M&A than it would be with just one chamber: this is true in several situations because if a party has the majority in both institutional rooms, it will not face any resistance and will have less opposition to make approved its idea and to change the status quo. In the opposite situation the main factors to consider are the size of the parliament and the heterogeneity of the representatives: in countries where the parliamentarians are more than in another country, it is more difficult to have a longer coalition and a party may retire its support if the decision is unpopular and it can bring to a loss of votes (the "cost" of the decision must be lower than the "profit"); however, the aim of this thesis is not to fully explain the mechanics behind the formation of a government[43].

When the government uses this countermeasure it exploits its right to intervene and protect the companies whose lost control (or the foreign control) would pose an immediate risk to national security. It is common that the government actors stretch the notion of national security for having a more elastic definition and having more cases that are under the rubric of the national security umbrella. This is a habit when the company that has received a bid is a national champion considered vital to the state's economic power, in this way they have more opportunities to intervene in case of necessity. The government actors consider a long time horizon of what could be classified as a threat for their country when take a decision.

The first concerns of the nation can be geopolitical or can be linked to economic nationalism. The geopolitical one is probably the most impactful when the politics uses an unbounded intervention because the acquirer is seen as a problem. This is a situation that is harder to face if the nations are in a bilateral-agreement or any other economic partnership: in that case, the direct investment in the other country is a way to make the alliance stronger. On the other hand, the countries where the nationalism feelings are really strong are ready to block the offers even from the closest commercial partner.

It can be considered as an instance of overbalancing because, if we follow the idea of the main theorists, a foreign investment always brings an increase of the wealth for both parties and the only reason to stop a deal is just political, not economical or for the safety of the country. With the term "political reason" it is meant when a politician "sells" himself/herself to the supporters and the public with the promise of defending the peace of the citizens from the foreign conquerors (it is a topic that is always used during an election campaign, in the last years there has been a rise of the followers of the populist parties and subjects around the world that are the paladins against the new problems brought by the globalization)[44].

It is important to remember that, as previously read, the interest groups and lobbies might raise the alarm and increase the attention of the government, but rarely the final decision and how to handle

[43] Sebastian Eppner & Steffen Ganghof; Institutional veto players and cabinet formation: The veto control hypothesis reconsidered; European Journal of Political Research (Volume 56); 2017; pages 169-186
[44] Idem 10

the outcome of the deal. Will be affected by their actions The interest groups, usually, try to catch the public attention just when they want a negative outcome, there are several reasons for their actions that can go from the concern for the employees of their nation to economic interests. Those are the result of the attempt to defend the status quo that is present in the market. In a situation that is stable it is not necessary, as it would be in a different case, to make huge investments in R&D and to improve the quality goods and services offered or to improve the productive process to cut the cost for being competitive. From the point of view of the nation, it is the exact opposite concern because the problem would a reduction of the competition and a lower wealth for the citizens[45].

The variables just written are the most important, while the others studied previously (paragraph 1.2) and not explained here had a minor role.

There could be a formal or an effective block of a cross-border merger and acquisition, it depends from the case.

A "formal block" is the announcement, by the government or one of its representative agencies, that the deal was vetoed due to national security concerns. This could happen even before any offer is made, as it happened in the Danone-Pepsi deal. Vetoed means the refusal of the government to accept and officialise the agreement, so to deny the sale of the home company.

In a situation like that it is not important the offer or any other particular of the potential deal, the nation will block the negotiation or deny the beginning of it.

On the other hand, an "effective block" occurs when the acquiring company withdraws or does not carry on its bid, as a result of one or more of the following actions[46].:

- The government and/or its agencies share the concern about the deal before the formal review process begins and push the acquiring company to withdraw the bid. It should happen because the buyer perceives an overwhelming opposition that would be too costly to overcome. In cross-border M&As where it is needed the approval of the government, it is a fair practice to have a preliminary discussion with a delegate of the country to have a better idea of the path that it will be followed and if there is any type of resistance that it may be faced with. This is the moment where there could be the pressure from the authority to the

[45] Mark P. Petracca; The politics of Interests: Interest group transformed; Taylor and Francis, 2018; pages 132-140
[46] Idem 7

potential buyer to not do any offer because there would be a strenuous opposition, which probably will end with the denial of the business. To try to overpass the opposition of the government, without any formal action, the company can hire a lobby which would use its acquaintances to make easier the deal[47].

- The target state or a third-party state in the transaction can vetoed the deal, either by a forced divestiture of the facilitates in its country either with similar other actions. Even if the nation has accepted the acquisition or the merger from a foreigner in a previous moment, it always maintains the right to change or cancel the agreement subscribed, if in the future it will become a threat to the national security. For this reason, the government can decide to force a de-acquisition or a demerge and make it not profitable or strategically convenient for the new investors, the deal will not be considered as interesting as before. There could be the assistance of an ally if the country, where is located the enterprise, is not the place of any important asset for the buyers and the government does not have a way to disincentive the desire of purchasing[48].

- A really long review process is undertaken and the acquiring company believes that at the end its bid will not emerge successfully out of the process. The peer review[49] is done by the department that should have the major impact by the operation (the agricultural department, aviation department, etc...). It is done by professionals who are independent and external from the operation (no conflict of interest) and who check the quality of the consideration done. There is not a unique way to do that, it depends on the country and the sector involved. Quality researches can protect the safety and the welfare of the country, they covered this role at least for the last three centuries. It is not a mandatory process but it is considered fundamental by the government to fully understand the implication of the approval or the denial. The length of the review can go from 30 to 75 days plus another 15 extra days that the government has to approve or deny the agreement between the two parties considering

[47] Giuseppe Mazzei & Antonio Baldassare; Lobby della Trasparenza: manuale di relazioni istituzionali; Roma: Centro di documentazione Giornalistica; 2017, 187-201
[48] Matthew Sparke; Neoliberal regime changes the remaking of global health: from rollback disinvestment to rollout reinvestment and reterritorialization; Review of the International Political Economy Volume 27, 2nd July 2019; pages 48-74
[49] There is not a written governmentwide definition. Officials and at the Office of Science and technology Policy in the USA usually define it as “process that includes an independent assessment of the technical, scientific merit of research by peers who are specialists with knowledge and expertise equal to that” of the ones whose work they review

the information provided. There are two main reasons for stretching the length of the review: it is going to become too costly or it will not be accepted by the government[50].

When a government uses the Unbounded Intervention, usually, there is the withdrawal of the bid, from the acquirers, whether or not there is a formal announcement. There are three reasons for this end. Firstly, even if the company would have a chance to reverse the opposition, it would be monetary and timely too expensive for the enterprise, which is not even sure that it has the patience to surmount it. The second important aspect is the negative publicity that the investors would receive from the situation, there would be a press release that would share the information and would show an image of the company that would disrupt the reputation of the company. Thirdly, a company that has been vetoed, due to threats on the national security grounds, will be branded as a "security risk" in the future deals and it makes harder to receive the approval in the future. For all those reasons, firms prefer to withdraw the bid than to be formally vetoed.

A really good example of a tool used by a government is the golden share. It is not present in all the companies but just in the ones which operate in strategic sectors. Many countries introduced it in the 90s during the privatization period. The golden share gives the possibility to outvote the other shareholders or to block an important decision. With it the state has the power to block a deal even if it has not enough share, so it has a disproportionate power compared with the number of shares owned[51].

When there is a block of an acquisition, there is the possibility of a deterioration in the relation between the two states, anyway, it is a phenomenon that occurs rarely, and it is soon forgotten. In the worst situation in future M&A bid, where the actors have opposite role, there could be the same treatment; but it rarely brings to a total disruption of the relationship[52].

To sum up, usually, the final result is the failure of the acquisition.

1.3.1.1 Danone-PepsiCo. Case

---

[50] N.g. (Author Unknown); Peer Review Practices and Federal Science Agencies Vary; Report to Congressional Requesters, March 1999

[51] Recently it was questioned if this tool follows the principle of the free market that several nations should respect at least one to the other. The European Union has condemned its Member States for the excessive use of it even in the privatized companies that have not a strategic reason for being protected. Since the 2008 there is a sentence that had officially convicted the use by the government

[52] Idem 7

« Je ne souhaite pas faire de commentaire sur les rumeurs de marché, néanmoins s'agissant d'une grande entreprise française comme Danone, je suis avec le gouvernement particulièrement vigilant et particulièrement mobilisé ».

« I did not think to do any comments about market rumours, however they were about a big France enterprise as Danone, me and the government are really observant and ready to intervene ».

This is the discourse made by the ex-France President Chirac the 21st of July of 2005, during an official travel in Madagascar.

All the story started the 6th of July when a rumour shocked the international stock exchange market with the news of the PepsiCo.'s intention to formulate a bid for the acquisition of 100% of the yogurt and water company Danone. The talks never stopped, due to the refusal of the American company to comment positively or negatively the rumours, while the French company had denied multiple times that any offer was arrived.

A series of fake news shared by unreal insiders, who whispered to know the bank which would have financed the operation and even a first tranche of the payment was made, did not help to stop the speculation. All that information brought the French government to a strong reaction. The same day of the announcement by the President, Dominique de Villepin, the Prime Minister, publicly proclaimed Danone as a national champion and even naming it as a "jewels" of the French industry[53].

The market waited until the 25th to have PepsiCo.' official denial about the intention to try a takeover in the immediate future, with a report from the American company to the French regulatory body (the Autorité des Marchés Financiers, or AMF). The result was, in less than twenty days and without any formal bid, the signalled intention by the French government to prevent and block the hostile takeover of its "jewel".

This case is one of the most famous and cited government bond interventions into a foreign takeover, it perfectly fits with the definition of unbounded intervention in the version of a formal block, it matches with the definition from the motivational and formal point of view. The only concern of the scholars about this example is if the food and the agriculture sector has to be listed

[53] N.g. (Author Unknown); Jacques Cirac se porte à la rescousse de Danone; LeDevoir (economy section), 22nd July 2005

as a business whose "loss" would have a dangerous effect on national security, there is a little consensus about it.

When the story was concluded, at the end of July, the AMF announced the start of the investigation concerning the trading of Group Danone's share. The company's share price had a great fluctuation, plus 20%, through the time of the rumours with an immediate sharp fall when Pepsi denied its intention of trying the hostile takeover. The investigation was made with the aim to defend the minority shareholders who "demanded a full-scale investigation to determine whether the rumours about Danone were the result of market manipulation and insider trading"[54].

The 27th of July, the idea was strengthened even by Chirac and Villepin who announced their intention to improve the protection mechanism to defend the national companies from a hostile takeover.

The investigation had a great impact on the FDI in France because it brought to the approval of the "Danone Amendment", March 2006, which has the objective to discourage the takeover bid either if hostile or with speculation motivation[55].

Geopolitical competition

The United States of America were one of the most important source of energy for the France, at the time the dependency ratio was 63% in favour of the USA, which was and still is a nation that buys its energy than produces itself, even if after the Paris agreement the country has been trying to invert this trend.

Another factor which should have helped the American firm is the relative power differential between them, both are major power in the top five as total and relative expenditure (considering the Purchasing Power Parity) but the USA are the biggest military power in the world with the highest investment in the sector. The European country has a total investment of $46.2 billion, third in the world, with a spending per capita of $763 that was sufficient to be the fifth in the globe, equal to $45.4 billion considering the PPP. On the other hand, the US had invested $478.2 billion, the PPP cannot be used with this country because it is the term of comparison, with a spending per

[54] David Gow; French market watchdog may investigate Danone; The Guardian (Business Section); 26th July 2005
[55] N.g. (Author Unknown); PepsiCo-Danone merger rumoured; DairyFoods (Volume 106 Issue 8); 1st August 2005

capita of $1604, the nation was the biggest armour. The American government invested more than ten times than French.

Through the time the gap has not been filled, the economy growth of the second has been bigger, it invested more, and in Europe from the 2004 there had been a reduction of the military expenditure, this is true not for all the countries but just for the main economies that have a bigger impact on the final valuation[56].

Geopolitical relationship

The US and France are military allies and both have their relationship formalized through their presence in NATO. The alliance between those two nations, and all the others that are part of it, is regulated with the article 5 of the Treaty[57].

NATO is a fundamental alliance for both and, as claimed by the French ministry, it is an "essential asset that must be maintained in order to cope with current and future challenges and threats".

Anyway, their relationship is not the strongest among the members of NATO. The problems started in 1959 when the European nation withdrew from NATO's integrated command, followed by the withdrawal of its naval forces from the North Atlantic alliance. The most critical point, in the 20th century, was reached in 1966, when France exited from the army agreement and started to build its nuclear power, was 1969 when it achieved this goal. Through the decades the two parties remained in NATO and have represented the opposite polo of ideas during the negotiation, as "leaders" they take the responsibility to expose the ideas of many nations, which can hide their mind behind the strength of them.

Until the 17th June 2008 any French president dared to change the agreement reached by De Gaulle. Nicolas Sarkozy did it with the "White Paper on Defense and National Security" (Livre Blanc sur la Défense et la sécurité) because there was "no reason why we should not be a part of NATO's

[56] Petter Stalenheim & Damien Fruchart & Wuyi Omitoogun & Catalina Perdomo; SIPRI (https://www.sipri.org/databases/milex); 2006 (Chapter 8 Military Expenditure); 2006; pages 295-325

[57] The Parties agree that an armed attack against one or more of them in Europe or North America shall be considered an attack against them all and consequently they agree that, if such an armed attack occurs, each of them, in exercise of the right of individual or collective self-defence recognised by Article 51 of the Charter of the United Nations, will assist the Party or Parties so attacked by taking forthwith, individually and in concert with other Parties, such action as it deems necessary, including the use of armed force, to restore and maintain the security of the North Atlantic area.

military structure". France officially re-joined the integrated military command structure the 3rd April of the following year[58].

Previously, the tension reached its peak following the invasion of Iraq in 2003. It was murmured the intention of France to vetoes the intervention in Muslim countries. Many questioned the future of the alliance. The consideration of the French citizens about the United States are shown in the graph below.

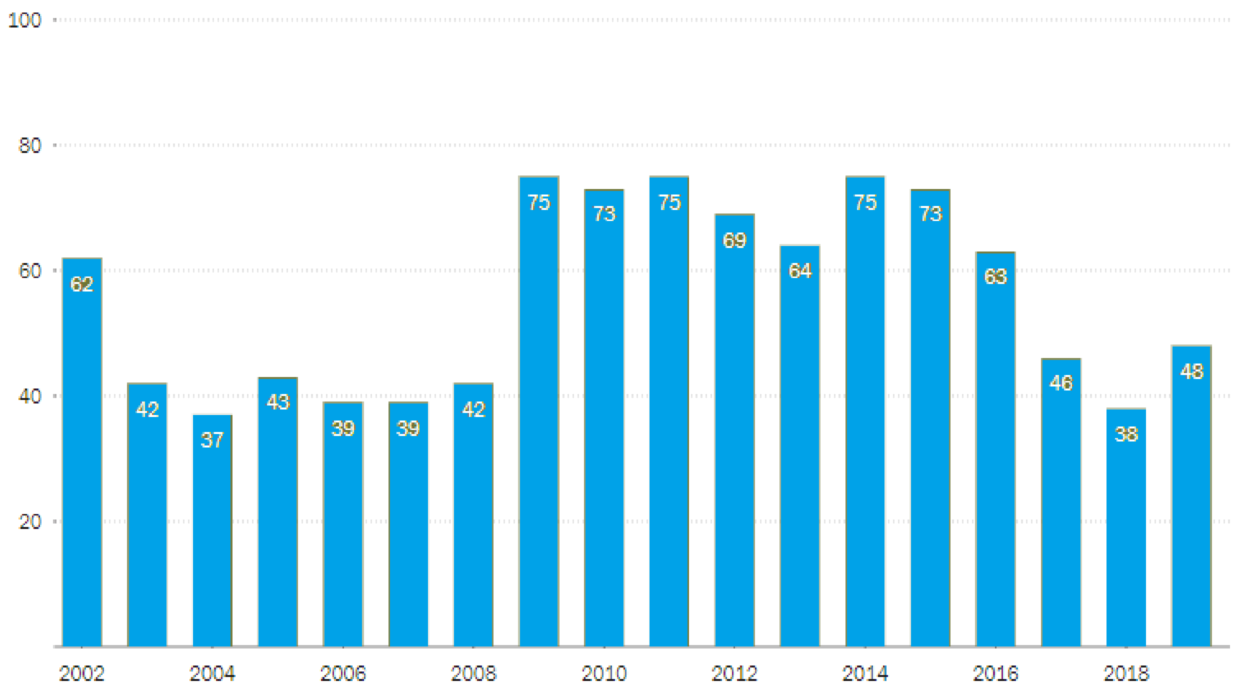


Figure 9: percentage of French who had responded "favourable" answer at the question "Do you have a favourable or unfavourable view of the U.S. of the USA?", Pew Global Attitude Project (PGAP): data provided by: https://www.pewresearch.org/global/database/indicator/1/country/fr

Moreover, the French government has never shadowed its intention to face the US "hyperuissance" (hyperpower) and to be the counterbalance of it, the European country aims to change the system from a unipolarism to a multipolarism, because it would guarantee the world security [59].

Their competition was focused on the diplomatic and economic field. It cannot be a complete surprise the unbounded intervention undertaken by France to protect its "jewels" from the foreign

---

[58] Maurice Vaïsse & Clémence Sebag; France and NATO: an History; Politique Étrangère, May 2009, pages 139-150

[59] Robert J. Lieber; The American Era: Power and Strategy for the 21st century; Cambridge Press, 12th September2005; pages 211- 227

bid. With this decision the government would defend its national champion (Danone) and its relative power position.

Even considering their relationship background, they have a closer alliance than the one present among many other states in the world, so their geopolitical divergence was not enough to bring to such a conclusion.

Economic nationalism

France is one of the most nationalist states in the world. More than the 80% of their citizen are very or quite proud of their nationality[60]. For this reason, it should not be a surprise that they are also really proud of their economic achievement, almost a third of the people who had done the survey (ISSP 2003).

This feeling was not just perceived by the common people but also by the politician who's also expressed an adverse sentiment to globalization, it is the only country which had more interviews who thought that this phenomenon has a negative impact on the economy than the ones who perceive globalization as beneficial for the world economy. The rejection of the EU constitution in 2005 is the consequence of the anti-globalization sentiment.

On the same way the government saw the takeover from an American company as a risk and the unbounded intervention was how they decide to defend the "France and that which is French"[61].

It is possible to claim that the main reason for the strong intervention adopted is strictly linked with economic nationalism.

Economic competition

If the deal was completed, it could be the birth of a new superpower in the food and agricultural sector. Anyway, the potential change from an oligopoly to a monopoly was not a major concern for the French government, because the antagonist of PepsiCo is another American company, Coca Cola. The real issue for the European country would be the new power map that it would create

[60] European Values Study 2000-2004; data provided by https://europeanvaluesstudy.eu/
[61] Stefan Theil; Close the Door; Newsweek (https://www.newsweek.com/close-door-115475), 11th June 2005

with the loss of importance and market share in this international market and the growth of the USA in both fields.

As previously written this case brought to the draft of the "Danone Amendment" with the introduction of eleven sensitive industries[62]. The aim was to protect the French market from future potential threats and to send a message to all that were interested in any French company.

The last factor was the downgrade of French reputation with the sale of a national champion to a bigger and more important country.

Interest groups and lobbies presence

In the Danone-PepsiCo case there were interests that either opposed to the deal or were likely to oppose if they were given the chance. Danone preferred to remain independent and started to search for a domestic white knight in case of an offer.

The main concern for the interest groups was the loss of jobs for the citizens and the effect on the French farmers. PepsiCo. would have faced several problems because the farm sector announced its opposition to provide any goods in case of acquisition. It was not convenient to buy the company in such a difficult situation.

The only ones that did not have any decisional power in this occasion where the shareholders because they could not answer affirmatively or negatively to the deal[63].

There were multiple interests about this story but they had no relevance because the economic nationalism had caught the attention of the government before any pressure was done by the lobbies or the interest groups.

1.3.1.2 Firstgold-Northwest Non-Ferrous International Investment Company Case

[62] Private security if linked with nuclear power or secure installations, products that can be used in terrorist or chemical attack, bugging equipment, information security, companies providing information technology security to government, dual use technology for civilian and military applications, cryptology, companies entrusted with defence secrets, arms, sub-contractors to the defence ministry and casinos (concern about money laundering). It might seem strange that the food and agricultural sector was not included after that story, but the previous year Danone invested in a casino, so it was protected with the last industry. In a couple of years, the European Union denied the inclusion of the casino as a strategic sector.

[63] John Roberts; From Yoghurt to Steel: French Economic Nationalism in Defensive Mode; Economic and Political Weekly (Volume 41 Number 25), 24th-29th June 2006, pages 2531-2533

The 18th December 2009, the president of the United States of America, Barack Obama, officially received the request to block the Northwest Non-Ferrous International Investment Company investment following the advice of the Committee of the Foreign Investment in the United States (CFIUS). This could be just the second time that a president intervenes to block an investment on national security grounds, but, as usual, there was the withdrawal of the offer.

The decision shocked the Firstgold's CEO Terry Lynch, who expressed his delusion about the outcome but he "certainly respect the process CFIUS has taken to arrive at their determination", anyway he "disagree 100% with their conclusion" and "fail to see the connection between national security and" their "principal asset the Relief Canyon mine".

The American firm, in the two previous years, spent $16 million in improvement into the Relief Canyon facilities but faced several legal actions of its creditors that pushed it in a financial crisis.

The agreement was found on the base of $26.5 million in secure debt in exchange of the 51% of outstanding common share, so the buyers would have become the majority shareholder[64].

To a first sight it may look like a strange decision by the Obama's administration due the lower value of the deal, compared to several others accepted by the CFIUS, and the not-strategic importance of the mining sector in national security.

The October 5 the two parties filled a CFIUS and one month later discovered that it would be necessary another 45 days to deeply study the business (for a total of 75 days which is the maximum scheduled by the US law)[65]. The CFIUS has the possibility to do more investigation if a government-controlled acquisition is under investigation, even knowing the law the two firms were surprised when informed.

The problem was the structure of the Northwest which is a firm owned by the Chinese provincial government of Shaanxi. The motivation was not the operation itself but the actors involved, the same fate had occurred to the CNOOC which failed in 2005 for the same reason and brought to a deterioration to the US-China relationship due to the multiple block to operation received by the firm owned by the Asian country.

---

[64] Matthew C. Sullivan; Mining for Meaning: Assessing CFIUS's Rejection of the Firstgold Acquisition; 4Publicist, 15th December 2010

[65] Section 721 of the Defense Production Act of 1950, U.S.C. App. 2170

By the time it was discovered that the concern of the American committee was the location of four mines, they were about 50 miles away from the Fallon Naval Air Station, and the nationality of the investors, there are several other mines closer to the air station owned by non-American holders. It was the CFIUS that officially explained the decision with the national security threatened with "other sensitive and classified security and military assets that cannot be identified", so the concern was a potential espionage by the Chinese firm for its government.

The story ended the 21st December 2009 with the announcement of the offer withdraw by the Northwest; the same day the WTO announced that it was establishing a Dispute Resolution Body (DSB) panel to address claims by the United States, European Union, and Mexico challenging the Chinese export regulations[66].

Geopolitical Competition

In 2009, as they are still now, they were geopolitical rivalry with a highly complex but friendly relationship. They are neither military allies, or members of a community, neither hostile. China was a major power, which was rising in importance. Currently it is the second most important economy just behind the USA, but it is forecasted that it will be the first for the end of the 20s. The relationship between the two countries was complicated by their opposite position about several cases as the status of Taiwan (Beijing wanted to fully reintegrated it, while Washington was favourable to not change the status quo) or the Hong Kong protest, Trump's administration wanted the independence of one of the four Asian tigers.

Since the CNOOC case, 2005, the United States had the perception that China is more than an emerging power, now it is its main rival and there has been a bigger and bigger concern about the modernization of the Asian country amplified by the not transparent military spending. In 2009 the military expenditure of China was estimated to be $100 billion, the 6.8% of the total in the world, this was an estimation done by SIPRI, the real value is unknown because the Chinese government never share all the information about this sector while the one of the USA was $661 billion, it was the 43% of the global. The real issue about the calculation was the fake news provided by Beijing, probably the expenditures announced are two or three times lower than the real investment done.

[66] Souvik Saha; CFIUS Now Made in China: Dueling National Security Review Frameworks as a Countermeasure to Economic Espionage in the Age of Globalization; Northwestern Journal Law & Business Volume 33 Issue 1; Fall 2012, pages 199-235

The concern about espionage can be read as the higher and higher pressure of the US rival to fill the military gap, the block of the deal can be seen as symbolic countermeasure.

Anyway, this event cannot be listed as one of the several example of the Chinese's hungry for brands[67].

Geopolitical Relationship

"The Chinese are great economic and political rivals, not friendly competitors or allies in democracy", the sentence of the Congressmen Barton and Hall perfectly summarize the relationship between the two countries[68].

The situation was, and still is, characterized by a high tension due the China's step to become a major power, which had the core elements of the assertive grand strategies pursued in the past. The elements are: the rise of the effort to augment the military capability in a manner commensurate to its increased power; increase its sphere of influence by underling new alliances and be the protectors of other nations; take back old territory of its imperium for resource necessity or for symbolic reasons, penalizing anyone who opposed to it; rewrite the part of the history that were not "correct" and rewrite the "rules of the game" that does not fit with its necessity[69].

The origin of this competition can be found in the want of the Chinese government to amplify the reserves of its natural resources. Currently the Asian country is the most important mineral extractor in the world and the situation was not different in 2009.

The United States of America was not dependent on resource importation, on the contrary Beijing's government needed to import more and more oil.

Economic Nationalism

---

[67] Timothy J. Keeler; The United States Rejects Chinese Investment on National Security Grounds; Mayer Brown; 22nd December 2009

[68] The 28th of June 2005 the Chairman of the House of Energy and Commerce Committee, Joe Barton, and the Chairman of the House Energy and Commerce Subcommittee on Energy and Air Quality express their concern about the China development

[69] Michael D. Swain & Ashley J. Tellis; Interpreting China's Grand Strategy: Past, Present, and Future; Rand Corporation; 2000

The American are one of the country most nationalist with the 72% of the interviewed that claimed to be proud or very proud of their country[70].

There is not to the typical correlation between the nationalism feeling and economic nationalism in the USA, it has not a major role in the final decision taken by the government. The rare cases of economic nationalism are all linked with the past, in the 80s, and largely were caused by massive influxes of FDI from a particular state.

This phenomenon is easily checkable by several cases where the politics or any institution did not stop the acquisition of American national champions. There are many examples of the open mind of this country to accept the deal which involved the most important national company such as the acquisition of Amoco by the British Petroleum or the bid where it was involved Petróleos de Venezuela and CITGO.

For many analysts, the only US government institution that retains elements of economic nationalism is the Department of Commerce, one of the agencies involved in the CFIUS process.

The Firstgold-Northwest block case cannot be listed as a case where the economic nationalism had a main role because the dimension of the American firm was low, other bigger bids has been accepted, but the motivation was the fear of the rival that was encouraging foreign takeovers through it could acquire new technologies and information. Anyway, some experts claimed that the CFIUS was used as a weapon of economic nationalism intent and that brought concern that the same use can be done in the future.

Economic competition

The two countries often are engaged in economic, political and cultural competition but at the same time they are highly interconnected and interdependent. The situation in 2009 was strained due to the rise of China's economic relative power growth. The china GDP, the year of the Firstgold-Northwest case, was $51020 billion, about a third of the USA GDP which was $14450 billion[71]. The chine's value was not matching with its real value because for several analysts the yuan, or

[70] Erin Duffin; Nationalism in the U.S. – Statics and Facts; Statista (Economy & Politics Section); 9th September 2020
[71] Values provided by the World Bank (https://datatopics.worldbank.org/world-development-indicators/)

renminbi (RMB), was undervalued of the 50%, so the real GDP was the double than the one just read[72].

The nominal value of the Chinese currency was lower compared to the real one for a government decision, it wanted to push the exportation of the national product but, in the previous years, it was forced to recognize a small rise to the exchange rate (the yuan had a fixed exchange rate, so the value is calculated considering the US dollar). The dominant thought among the American politicians was that China was emerging as a dominant player, and at the same time, it was not acting like it and it was not playing by the rules.

Barack Obama was sure that there was a manipulation of the currency of the Asian nation but at the same time there was not the extreme to legally claim it, as confirmed by the Treasury Report the 15th of April of the same year. The same problem was found by the European Central Bank and the president Jean-Claude Trichet would like to schedule a future discussion on how to rebalance the global economy[73].

The American worries came also from the economic growth rate of the rival that, in the decade following the withdrawal, was about 8% annual while the American one was less than 2%.

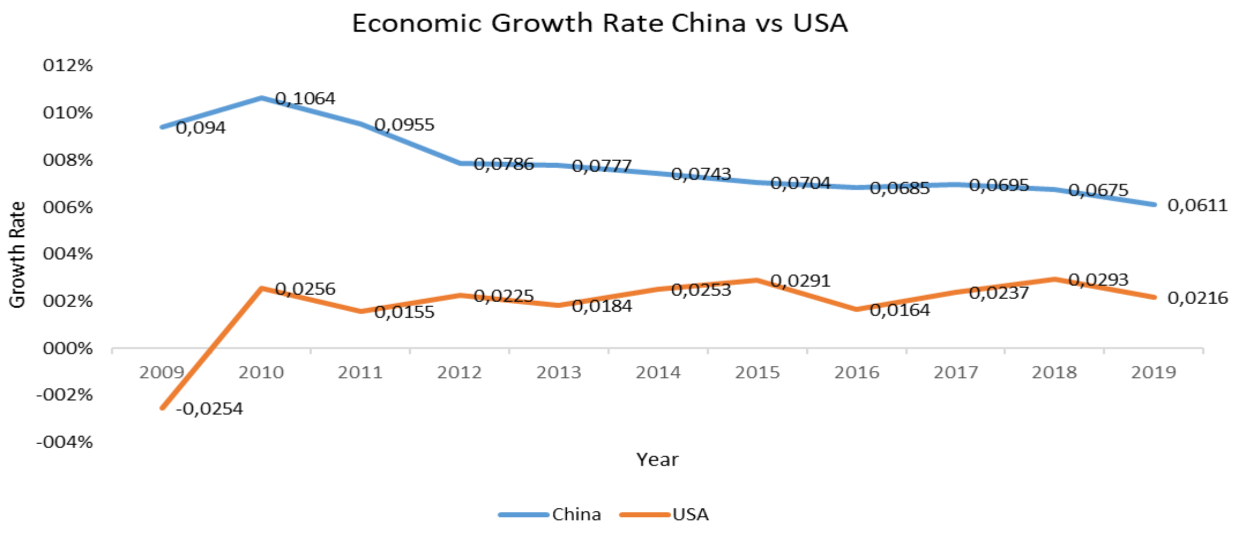


Figure 10: comparison between the American's and the Chinese's growth rate between 2009 and 2019, data provided by: *https://www.macrotrends.net/countries/USA/united-states/gdp-growth-rate* and *https://www.macrotrends.net/countries/CHN/china/gdp-growth-rate*

[72] Simon Evenett; The US-Sino Currency Dispute: New Insights from Economics, Politics, and Law; VoxEU.org Report; 15th April 2010

[73] N.g (Reuters Staff); FACTBOX: Yuan vs Dollar: Who Said What In 2009?; Reuters, 13th November 2009

The last reason for the American tension was the trade deficit which reached the value of $226,877.2 billion, this is not even the highest deficit listed because in 2018 it was over $400,000 and last year was about $310,000[74].

Interest groups and Lobbies presence

The deal did not catch the attention of any interest groups or lobbies. Firstgold is a minor mining company which is smaller than many others that operates close to it. It was not interesting for any company that would have used its lobby channels to incentive the government to act in case of necessity. Probably there were no interest groups' issues, any true labour or union movement was involved, because a deal like this tends to "defend" the national job spot and no one risked to lose it.

The acquisition by the Chine's company would not have a major effect in the worldwide market competition, China was and still is the most important trader of minerals and the deal would not have changed it.

No one had paid attention to this story, until Barack Obama declared that it would have blocked the deal, and even a pressure by third parties would not have changed the decision. In the White House nobody spoke about the deal and the same was done by the mass media.

In this case the only parties not happy about the decision were the those directly involved in the deal, the American because they would not solve the debt problem and the Chinese because the deal was blocked and risked to be listed as a national threat even in future potential businesses.

1.3.2 Bounded Intervention

The Bounded intervention, like the Unbounded intervention, is a non-military internal balancing action. It is used to balance the power of another state, without disrupting the diplomatic relationship. It is motivated by the same reasons of the Unbounded Intervention. As the type of intervention previously described, it is not fixed and varies from country to country. By the way, the main difference is given by the degree, the intensity and the intent of the counter moves.

[74] Data provided by US Census Bureau (https://www.census.gov/)

All the interventions are influenced by the level of institutionalization of the procedures undertaken, the different tools available and used by the government and the formality of the agreements negotiated between the host government and the acquirer.

This is an intervention where the government is able to alter, in its favour, the bid proposed, which will be accepted, rather than blocking the business. Differently from the Unbounded Intervention that has as outcome a denial, the Bounded Intervention may be either accepted or rejected by the government, but the main intent of the nation is to allow the deal in a different form which is more beneficial for the state. The way how it is modified depends on the situation and by the concerns raised by the host government. It results in a lower probability to worsen the diplomatic situation among the countries. The final aim of this intervention is to "mitigate" the negative side of the business and resolve the threat on national security. Usually, the host country presents its doubts about the agreement and, at the same time, proposes a list of solutions for its concern.

The effects on competition interest groups and lobbies are controlled, so the motivation behind this type of intervention is just for the security of the nation, regarding the geopolitical competition concern. It is also a possibility that the state in some extreme cases identifies national security with economic security. Currently the forms of mitigation are decided case by case, they are confidential and the contents are classified, we only know the ones shared with a press release or leaked.

The Bounded Intervention is divided in "high" and "low", depending on the intensity of the measures done by the government. The decision is primarily undertaken considering the concern about the potential implication.

	Motivations
Low-Bounded Intervention	Nationalism Inward FDI
High-Bounded Intervention	Nationalism Relative Military Power *(Negative Direction)* Resource Dependency

Figure 11: the variables that determines the use of a Low-Bounded Intervention or a High-Bounded Intervention

States use a high bounded intervention when they are extremely worried about the implication of the deal, so they entail the imposition of severe or exceedingly restrictive changes on the transaction, they may also require unique measures to allow the acquisition. The limitation decided may be not unique for this deal but may be common for all that have similar characteristics, usually it does not happen.

A Low-Bounded Intervention is used when the government has the feeling that measures too severe are not needed to protect national security. It is characterized by simpler, less intrusive actions, which, as for the High-Bounded Intervention, may not be unique to the deal analysed. The government uses the “low” version when it feels that there is not a major risk and severe measures are not required.

The state will ensure that the modifications decided for the deal are legally bid upon by the companies involved. For an easier explanation: the contracting parties (the acquirer, the seller and the target company) will be asked to sign one or more legal documents where it is listed the requests done by the government for mitigating the negative effects of the deal and, at the same time, it is used to confirm the willingness of the party to be bounded by the modifications and the requirements.

When the politicians take the decision, the nationalism (with the economic nationalism) and the economic competition are likely to play a major role on the type of intervention that it will be employed (high bounded is more likely to be used in correspondence of high level of nationalism and in case of a stronger economic competition).

On the other hand, when a country feels to be militarily weaker than the counterpart, it will be less strict on the typology of the intervention, it may consider that is not necessary to intervene at all, this eventuality will be discussed more in detail in the next pages. This may mean that a country feels more comfortable imposing modification when it feels to be militarily stronger.

The Inward Foreign Direct Investment has a similar role, if the acquirer is located in a nation that did several cross-border M&As in its country, there is a higher probability the bid will face a lower opposition (Low-Bounded Intervention) because a refusal may have a negative effect in the future investment and may change the utility of the ones previously accepted, from convenient to not.

Another factor that may influence the decision is the resource dependency of the host country (as previously analysed in the Danone-PepsiCo. case), which may reject the bid for the fear to be too influenced by the foreign nation in the decisional-process.

The last factor that should be considered is the interest groups and lobbies presence which, for the Unbounded Intervention, does not have a major role on the final decision but may "help" the government to discover a tricky situation which unless will not be studied.

It doesn't matter which is the level of intervention decided by a state, the aim will be the same, legally binding upon the companies involved (it will be asked to sign a legal document where there is every request advanced by the government and accepted by the companies).

The government has to believe that the use of them can reduce the risk of negotiating by applying some forms of mitigation, scholars expect new ones will be developed.

In the country with a higher level of institutionalization, allies have a higher probability to find alternative solutions to solve the concern of the home counterpart, so it is harder that the business is prohibited or face an overwhelming opposition that has the aim to force the "voluntary" withdrawal of the acquirer. With the use of this intervention there is a lower probability that the two nations will face any deterioration of their political relationship.

In any case, the unbounded measures can be used if and only if the host government can find a solution to the potential threat that may be faced if the acquisition is approved.

The Bounded Intervention is more common than the Unbounded, the ratio is about three on four, when the country decides to intervene[75].

1.3.2.1 Lenovo-IBM Case

Lenovo is a state-owned Chinese company whose majority stockholder is Legend Holdings Ltd., a holding company owned and controlled by the Chinese government, it has 57% of Lenovo's stock.

The seller, IBM, is a pioneer in the original personal data computer and, in 2005, it was the main supplier of computers to the U.S government.

[75] Idem 7

The 7th December 2004 the Chinese company announced it would have acquired 100% of IBM's PC division for a total of $1.75 billion. Behind the decision there was the negative trend of the computer division in the previous years, which, even if it was the most important in the company history, it was not able to keep up with the profit generated from the software development and consulting services division, which provided a higher profit margin. For this motivation IBM started to "hunt" a bid and the Lenovo's one was well welcomed.

Differently from the Firstgold-Northwest, Non-Ferrous International Investment Company there were any concerns and the deal was accepted and received an early termination of its antitrust review process from the Federal Trade Commission on January 7 of the following year, 2005[76].

Anyway, as for the other case, the revision by the CFIUS was necessaire due to the type of firm involved, a Chinese SOE, and the industry involved. As result of the combination of the two factors, the companies received, on the 29th of December, a formally filled notice where CFIUS asked to have more information to take its final decision.

The 24th of January, Bloomberg published an article where claimed, citing anonymous sources, that the bid may be blocked because members of the CFIUS, the Justice Department and the Department of Homeland Security were worried about the push from Beijing's government to buy the American IBM to own the facility in North Carolina. The concerns were about a potential industrial espionage and the use of the new technology acquired for the improvement of the military strength[77].

Three day after the publication by Bloomberg three fairly powerful congressmen (Duncan Hunter, Chairman of the House Armed Services Committee; Henry Hyde, Chairman of the House International Relations Committee; and Donald Manzullo, Chairman of the House Small Business Committee) externalized their concerns about the deal. The concern of Donald Manzullo derived from economic nationalism, he feared that the loss of control to IBM could make China the leader in the PC industry or that the Chinese government would have used government subsidies to facilitate IBM's acquisition. The worries of the other two were caused by geopolitical concern, they

[76] Maek Thomas; Lenovo's successful acquisition of the IBM PC Division; Emerald Group Strategic (Direction Volume 32 Issue 9); 12th September 2016; pages 32-35
[77] Brian Wingfield & Edmond Lococo; A Lenovo Bid for IBM Unit Seen Sparking Security Review; Bloomberg; 23rd January 2014

thought that Lenovo may use the acquisition to improve the Chinese military power with the new knowledge acquired about sensitive or dual use technology[78].

Despite all the doubt of the American government, the market was still, somehow, surprised when the 27th of January the CFIUS extended its review for a further and more intensive investigation. Some analysts started to whisper that the final intervention would be an unbounded one, so a total block.

IBM was the frontrunner in the American research, but, by the time, it became a “low tech” sector with a low profit margin for some analysts. The most optimistic about the deal did not realize how the USA government seriously considered the espionage risk, they never had any doubt about the approval of the deal. The apprehension was also due the IBM’s headquarter location, as for the case previously analysed, it was in Triangle Park, North Carolina, where several researches and development projects were carried out for the American government [79].

Differently from the cases previously analysed this one has a positive outcome.

All the parties involved were able to find a solution to those national security concerns. On March 9, there was the official announcement by IBM that the takeover was approved and all the CFIUS’s concerns were solved. Lenovo overcame all the doubts about espionage so the revision mechanism gave its unanimous consent. The deal was officialised the 2nd of May and the President of Enterprise Business Group and Americas Group of Lenovo assured that it was just a first step to “compete vigorously across every sector, using our manufacturing scale and operational excellence to repeat the success we have had with PCs”[80].

The changes done are confidential but the press announcement and leaks confirmed that the government concern was about espionage.

---

[78] Summer Lemon; Report: Lenovo-IBM Deal to Face Review IDG News Service, 28th January 2005

[79] Nathaniel Ahrens & Yu Zhou; China’s Competitiveness: Myth, Reality, and Lessons for the United States and Japan; CSIS (Center for Strategic & International Studies); January 2013

[80] N.g (Author Unknown); Lenovo set to Close Acquisition of IBM’s x86 Server Business: Acquisition to strengthen Lenovo’s position as global, diversified tech leader, accelerates growth of enterprise and cloud strategies; IBM News Room, 29th September 2014

In this takeover the country had used a Bounded Intervention rather than an Unbounded because some aspects of the deal allowed the government to find mitigation actions and it was preferred to have an open and engaged economic relations with China.

<u>Geopolitical Competition</u>

The geopolitical situation is almost the same of the previous case analysed where China and the United States of America where involved. In 2005, those two nations were geopolitical strategic rivals with a highly complex relationship.

China was a rising power which, at the mean-time, had a relevant position in the worldwide chessboard and from that moment on the American government started to consider the Asian country as a potential military threat and all its actions would be carefully examined.

Bush's attempts to create an alliance failed due to the disagreement about the Taiwan status, the Chinese military spending, natural resources division, exchange rate of the yuan and for divergence about the property rights.

During the Bush's administration there were two opposite positions; one, leaded by John William Snow (Treasury Secretary), which wanted to foster cooperation and the other, leaded by the Republic Senator James Inhofe, which wanted to increase the attention on the cross-border M&As of this rival[81].

There are some similar aspects about the IBM-Lenovo case and the Firstgold-Northwest Non-Ferrous International Investment Company but the main difference was the perception of the home country about a direct investment from the other nation: in 2005 was still accepted while in 2009 it was viewed as potential threat for the national security even in less strategic sectors.

There were several concerns that arose during this case.

The first one was the possibility that the real motivation for the takeover was to acquire facilities as a base for conducting international and industrial espionage. The headquarter, as previously written, was located in the industrial compound of Triangle Park, where other business divisions are located, some of the US Department of Defence (DOD). In the 45 days' extension for the review, the

[81] Scot Kennedy; IBM PC Unit Sale to Lenovo Faces Hurdle, People Say; Bloomberg; 24th January 2005

espionage concern was the more discussed. To solve it, the negotiation started even before the formal review process. The espionage concern was compounded by the link of Legend Group Holdings to the military and the academy of science of its country[82].

The second issue of was the potential military usage of the dual use technology by the Chinese government. This concern arrived from some parts developed by IBM, such as super long-life batteries, that could have belligerent applications.

The third concern was about a potential re-export of this technology to a nation that was not allies with the U.S.A. In its history the Beijing government did not always follow foreign laws about exportation control.

The last motivation was the presence of backdoor accesses to the U.S. government devices (IBM was the main supplier of the government) and, at the time, the government could not supply from nations that were not in the US Trade Agreement ACT (TAA).

To mitigate all those problems, the government asked a series of measures that were all accepted by Lenovo because, as claimed by the new CEO Mr. Ward, "everything that CFIUS asked… was perfectly reasonable"[83].

Geopolitical Relationship

The situation in 2005 was really similar to the previous case, the same actors where involved but four years later. The tension was not yet high but the deterioration of the diplomatic relationship was coming, despite the attempt of Bush's administration to save it.

After this takeover among the politicians raised the idea that China was playing unfairly to the "game" of the worldwide market.

Another factor that raised the tension was the increased competition between the countries for the access to the natural resources.

[82] Doug Tsuruoka; IBM PC Division Sale to Lenovo Expected to Get Regulator's OK; Investor's Business Daily (https://www.investors.com/gdpr-agreement/?back_url=https%3A%2F%2Fwww.investors.com%2Fnews%2F); 09th February 2005

[83] Eric Auchard; IBM, Lenovo Pass US Security Review of PC Deal; Reuters News (Update Version); 09th March 2005

China was not a major power in the PC division because the market share was divided in two: in the high tech band was dominated by the USA and the low tech was dominated by few Asian countries. With this acquisition, Lenovo became a powerhouse in the high tech personal computer sector and its country would not be dependent to the overseas technology.

Economic Nationalism

As previously discussed the United States is not, usually, associated with a strong economic nationalism, though in some parts of the US government and institutions it is stronger, as periodically evidenced by its history. Historically the US had stopped foreign investments in coincidence of massive influxes of FDI by a particular country, in the 80s from Japan. 2005 was a year where the nationalism feeling was relatively high so it provided a solid base for economic nationalism.

The Lenovo bid was arrived at the very beginning of China's hunger for brand, with a series of overseas investments and the cross-border M&As activity. From this moment on there was a deterioration of the consideration of Chinese foreign direct investments.

IBM, often called "Big Blue[84]" by the media and press, had all the characteristics to be considered a "national champion". On the other hand, it is also true that historically the US has not traditionally shown a great support on the defence of its "national champions", differently from what the France government usually does.

For decades this company had been the frontrunner of the United States in the technology sector and it was viewed as "the original grand dame flagship of the industry". Its market-share and its relationship with many government agencies made it an icon of the USA. An icon is not necessarily a national champion and even less a singular division[85].

Some analysts and commentators discussed about the message that could have the sale of such a company, it was seen more as a lunch for an Asian Tiger than the give up on a fundamental company for the national security. In the US there is the belief that anything is eternal, so the public and the government were not worried about the acquisition of IBM by a Chinese SOE. Anyway, in a letter

[84] This nickname was invented in the 80s and it was inspired by the blue tint of the computer displays and the because this is the colour used in the logo of the company

[85] Carl Sullivan; The End of an Era; Newsweek (https://www.newsweek.com/); 03rd December 2004

to the President Bush, the three congressmen (Hunter, Hyde and Manzullo) expressed their concern about a potential unfair competitive advantage that Lenovo and China's may have from the acquisition; this idea was listed as an anti-globalization one and had not any relevant weight on the final decision. To defend their position, they claimed that they do not necessarily want a block of the deal but that the Congress took more time to review better all the implications of the deal.

It must be taken into consideration that it was not the entire company that was under the threat of a takeover but solely its "lower tech" division which the managers were trying to sell. The desire of the company to sell and the intention to try to foster cooperation from the White House are the primary motivation for the approval of the bid, obviously there was the assumption that any problems about geopolitical and national security could arise.

This was the last case where a Chinese takeover was not considered to be a problem for the excessive FDI in the country, from that moment on in it has been a major factor in the CFIUS settlement due to the new role of the Asian country which has rapidly begun a "global player".

Solely this factor was not enough to block the deal but it was the motivation behind the 45 days extension required from the CFIUS[86].

Economic Competition

This variable seemed to not have any major relevance on the final outcome. The 7th of January 2005, the Federal Trade Commission assured that it granted Lenovo and IBM an early termination ruling under the Hart-Scott-Rodino antitrust act[87]. It was possible to take a decision rapidly because, apparently, there was any evidence that the acquisition would have created a monopoly or an anti-competitive concentration in the personal computer sector or, more in general, in the technology sector.

---

[86] N.g. (Author Unknown); 2005 REPORT TO CONGRESS of the U.S-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION; U.S Government Printing Office (Washington), 109th Congress First Session; November 2015

[87] This Act, amending the Clayton Act, requires companies to file premerger notifications with the Federal Trade Commission and the Antitrust Division of the Justice Department for certain acquisitions. The Act establishes waiting periods that must elapse before such acquisitions may be consummated and authorizes the enforcement agencies to stay those periods until the companies provide certain additional information about the likelihood that the proposed transaction would substantially lessen competition in violation of Section 7 of the Clayton Act. The Act also requires a filing fee. The fees are evenly divided between and credited to the appropriations of the FTC and the Antitrust Division. The amount of the fee is based on the size of the transaction, with three fee tiers that are adjusted annually to account for increases in the Gross National Product.

All the other aspects that had a role on the definition of the economic competition are the same previously discussed for the Firstgold-Northwest Non-Ferrous International Investment Company case, with one difference in the value of the national GDP, $144500 billion for the United States of America and $51020 billion for China, the difference between the nominal and the real value of the yen was even larger than the one in 2009. The Asian country was considered as a rising nation that was not a major threat for the most important economy in the world[88].

Interest Groups and Lobbies Presence

The government did not receive any pressure to reject the bid by any interest groups or lobbies. At the beginning some Lenovo's shareholders were against the takeover but their doubts were quickly overcome and the deal was approved the 28th of January. It is confirmed that among the shareholders there was the worry that the negotiation would be blocked by the US government or that the fusion of two different entities may not work at best due the cultural differences[89].

Through the time of the negotiation the labour groups were not interested because the acquirer made multiple announcements where it denied the intention to do any layoff and, furthermore, added that the "deal would have minimal effect on employment, benefits and compensation". This was really effective in quelling the fears of both Lenovo's and IBM's workers.[90].

IBM, which wanted to sell the PC division, was so interested in the deal that it hired a lobby, the representative was formed by, according to a federal lobbying report: Brent Scowcroft (the former national-security adviser to the President George H. W. Bush and Gerald Ford), Bruce Mehlman (Bush's assistant secretary for technology policy at the Department of Commerce), Mark Plotkin and David Marchick (two former deputy assistant secretaries for trade policy at the State Department).

They are all well-known and respected within the government and have a deep understanding of the mechanisms that move the CFIUS decision process. Probably, they explained to Lenovo and IBM that some forms of mitigation were required and it was improbable that the final decision would be

[88] Data provided by the World Bank (https://datatopics.worldbank.org/world-development-indicators/)
[89] Tim Bajarin; How a Chinese Company Became a Global PC Powerhouse; Time; 04th April 2005
[90] N.g (Author Unknown); Lenovo to Acquire IBM Personal Computing Division: Creating New Leading PC Business with Global Market Reach; IBM official site (https://news.lenovo.com/pressroom/press-releases/lenovo-to-acquire-ibm-personal-computing-division/); 07th December 2004

a non-Intervention; their role was to have an Unbounded Intervention outcome rather than a Bounded one[91].

1.3.2.2 Endesa-Enel Case

The 25th of June 2009 Enel officially announced the acquisition of the 25.01% of Endesa stake, from Acciona, for a total of €9.627 billion. The final payment also considered the dividend distributed by Endesa and received by Acciona after the agreement of the 20th of February of the same year, €1.561 billion of euros, the value of the final payment received was about €11 billion.

Enel is the main energy Italian company and provides energy to several countries all around the world. It is the largest energy company in Italy while it is the third in Europe, it has the same position as the largest utility by market capitalization. It has been listed in Milan and New York Stock exchanges since 1999. At the time of the operation it had a market capitalization of about €50 billion and provided about 40,475MW.

Acciona is a smaller company than Enel but it is one of the main Spanish corporations and operates in more than 30 countries all around the five continents. It operates in several fields: infrastructures renewable energy sources, mini-hydro, urban and environmental services, logistics and transportations, real estate, hospital management, etc… In the energy sector its installed capacity was around a ninth of the Enel one, 4,502MW. This company, as the Italian, was listed but differently from Enel on the IBEX 35 and had a capitalization of €10.3 billion.

The last part involved, the seller, is Endesa which is one of the largest electricity companies in the world. It is one of the most important electricity providers in Europe and the most important in its home country. It does not operate only in Europe, it is one of the most important actors in the LATAM and several Mediterranean countries. At the time of the operation it was even the front-runner in the green revolution.

At the beginning of the 21st century all the Europe, included the UK, was at the beginning of its privatization era, the new law for the liberalisation of the energy industry market was approved in 1996, but each European country accepted it in different moments[92].

---

[91] Peter O. Bilodeau; IBM Offers Concessions on Lenovo sale to Ease Concern – Update Version n.5; Bloomberg, 24th January 2014

[92] Peter Dinkloh; E.ON completes takeover of Endesa assets earl; Reuters; 26th June 2009

The aim was to have a more efficient sector and guarantee the electricity to everybody, even to the poorest countries. The goal was achieved and brought new resources and cash to the company that started to focus their attention out of their regional boards and to invest in new or different sectors. Enel to keep up the pace of this revolution was forced to change its organisational structure and reorienting its strategy on a multiutility one (it started to operate in several other sectors). This was the environment which surrounded this takeover.

This story began the 27th of February of 2007 when Enel acquired the 9.99% of Endesa and subscribed several equity swap contracts in the following days, between the 1st and the 12th of March, to own 24.97% of this Spanish company.

About one month later to this initial acquisition, the 26th of March, the Italian energy company and the Spanish Acciona agreed to launch a joint takeover for taking the control of Endesa. The potential bid was estimated to have a value of around €10 billion for about a quarter of the total stakes. Endesa's shareholders received a proposal of €40.16 for share.

The 28th the CNMV (Comisión Nacional de Mercado de Valores) announced the result of the tender offer: Enel reached the possession of 67.05% of the total stock of Endesa, while Acciona the 25.01%. Almost one year later, on the 25th of June 2009, the Italian company bought the stake previously acquired from the Spanish counterpart for a value of about €11 billion.

Being Endesa a Spanish national champion, the government was worried about the sale of it to a foreign owner. In order to accept the deal, the government imposed a series of clauses that had to been respected, they went from the structure of the board of directors to the respect of the previous agreement between Endesa and the government of Madrid and last but not least the acquisition by the Spanish company of a series of plant situated all around the Europe (France, Italy, Poland, etc…). Just after the subscription of this contract the Spanish government allowed the ratification of the bid[93].

Once the agreement was found there was the intervention of the UE, it worried that the requests to Enel and Acciona were against the liberalisation market laws. Madrid had a month to convinced

[93] N.g (Author Unknown); ENEL COMPLETES ACQUISITION OF 25.01% OF ENDESA; N.G; official announcement of Enel (Enel Explorer Media); 25th June 2009

that the imposition followed the European rules and at the end of this period even this transnational figure accepted the deal[94].

Geopolitical Competition

Italy has a central role in the supply of energy for Spain, Endesa is the main provider of electricity in this nation and one of the frontrunners in the renewable energy revolution, thanks to the partnership with Enel. Through the time Enel's participation lowered, from the 92% to the 70%, Endesa bought back the 22% of its stocks. The importance of Italy in Spain went even over this aspect, Spain had a negative commercial balance with the other European country of about €16.4 billion[95].

Another factor that theoretically could have weighed, but probably not being ally and both European countries, was the different military expenditure. At the time Italy had an expenditure estimated of €24.5 billion, almost the double of the Spanish one, €14.5 billion euros. In the previous year, Italy had always invested more in this field but it had a similar evolution pattern. Even in percentage of national GDP in the home country invested more than the counterpart with the 1.6% of its national GDP than the 1.4%.

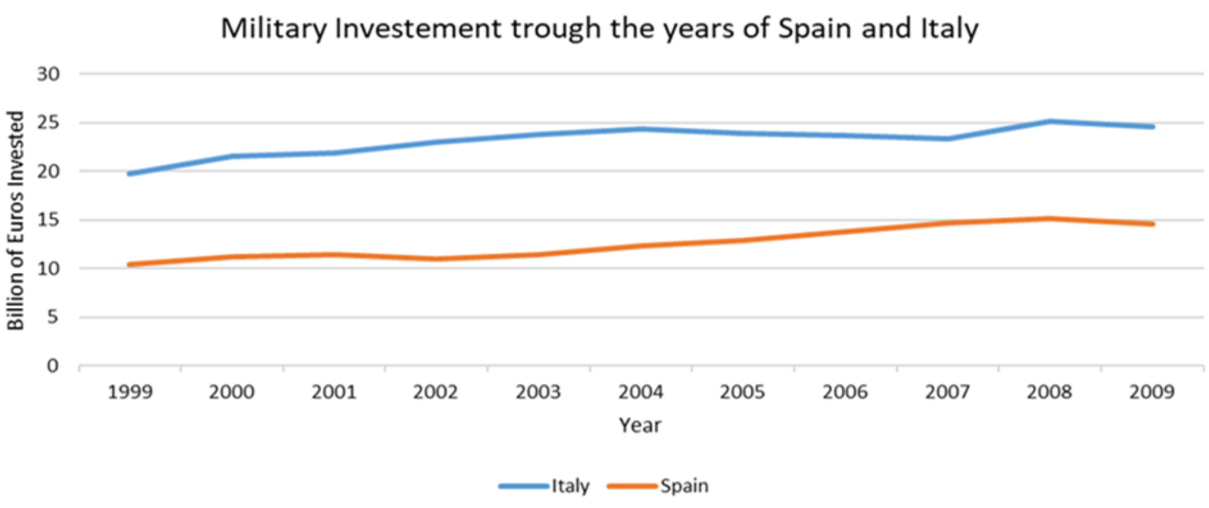


Figure 12: Italian and Spanish military expenditure through the ten years before the takeover, data provided by SIPRI: https://www.sipri.org/sites/default/files/Data%20for%20all%20countries%20from%201988%E2%80%932019%20in%20local%20currency.pdf

---

[94] N.g (Author Unknown); Endesa, Enel merger conditions might break EU laws: EC; McGraw-Hill, Inc.; 5th October 2007

[95] N.g. (Author Unknown); THE SPANISH BALANCE OF PAYMENTS AND INTERNATIONAL INVESTMENT POSITION; Banco de Espana; Official Report, 2010

Both countries had been part of the nations that suffered the sovereign debt crisis but Spain was in a more tragic situation, now the two nations are still in a similar conditions, there is a gap of around €10 billion in their total debt[96].

Geopolitical Relationship

Those two nations are part of the European Union, NATO and Union of Mediterranean; they are part of the same economic and military alliance. Italy is one of the founders of the community while the government of Madrid decided to join the 1st of January 1986.

Since that moment their relations became closer and closer with a community of economic and political interests. In this transnational entity, they are both in the block of the of the southern nations that see the Mediterranean as natural outlet for their economy, they try to overcome the rise of the northern countries on the decision that the European Union take, those two block have different interests that usually are not compatible one with the other.

NATO is the way through which they are sure to not have any belligerence and to be allies ready to intervene in any military situation.

The Union of Mediterranean is one of the newest intergovernmental organization. It was signed the 13th of July 2008, one year before this case, by 42 nations[97] at the Paris Summit for the reinforcement of the Euro-Mediterranean (Euromed) partnership, it was signed at the Barcelona Process, 1995.

All this series of agreement between the two countries and being ally helped the acquisition of Endesa by Enel by the subscription of a series of clause, this was the most important factor for the use of a Bounded Intervention rather than an Unbounded[98].

Economic Nationalism

---

[96] Military Expenditure by Country, in Local Currency, 1988-2019; SIPRI,2019

[97] 27 EU member states and the other 15 are Mediterranean partner countries from North America, Western Asia and Southern Europe

[98] Fabio Canova & Alain Schlaepfer; Has the Euro-Mediterranean Partnership Affected Mediterranean Business Cycles?; Journal of applied econometrics (Volume 30 number 2); March 2015; pages 241-262

Spain is a nation where nationalism feelings are really strong, even if there are some regions that would like to be independent from Madrid. Anyway, this feeling, even if strong, in a time period of 13 years, from 2002 and 2015 lowered, from 72% to 61% of people who are proud or very proud of their country. As usual, this sentiment is followed by an economic nationalism that has experienced the same pattern, from 77% to 61%. It has to be considered that in 2009 the world was under one of the worst financial crises in its history and this nation was one of the countries that suffered most, it should not be a surprise if the nationalism feeling and the economic nationalism lowered. In this period the consideration to Europe from the Spanish improved and now they are one of the nation that has the better consideration of the Union with just around the 10% of the people that think that the best for their nation is to leave it, probably due the financial aid received[99].

Enel's bid arrived in a moment when the government did not have the power to fully intervene in a takeover because it was busy trying to solve all the other problems that derived from the crisis.

Endesa, since the beginning of the 90s, has been the most important provider of electric energy to its country and it can be easily considered as a national champion. At the start of the 21st century it was listed in the Dow Jones Sustainability World Index (DJSI World)[100] thanks to its frontrunner position in the development of renewable energy. It was the focus of Endesa to those new forms of energy that pushed Enel to acquire it[101].

Being the energy field fundamental for the survival of a nation, there were some concerns about the potential outcome, reinforced from the Russia behaviour of the previous years (this theme will be analysed better in GdF-Suez case). After a negotiation between Enel and the government was found an agreement where the Italian company ensured to provide the energy promised from the contracts signed by the Spanish company.

Economic Competition

This factor did not have any weight on the final outcome of this takeover. The Comisión Nacional de Mercado de Valores checked all the aspects of this transaction and approved it with some minor

[99] Carmen González-Enríquez; The Spanish Exception: Unemployment, inequality and immigration, but no right-wing populist parties; Real Instituto Elcano (Royal Institute); 14th February 2017
[100] This is a parallel stock exchange market where are listed only the best 300 companies from 23 nations that stand out for their application of sustainable principles.
[101] Our History; official site of Endesa (https://www.endesa.com/en/about-endesa/who-we-are/our-history)

modifications, as viewed above, that gave the opportunity to the Spanish company to expand its influence over the national board but at the meantime to not lose the control on the most important decision for at least three years.

At the beginning of the negotiation the Spanish Prime Minister announced that its nation for the first time overcame Italy in the national GDP according to Eurostat figures; but it was just the consequence of a financial bubble. Now the situation is different with Spain that has really passed the GDP per capita of Italy, 31111 euros versus 30994 (but this info is controversial because it depends from the resource used to the take the information), but Italy still has a higher total value and remained the ninth most important economy in the world while the home country of Endesa is the fourteenth. Thanks to the reforms imposed by the European Union it is reducing the gap[102].

At the moment of the bid both nations were not in the wealthiest economic moment in their history, but having a similar situation Madrid did not suffer any pressure by a stronger country, so its decision to not use an Unbounded intervention was just due to the fact that the business was not considered as a threat. More important, Endesa was not a State-Owned Enterprise so it could decide whatever it was the best for itself.

Interests Groups and Lobbies Presence

Any employees or shareholders were unhappy about the end of this saga. Through the two years, since the announcement of the acquisition of the first 9.99% of the stock to the final attainment, the employees had all the time to fully understand the intention of the Italian company and to experiment if there would be any negative impact on their job experience. It is not a case that there was any strike against the new owner and there was any concern.

From the point of view of the shareholders, Enel's bid was the most lucrative offer available. Several energy companies were interested in acquiring Endesa and expanding their action and influence in Spain. The most important, excluding the one arrived from the Italian company, was the E. ON's offer, a German company which is one of the biggest and most important firms in the energy sector. The German's bid was lower; the first proposal was €27.50 per share while the second one was €35 per share. As viewed, the Italian one was higher but in order to avoid a war bid the two companies

[102] Antonio Maqueda; Spaniards now wealthier than Italians (but only according to the IMF); El Pais (Economy); 20th April 2018

found an agreement that allowed them to enter in the French, Italian and Spain market as the fourth power with the sale of some Enel's and Endesa buildings.

For this reason, once the government found an agreement with Enel, all the parties involved had not concerns about the outcome of the takeover and each part had a benefit[103].

1.3.3 Internal Intervention

This is an alternative to a direct intervention of the government, so it is an indirect tool. It seeks to protect a specific company from a foreign takeover, it may take all the precautions before there is any offer or rumour, the interventions may be done even during or after the bid. It occurs when the country and the market consider a company vulnerable to a foreign takeover. The company has to be vital for national security (usually it is a national champion) and a foreign ownership and control could be detrimental to relative power position or future survival. The company is viewed as a vulnerable takeover target also by the market.

The choice of this option is motivated by, not solely, the factors previously analysed in the previous paragraph but by other domestic political factors that are different from nation to nation and from situation to situation.

Differently from a direct intervention (Bounded or Unbounded), where the engagement of the government is seen as a right to defend national security, not all the governments are willing to adopt this option because some view it as an aggressive anti-free-market behaviour. By the way, some nations such as Russia, France, Germany, Spain and Italy are more inclined to use it if a vulnerable national champion needs to find a domestic saviour. Even in this intervention economic nationalism can have a primary role in the decision that will be undertaken.

In this case the government monitors the situation closely, but there is not a direct intervention in the bid, instead there is the use of indirect tools.

Usually, an Internal Intervention has as main tool the research of a domestic alternative, it is done with the hope of precluding the completion and, in some cases, the initiation of a foreign takeover perceived as potentially threatening for the power and the survival of the nation.

---

[103] Victoria Burnett; A Bitter Battle for Endesa ends; The New York Times; 2nd April 2007

Anyway, this type of intervention is not circumscriptive to a series of actions before the proposal, it could be applied also during the bid or after the acquisition is completed.

It allows the state to have a greater degree of latitude and strategic flexibility because it permits to achieve the same result of the Unbounded and Bounded Intervention but with a larger time to do it.

The Internal Intervention can be used in three different forms, each one is different and unique from the previous, there is not one that is the best in general but depends on the situation that is occurring.

The first option is the one where there is a proactively seek, encourage and then support to a domestic firm to act as an alternative option for the vulnerable target, it acts as a "white knight" (a bid done by a friendlier subject). This would fend off a hostile subject, in this case the foreign acquirer, by either merging or acquiring the target.

The second option is an aggressive encouragement to the domestic investors and/or companies; so rather than waiting for an unfriendly bid, the government hunts for a domestic alternative. This research is expressed with the encouragement of the acquisition or the merger with a domestic company; if it has success on the promotion of the acquisition, there will be a higher level of cross-shareholding that makes a foreign takeover harder. This strategy, usually, helps a vulnerable entity to defend itself from a takeover because the new shareholders, it is assumed, will vote against the unwanted potential foreign takeover bid. The promotion of cross-shareholding is a very popular practice in a big number of European and Asian countries, the ones that are famous for a more intensive use are: France, Spain, Italy and Japan.

The third and last case occurs when there is the promotion or the support of a merger between two weak entities in order to create a national champion. Such entities not only would be less susceptible to a foreign takeover but it would, surely, provide economic benefits. This is the favourite practice of the Russian government which can defend its strategic firms that remain under its influence and control[104].

As all the other non-military internal balancing interventions previously analysed, this one has the main purpose to maintain or maximize the economic and military power necessary to the survival of the state in response to any future threat. It is chosen because it allows to save the meta-

---

[104] Idem 7

relationship among the two nations involved, it is hard that it leads to a truly negative or irreversible disruption of the relationship.

Every nation uses it in different ways and with a different cadence, every situation is different and the decisions taken are in consideration of the current situation faced by the government.

At a first glance, the Internal Intervention can be considered as the economic component of the traditional internal balancing as defined by Brawley. The internal balancing is one of several ways of how the soft balancing is expressed. After the Cold War the main concern for the survival of a nation was not the defence of its territory, there were the subscription of multiple non-belligerence agreements, so the most important country decided to move their attention on some other different fields (the military position and the military behaviour are not as important as in the past) where they can use their influence. Anyway, in this different scenario the most important nations have to face different type of opposition that in some cases are not able to overpasses[105].

For some scholars this can be the tool used, in the modern era, to increase the military strength or to undertake a new version of an "arms race" for the nations, where the growth rate and the technological innovation are fundamentals to prepare the contention.

This can be not the real reason and for this motivation some academics think that the ratio behind the government interventions are the same previously described: counter all the potential threats to economic areas of economic power that are vital to protect the overall state's power position and the long-term survival of the nation.

The temporal frame and the cadence of the Internal Intervention strategy are be completely different from the past due to the evolution of the national power and the "battle-field" where there is the confrontation[106].

1.3.3.1 GdF-Suez Case

[105] Thazha Varkey Paul; Soft Balancing in the Age of U.S. Primacy; The MIT Press (International Security, Volume 30); Summer 2005; pages 46-71

[106] Stephen M. Walt; The Origins of Alliances; Cornell University Press (Cornell Studies in Security Affairs); 1987

This case is about the merger of two French energy companies, Suez SA and Gaz de France. This one is one of the best and more known example of internal intervention since the beginning of the new millennium. The "weak" company that needed to be protected was Suez.

The government was worried about a hostile takeover from the Italian national champion Enel. It took more than two years to complete the deal and pitted the Belgium and France governments against Italy. The GdF-Suez case is the perfect example of how a government can start to feel threatened even before there is any official formal attempt of acquisition or merger.

This story began in the middle of February 2006 when Fulvio Conti; the CEO of Enel, announced that "everything is ready for the IPO, it is just enough to push the bottom" and so officialised that its company was ready to initiate the takeover in order to gain the control of the electricity assets held by the Belgian subsidiary of Suez, Electrabel[107].

The company a couple of weeks after this first announcement released a statement, the 25th of the same month, where it admitted that it was looking at different options to "expand abroad" and Suez was one of the "examining…opportunities" on the table.

There was an immediate and fierce response by French and Belgian governments with the Paris-located that from the beginning took two major and definitive steps.

The first was to actively foster a domestic merger between the "weak" company and a home firm, it was Gaz de France, a state-controlled entity. At the time GdF was the most important natural gas supplier and a fusion between those two firms would have created a national champion whose size and ownership structure would have been a wall almost impossible to be overcome by any foreign takeover, so it had significantly strengthened both.

Since September 2005, Thierry Bretton, the French Prime Minister for Economy, Finance and Industry, expressed its desire that Suez started to draft a merger plan[108].

On February 25, in less than one hour from the Enel announcement, "the top management of Gaz de France and Suez met together with the France Prime Minister and approved a friendly merger

[107] N.g (Author Unknown); Forum: OPA Enel?; Boursier.com (https://www.boursier.com/forum/blog/doge-di-venezia/opa-enel-i28787-2.html#89557); 14th March 2006
[108] N.g. (Author Unknown); Suez-GdF Deal Raises Question of Government Intervention; Forbes; 01st March 2006

between the two groups" which had the support of Belgium and France, both wanted to defence their firm from a potential acquisition.

The timing and the mode of the actions undertaken by the French government sent a clear message to any non-France company that may be interested in the acquisition of Suez, a domestic partner was preferred and the politics would have done whatever it could. The message was clear and the response of Enel CEO was to denounce it as "a pre-emptive maneuver to shield the country's utilities from foreign takeovers".

The second action was a series of public statements and personal communications where it was made clear to the Italian government that it would not allowed Suzen to be taken by Enel. Now is know that there was even a call between Domenique de Villepin (Prime Minister of France) and its Italian counterpart, Silvio Berlusconi, to express the opposition to every offer to the French company and it would be considered as an attack to France[109].

All that was not a mere intimidation, the government was ready to do whatever it took to block the bid, because it was considered as a potentially serious threat for the national economic and political power.

The Italian reaction was equally furious. Berlusconi requested to "the French government to be impartial in the face of Enel's takeover" and Tremonti, the Economy Minister, was even harder claiming that "the run of the governments to build national barriers has to be stopped… if we going on this way, the risk factors will rise: the threat is an August 1914 effect (reference to the first WWI)". The situation was so tense and the Italian government was so frustrated that the meeting between Claudio Scajola, Italian Industry Minister, and his French counterpart Francois Loos, to discuss about energy and competition, was cancelled. For the Italian Minister it was not a surprise the protectionist actions undertaken by the French government, but those could lead to the end of European Community[110].

The Italian statement had any impact on the result, except for increasing bellicosity of the French government, which became more stable in its position.

---

[109] A. Freeman; Enel Chief Says GDF-Suez Merger is Protectionism; Bloomberg (version updated); February 2006

[110] Eric Sylvers; Balked near home, Enel looks outside EU; The New York Times (International Herald Tribune-Business section); 16th August 2006

The peak of tension in this story was reached when the Italians registered a formal complaint with the European Commission over the proposed merger of GdF and Suez, as the last ditch-effort.

The conclusion of this saga was adverse, as all known, to the peninsular country because the French created a new national champion, now called GdF Suez, and Enel was forced to withdraw its bid.

As it will be discussed more in detail in the next pages, the French motivation for this reaction were mostly inspired by economic nationalism and geopolitics, obviously with a series of national threats that had been never specified.

The Internal Intervention was required, from the French perspective, because it would have strengthened its position against this type of threat from any external actor, in the future.

At the same time, the overall relationship between the countries was not damaged despite the obvious frustration. It is unlikely that a disagreement like that could bring to a significant deterioration of a healthy diplomatic alliance.

Geopolitical Competition

Suez, at the time of this story, was one of the world's top diversified utilities companies and was the provider of a large portion of the electricity, natural gas, water and waste management services in France. So it cannot be a surprise, due to this provision of vital source and energy services, that it had special attention from the government of its nation.

In the middle of the first decade of the third millennium many European countries were seeking to consolidate their control over the provision of domestic utilities. Competition in this period, as still now, was fairly low and Neelie Kroes, the European Commissioner for Competition Policy, highlighted as this topic was the prior in her agenda since 2004, the year when she acceded to her position[111].

Through her push the European Parliament did several significant structural reform, principally in the European energy market, which sign the beginning of a competition among the European

[111] Neelie Kroes; Structural Reforms to the Energy Market European Affairs Platform (Speech); European Affairs Platform; 27th February 2008

companies and governments for the control of different strategic sectors, she opened the "door" for a further competition and new market entrants[112].

At the time the two countries involved in this story were made highly aware of the dangers of natural gas dependence. About two months before the hostile takeover tried by Enel; Russia showed its strength through its control over natural gas resources. Gazprom, a Russian state-controlled oil company, the 1st January 2006, cut off, for four days, the supplies to Ukraine for a dispute focused on the rise of the price. This dispute had a big impact on Europe with a significant reduction of the natural gas received (French supply fell by 25%-30% and the Italian by a little bit less, 24%) because Russia was one of the major suppliers for several countries, but mainly France and Italy. It cannot be a shock if both countries had the desire to gain access to alternative supplies of natural gas, as well as the desire to improve the fame and the power of their own domestic natural gas companies.

The fear of similar actions in the future not only explained Enel's initial research for foreign opportunities but was also the motivation for the Internal Intervention undertaken by the French government. The possibility that Russia cut-off the supply of those two countries was real because Moscow was not new to this type of retaliation, between 2007 and 2009 had done it twice: one to Belarus and again to Ukraine. For the European countries this was a real concern[113].

The French government saw the potential loss of Suez as a threat of its independency in the gas sector and as a source of geopolitical concern, the merger was a try to lock-up its position in the "greater geostrategic challenges associated with the security of European energy sources" (GdF-Suez 2008).

The third party involved in this story was Belgium that was an ally of France. Historically they have a highly satisfactory relationship, while the quality of the potential relation with the Italian's Enel was unknown.

So this factor had a fundamental impact on the decision of the French government.

<u>Geopolitical Relationship</u>

---

[112] Mark Scott; An Uncertain Future for Europe's Utilities; Bloomberg; 26th February 2008
[113] Alex Osborn; Russia Threatens to Cut Off Gas to Belarus; The Independent; 29th December 2006

The bilateral relationship between Italy and France has always been a close one, not always quiet but friendly. The Italian called the French “cugini d’oltralpe” (cousins from behind de Alpes) and the vice versa they are called, by Jean Cocteau, “le Français de bonne humeur” (French with good mood).

Throughout their history, since the France revolution and Napoleon’s campaign in the late 18th century, they always had a relationship that swivelled between love and hate.

France had a fundamental role providing military support in the second Italian war of independence against Austria, this action was regulated by the 1859 Treaty between Napoleon III and the kingdom of Piedmont-Sardinia. This alliance was interrupted when the France leader did an armistice with the common rival, Austria, and stopped the Piedmont’s plans for the unification of Italy. In the following years the situation remained tense because Napoleon provided protection to the Pope with his troops, he prevented the new kingdom of Italy from conquering Rome until 1870.

Another moment of collision, dubbed by the Italians as the “Slap of Tunis”, the “Italian’s cousin” took the control of Tunisia without taking into consideration the Italian interest about this country. In 1940, Italy declared war to France, which was already defeated, it was perceived as a “stab in the back”[114].

After the Second World War a significant number of Italians immigrated to France and it was the beginning of a stronger and closer economic exchange between the two countries.

A new period of tension arose in the 60’s due to the different views about the “Europe of Nations” between de Gaulle and the Italian’s Christian Democrat governments, the second had a federalism organization as the final goal.

The last moment of crisis, before the GdF-Suez case was faced in 1995, Italy voted, during a UN meeting, a motion against the resumption of nuclear testing proposed by the French President Jacques Chirac; French countermove was the cancellation of the Franco-Italian summit, the first time since 1983, year of the establishment of the format of this bilateral meeting.

[114] Jean-Pierre Darnis; The Political Rollercoaster of Italian-French Relations; Istituto Affari Internazionali; 20th February 2019

However, any controversies were solved quickly and today in Europe the two “cousins” have, usually, the same point of view. They are two of the Southern European countries that project themselves into the Mediterranean. Their aim is to bring back the focus of Europe on their zone, while in the last years it has shifted to the North and to the East.

Those two countries had their divergences but they have always been linked and consider each other as one of the most important economic and political partner[115].

Economic Nationalism

As learnt from the Danone/PepsiCo. case, the economic nationalism was, and still is, really high during this period in France. It has never been a secret the desire of this nation to protect its market and its national champions through its state policy, it is exemplified by the motto “patriotisme économique”.

In this particular case the European Commission decried the use of the “national rhetoric” by both nations, Italy and France. This case was temporarily close to the moment when France announced the “Danone amendment”, it brought to the defence of eleven strategical sectors, the energy one was included in the list. Furthermore, Economic Minister Breton and French Prime Minister de Villepin were focused to follow their desire of creating a national champion through the merger of Suez and Gaz de France. To ensure that this new entity would remain under the French government control, it was used as a golden share in the newly formulated entity. The golden share is a special tool available for the government that gives them the veto power over, at least, the most important decision. The GdF Suez Merger Prospectus made it clear that the aim “of this golden share is to preserve the essential interests of France in the energy sector to ensure continuity or security of energy supplies” and that the natural gas supplies was the main concern of the government in this case[116].

It is important to note how the geopolitical threat perceived, and probably also real, was more diffuse in this case than in any other previously analysed. The concern derived from the idea that, sooner or later, the Italian natural gas sector would fall under Russian control, so there would be an

---

[115] Lorenzo De Sia; France and Italy: Is it the momentum for a new European path?; THE NATOLIN BLOG (College of Europe); 14th April 2020

[116] N.g (Author Unknown); 2008 Merger Prospectus; GdF Suez; GdF Suez Environnement; 13th June 2008

increase of the European dependence on supply from Moscow companies. This concern derived from Russia's state desire to gain a greater market share in Italy's gas distribution network.

To sum up, there was any particular or specific difference in the relative economic or political positions between the two European countries that aroused French concern. It was a more general concern from Paris that derived from the potential threat for its economic position and for the control of resources following the deregulation imposed from the European Commission.

Economic Competition

This factor has to be considered in the European Union environment, so in a situation where a transnational entity has the power to block or facilitate a deal.

At the beginning the European Union was concerned by the potential effect of the deal on competition, but this problem was solved by the disposal of two minor assets.

This entity had investigated the impact of the merger between the two French companies to the competition in the European energy market.

The investigation was not a response to the Italian objection that the deal was a form of protectionism. The final response was that the deal would have a negative impact on the gas and electricity and gas wholesale and retail markets in Belgium and in the gas market in France, those problem could be solved by some "structural remedies": a forced "divestiture of Distrigaz and SPE and Suez relinquishing its control of Belgian network operator Fluxys. This disposal was done before the deal was completed in 2008, Distrigaz was sold to the Italian energy company Eni (for some it was a part of a mollification to the Italian government)[117].

The European Commission tried to reduce the level of golden share ownership within member states due to the anti-competitive nature of this tool but, in this particular case, the Commission did not reject the inclusion of the golden share by the French government because, as written in a letter by Charlie McCreevy, Commissioner for the Internal Market and Services, to the French Minister Mr. Thierry Breton, they "made clear that the decree establishing the golden share did not contain any elements that would merit legal action. The European Commission explained that it was thanks to

[117] N.g. (Author Unknown); Commission approves merger of Gaz de France and Suez, subject to conditions; European Commission; Press release, 14th November 2006

the fact that the country "managed to draft a decree that meets the Union's criteria for such special rights".[118]

Interest groups and Lobbies Presence

Neither interest groups or lobbies' presence had a main role in motivating the government intervention in this case.

The French union at the beginning was contrary to the merger of Gaz de France and Suez and it did not hold up the combination of the two companies, but it never really threatened the final outcome of this operation.

It was vociferously that the real problem would be the privatization of the company that would have brought to the loss of a number of employees' protections and privileges. There were few strikes against the combination of the two entities by the GdF's union and they were even able to postpone the formalization of the agreement through a court-stay where it was provided more time to the EWC (European Works Community) to fully analysed the impact on the work situation[119].

However, the final outcome was never in doubt and it was just a mere formality required by the French law. An eventual negative opinion, which was not expected, would not damage or stop the merger.

The French union was not exactly against the GdF-Suez merger; they would have done the same steps against Enel or any other option that would have privatized GdF.

By the way, as previously written, their opposition was not enough to affect the final decision of the French government.

Another factor that facilitated this merger was the interest of the various shareholders, in both companies, to block the deal, largely because they agreed with the government on the threat posed by Enel takeover. For this reason, the board of both companies approved the merger in 2008. At the time the major shareholder of Suez and the French government were really close. The market

[118] Tobias Buck & Peggy Hollinger & Tony Barber; Brussels Backs GdF Golden Share Plan; Financial Times; 8th September 2006

[119] N.g (Author Unknown); Unions Win Important Legal Battle in GdF-Suez Merger Saga; I.C.E.M. (International Federation of Chemical, Energy, Mine and General Workers' Union); The New York Times (International Herald Tribune); 27th November 2006

analysts believed that the shareholders of this company voted to enact a "poison pill" against the potential takeover of the Italian company, just a couple of months after the first announcements of Enel, May 2006; their actions were motivated by the proximity to the government

Even the Gaz de France's shareholders voted in favour of the merger, but it is necessary to underlying how among the analyst there was the idea that it was not a fair[120].

1.3.4 Non-Intervention

This is the situation where a proposed deal is accepted without any form of mitigation and any visible intervention is done (there could be some cases where the interventions are not visible, but the government has undertaken some intervention, it is not possible to know the typology of the actions done). In some situations, it is easier that the host country decides to not intervene.

A Non-intervention from the government is the most common situation faced by the acquirer, more than half of the time it occurs. It is not possible to be sure about that data, it is possible that the bid was withdrawn or changed, and there is any evidence of the intervention.

Contrary to the Unbounded and the Bounded Intervention, this case is characterized by a lack, or a very low level, of economic nationalism or geopolitical concerns, the main factors that bring to a direct intervention from the government. It shows that the two variables, just mentioned, are the most important, but, at the end, the only reason behind a potential intervention is if there is the presence of a real or perceived threat for the home country, if not there should not be any action undertaken by the government. Most of the time the risk perceived is the consequence of those two variables.

There are six "mitigation circumstances" that usually bring the government to not intervene or reduce the probability of any actions against the bid.

If the acquirer is an institutional investor[121], based on a foreign country, or a consortium of them, from multiple countries, there is a lower probability that any action will be undertaken. In order to be considered this type of figure they must be a third-party professional with the aim to act as a fiduciary investment capital allocation organization on behalf of a client. More than 80% of the time

[120] D. Roden; Suez-Gaz de France. European Research; European Merger Report; Lehman Brothers; 12th June 2006
[121] Institutional investors are usually defined as "a bank, mutual fund, pension fund, or other corporate entity that trades securities in large volume (FINRA 2008)

if an institutional investor is involved, the government decides to not intervene in any way. They are considered as more focused on the profit than to the political implications of the acquisitions, so they are independent from the government control or influence. It is not strange that they are perceived as not a threat or less than any other types of potential buyer. Indeed, some of them could have some sort of connection with the government; every state bank and every state investment fund are listed as SWFs.

Another variable, which raises the likelihood of a non-intervention, is the case where the company and the government want to sell a business, so there is a "desired exit", but any home company is not interested in taking it. The motivations for selling the business could be several: struggle to compete in the market, a margin which is too low or the owner who wants to concentrate its resources elsewhere. In this case, if the acquirer comes from an ally country, there is a lower probability that it will face interventions. When there is a "desired exit" a Non-Intervention is really likely to happen, there is almost any chance that the government uses an Unbounded Intervention in this case, the most extreme tools used is the Bounded, usually the low one while the hard is really hard to happen. Anyway, the politic could try to facilitate the acquisition by a national company with a series of internal intervention or they can modify the agreement to have a better version, clearly it is not the hopped end but it is better than a failure of the selling. If the company operates in a vital sector, it cannot be allowed to be sold to a foreign acquirer, so the two options previously written have some cases where they can be used and sometimes not.

There is also the chance that a previous opposition of the government withdrew, thanks to the rumours of the arrival of a bid from another country, not welcomed or considered more dangerous for the national security than the one perceived from the first country. It is not necessary that this is true, the perception of a potential bid from a less friendly country is enough to not push a Non-Intervention. In this case, the variables that have the biggest impact are the presence of geopolitical competition and economic nationalism. This circumstance is really hard to identify, but the effect on the final outcome is undeniably clear.

The fourth situation is a little opposition of the government, which was solved by precedent agreement between the acquirer and the political delegates, problems addressed in some ways in precedent deals (it occurs when the foreign acquirer has already signed a stringent national security agreement or any equivalent of it) or there is an agreement of divest or "black-box" the division of the company which is related to the national security. This particular situation has a minor effect in countries where there is a higher level of nationalism, in this case the government may not want to recognize that a national security concern has already been addressed, the motivations behind this behaviour are political. In the presence of geopolitical competition, it is unusual to have a Non-Intervention, it is more probable to have a direct intervention, either Bounded or Unbounded, but this factor has a minor role in an indirect tool as this one because otherwise there would not be any precedent agreements. Anyway, if the company has "taken care" of all the aspect about the national security before the formal bid, an intervention is less likely; if not, but has signed a national security agreement, it has to adhere to certain security precautions and laws, which are adapted to the current situation, then low-bounded intervention will ensure to fix the situation. In case a previous agreement is perceived as sufficient to cover the threat of the new takeover, any intervention will be considered necessary.

Obviously, if the deal is perceived as advantageous there will not be the need to stop it and it could be facilitated. The acquisition in this case has to improve, as much as possible, the national security and/or the defence industrial base. The most common improvement is the increase of competition, among companies, in the production of a good that is considered to be vital, or the access to a resource needed. This is more probable to happen when the request arrives from an ally (it will not have any effect if the final outcomes is negative) or if already exist some degree of integration between the two countries, it is harder that a bid from an "unfriendly" counterpart will be perceived as an improvement from the actual situation. The alliance relationship has any value if the bid is considered to be risky, but if not it is a good opportunity for the two to reduce the price to achieve an improvement. There is the same behaviour, from the government, if the internal options are not as good as the foreign ones.

The last reason for a Non-Intervention occurs when an Internal Intervention was done by the government before the deal, that now it does not present the potential threat that could have before. There is a particular instance where economic nationalism, geopolitical competition, etc… have been previously solved by the government, with an Internal Intervention[122].

1.3.4.1 JP Morgan-Troika Case

[122] Idem 7

The 28th of August 2006 started to circulate rumours and whispers on the markets and newswires that JP Morgan, one of the most important investment banks, was considering the acquisition of the bank Troika Dialog, a Russian investment bank. Troika was one of the oldest non-State-Owned banks and its position was really attractive for a takeover from Western banks which wanted to expand into Moscow's markets.

JP Morgan was not the only suitor, there were several and the most important were the US bank Citigroup, the Swiss investment bank Credit Suisse and Vneshtorgbank, a Russian government-owned investment bank[123].

The Russian government did not take any particular position and did not ostensibly intervene in this case, despite the tension and geopolitical competition between the US and Russia governments and, obviously, the presence of a high economic nationalism within Russia in 2006. At the time the geopolitical tension was raised over a series of miscomprehension and issues, ranging from US involvement in Afghanistan and Iraq to the initial failure to find an agreement upon the bilateral US-Russia protocol needed by the Muscovite's government for the bid necessary for the accession to the WTO. It has to be considered that there was a high degree of anti-globalization sentiment in Russia in 2006[124], it did not help the completion of any business if a foreign actor was involved[125].

Even if the sector involved was not strategic or fundamental for the country, and there was any direct security concern related to this potential takeover, it was not sure that the government would have accepted that Troika would be assimilated by an investment bank of a competitor.

The independency of the Russian investment bank gave it the opportunity to search the best economic option for its future from a purely fiduciary outlook, this is the reason why it was able to reject the state owned VTB's offer that it was too low[126].

---

[123] T. Prince & J. Baer; JP Morgan Held Talks to Buy Troika Dialog, People Say (update version 2); Bloomberg; 28th August 2008

[124] The pro-globalization sentiment in Russia at the time was 4.87, this result was below the median score of 6.21 among the 54 countries where it was done the IMD survey in that year (IMD 2007; data provided by: https://worldcompetitiveness.imd.org/

[125] Jim Rutenberg & Andrew E. Kramer; As Tension Rise, US and Moscow Falter on Trade; The New York Times; 16th July 2006

[126] Douglas Bousvine; Troika Is Considering Strategic Alliances IPO (updated version 3); Reuters; 20th January 2007

Usually, banking and financial sector and all the independent companies are unlikely to be seen as an issue of national security. There are three cases when they have an impact on the security of the nation: if the company involved is a national champion (it could be the Danone case previously analysed); it is fundamental to the health and the identity of the national economy; and, last case, in the extreme situation when there is a severe economic crisis that require an active retention of all banking and capital resources within the domestic economy.

This case did not encounter any of those conditions, the 2006 was characterised by a generally optimistic investment and economic climate, so it was unlikely any type of intervention from the home country government. The economic nationalism feeling was focused on national champions that operate in different sectors, principally natural and basic resources, so it was difficult to imagine a spill over to the financial services in order to protect a company that it was not unanimously viewed as a national champion, which could have an impact as not to the decision to intervene or less.

Neither interest groups or lobbies' presence had any role in the final decision of the Russia government; either the competition did not raise any concern. The Russian government was not worried about the rumours about this deal and did not take any counteractions to block it. Even the analysts did not report any concern by any politician, member of the government or the companies themselves about the potential deal.

This case confirms that the government does not intervene, even in the presence of the motivating factors listed, if there is any security concern related to the takeover in question.

Differently from any other case analysed, there were any "rumour stage" because the management, which had a controlling interest in Troika, had never wanted to sell and be owned by a SOE , so it did not need to take time[127].

Troika itself voluntarily obviated any potential issues, maybe if it had not done it the outcome would have been different as if the government decided to consider the investment bank as a national champion. Those are the main factors that could have an impact and could have changed the final outcome of the deal, but they did not occur.

[127] H. Syedain; Leadership Lessons: Russia's Global Banker. Interview with Ruben Vardanian, President Troika Dialog.; Management Today; 1st April 2007

1.3.4.2 Pirelli-ChemChina Case

This deal is the last of a series of takeovers in Italy by cash-rich Chinese buyers. The Asian company took advantage of the weaknesses of the Euro and from the problem of Europe to emerge from the economic stagnation faced after the sovereign debt crisis faced by several Southern European countries.

Pirelli, one of the Italian national champions, was founded in 1872 and today is one of the most well-known brands all around the world. It operates in the tyre market, from cars to bicycles, and it is the fifth largest company in this sector. Pirelli has improved its fame as the main and only supplier for the F1, that partnership is helping the Italian company to be globally known.

ChemChina, the acquirer, is a State-Owned Enterprise which operates in the chemical sector. With this deal it provided to its subsidiary China National Tire and Rubber Co. the access to Pirelli’s technology and expanded the presence of the Italian company in the Chinese market. The combination of those two firms was estimated to create the biggest tire and rubber company in the world, with a hypothetical revenue of about €47 billion.

This takeover is just the last example of a series of Chinese acquisitions done in this period that went from luxury to food sector, and represent the desire of the Asian country to assimilate more and more international brands and raise its geopolitical influence all around the globe.

The deal was found for a total value of €7.1 billion ($7.7 billion at the time), $15 per share, excluding the net debt of about $1 billion, for the 50,1% of the total share. Excluding the financial sector, the Chinese acquisitions in Italy are the second in Europe and the fifth worldwide as total number, with 10 deals completed since the 2014 to the moment of the announcement of this takeover (according to Thomson Reuters data).

The silence of Italian Prime Minister Matteo Renzi was louder than any other potential announcement and had a specific meaning: no intention to block or undertake any protectionist action against the bid of ChemChina. The Italian government was usual to protect the national champions and there was a huge economic nationalism feeling but after the financial and the sovereign debt found crisis the Italian government started to accept the acquisition by foreign investors more than in the past and, probably, in this period, it was the beginning of a closer partnership between this European country and one of the Asian Tigers.

Pirelli did not have, and still now, any direct link with the government and it was free to decide what to do without taking into consideration any particular interest. In an interview, anyway, the Italian Labour Minister Giuliano Poletti applauded Pirelli for being open to face this new challenge and admits that "if there are Italian investors, great" but if there are not, as in this case, rather than slowly the business "for lack of investment, end up ageing and closing up shop, we need to retain vitality", so that the government was ready to not block any deal if bring a profit to every parts involved.

The sector involved was not a strategic one but Pirelli is a national champion and there were some that did not fully understand the Non-Intervention of the government and asked if it "could have been done differently?" (this was the question of La Repubblica)[128].

An important factor through the negotiation was the veto power given to the Italian shareholders for the future decision and the promise that any worker would have lost its job, even the greatest part of the managers remained in their position with Tronchetti Provera who lost his CEO position but remained as chief executive, all the establishment remained in the country. Those two factors excluded the intervention of any group interests because any problem was solved even before it could be considered as such.

The core part of the shareholders was, from the beginning, inclined to accept the Chinese proposal because it was economically advantageous but, more important, for the opportunity to enter in the Chinese market without losing totally the control. The smaller shareholders at a first moment were worried about their income and if the ordinary dividend would have been paid. The concern was unfounded because the offer was advantageous for them who evenly received a higher dividend, €1.5 than €0.40. it was necessary for placating the market as anticipated by Giuseppe Puglisi, an Intermonte broker[129].

---

[128] N.g (Author Unknown); Chinese Takeover of Pirelli Met with Resignation in Italy; IndustryWeek (France Press); 23rd March 2015

[129] Paola Arosio & Danilo Masoni; ChemChina to buy into Italian tire maker Pirelli in $7.7 billion deal Reuters; 23rd March 2015

Chapter 2

Foreign Country

2.1 DIFFERENT TYPES OF POLITICAL CONNECTIONS

Each enterprise is different from the others. They have different goals, some can be more focused on the earning, while others focus their attention on different aspects. Anyway, all of them have to respect the market mechanism that regulates the environment where they operate (laws, culture, customer's preferences, etc…).

Almost all the most important companies in the world have a direct (the state is a shareholder) or indirect connection (the CEO or the acting Chairman are subscribed in a party or they had an official role in a political institution) with the political environment. All of them, when they operate in the market, have to consider a bunch of different actors that work and interact with the other market participants, from the suppliers to the buyers[130].

Until the late 70s almost every nation in every continent had tried to control as much as possible its economy by owning the most important national companies. At the end of this decade the European countries started to follow the model of the United States of America and of the United Kingdom. This was the result of the international diffusion of neo-liberal policies which pushed for a government that was less present in the economy and passed laws to reform the public sector and partially its goals. This process reversed the former doctrine of the time and removed the separation between the public and the private sectors and shifted from a procedural rule to a management-by-result (management is considered not according to what is done, but according to the results achieved, that cannot be necessarily economic results but can be evaluated by considering a broad range of factors)[131].

Following the neo-liberal theories and adapting the structure of the previously fully owned enterprises, from a public service provider to a private governance, states were "forced" to change their laws, institutions, practices and regulations; it was necessary to create a new economic environment that fitted better with the new necessity of the local enterprises. This process has as

[130] Mara Faccio & Ronald Masulius & John McConnell; Political Connections and corporate bailouts; Journal of Finance (Volume 61 Issue 6); February 2006; pages 2598-2635

[131] Zeering Cheung & Eero Aalto & Pasi Nevalainen; Institutional Logics and the Internationalization of a State-Owned Enterprise: Evaluation of International Venture Opportunities by Telecom Finland 1987-1998; Journal of World Business (Volume 55 Issue 6); October 2020; 8th September 2020; pages 1-16

result the birth of new varieties of state capitalisms where the enterprises, directly linked with the government in different ways, started to operate and compete in the international market[132].

Even with a reduction of the importance of the government in the company's life, states never stop to intervene to save their domestic firms from an undesired buyer (see chapter 1) or to incentivize the domestic companies to compete in the international market (the topic of this chapter). Recently, with the rise of the anti-globalization feeling, more and more countries started again to be more present and to actively influence the decisions of the companies located under their jurisdiction.

The presence and the weight of the government in the decision-making process and in the life of the companies is different from one to the other, there can be a formal institutional pressure (a direct intervention or control by the government) or an informal relation influence (the government cannot directly control the companies, but there are figures that are directly linked with it in the decisional position). As in every aspect of life, it is not black or white, the state does not necessarily have an important role or presence, but there are different "gradations" among which it may be present, both in developing and in developed countries. In SOEs it can either be directly managed by the central government either by a lower government entity (by a local or a regional entity), while Non-SOEs may have a political figure that fills one of the major decisional spots. Some studies find that the relationship between political connections and firm performance varies depending on the external environment. The studies of Sapienza and Faccio show that with the presence of corruption there is a stricter political connection and the beneficial effect of this tie is greater. The sample used by the two is the south of their home country, Italy, where political patronage is more widespread, the companies prefer to borrow from State-Owned banks than from privates located in the North.

Anyway, as claimed by Polanyi in his most famous theory about "economic embeddness", the economic action is "embedded and enmeshed in institutions, both economically and non-economically" and the same concept was reinforced by Granovetter that arrived to postulate that there is a direct connection between those two fields of the life; business activities take place in an environment full of social relations, therefore they are affected by where and how much the economic actors are embedded in the social network. The "Polanyi's embeddness" brings to a significant cut of the transaction costs that could arise from the opportunism of transacting parties

[132] Aldo Musacchio & Sergio G. Lazzarini & Ruth V. Aguilera; New varieties of state capitalism: Strategic and Governance implications; Academy of Management Perspectives (Volume 29 Number 1); 13th January 2015

in making economic exchanges, it is particularly important in markets where the legal institutions do not provide enough protection against the unforecastable opportunism from transacting parties. When there is a context like this, social relations offer a social form of rule facilitating cooperation and reducing uncertainty, consequently it will result in an improving of the predictability of economic exchange[133].

2.1.1 State Owned Enterprise (SOE)

SOEs are a particular type of company where the state has the power to influence and/or take decision about the most important topics, it is possible because it is the biggest shareholder, or it has “special” shares that give it the opportunity to have the last word on the crucial discussions or with different kinds of tools that allow the government to have the same decisional power. This type of entity has a prominent role in the global economies. In the emerging countries the government has a preeminent role with an absolute control, while in the developed countries it has a minor role because there is the certainty that the market will lead to the maximization of the wealth, and not only of the profit.

Having the power to take the most important decisions, the political sector can appoint or dismiss senior management, this is a reinforcement of the control that the state has on them, out of the share owned. For this reason, several experts have claimed that the SOEs are forced to conform their actions to the government’s expectations, if it does not happen all the management will be substituted with one more inclined to accept the “advice” from the government.

Unlike the private peers, they are often regulated to follow the necessity of the citizen and the state more in general. Differently from the non-SOEs, this type of firm does not have as final achievement, uniquely, the maximization of the profit, but the increase of the national welfare (often it is not possible to achieve both at the same time and following one, it is harder to have success in the other), for this reason the economists think that they are inefficient and it would be better to have a private to lead them[134]. A good example of that is the U.S Postal Service (USPS), an American SOE, the oldest state owned company in history, that provides a unique price among all

[133] Heather A. Haveman & Nan Jia & Jing Shi & Yongxiang Wang; The Dynamics of Political Embeddeness in China; Administrative Science Quarterly (Volume 62 Issue 1); 23rd June 2016; pages 67-104

[134] Before the privatization period, many of the state owned entities offer the goods and services significantly below the marginal cost. In this way the government was sure to achieve its social objectives

the American regions with no price discrimination or the creation of any client segments. The state and the market logic do not perfectly match and the evaluation of the performance of both has to be different[135].

SOEs' purposes and strategies tend to be jointly coordinated among businesses, labour and government interests. They have to find the perfect balance between the market logic; they have to follow it if they want to compete in the global or just in a transnational market, but at the same time they have to fulfil their social and political role.

	State Logic	Market Logic
Market Structure	National monopoly under direct government control	Competition between multiple actors under equal licensing conditions
State Governance of SOE	Bureaucratic governance based on laws, rules, and directives with stricter source of control	Contractual governance based on objectives, results, and performance
Supervision of SOE's Management	Direct state supervision by ministries and the parliament	By a professional board of directors
SOE's mission	Serving the public interest	Serving shareholder interest
SOE's organisational form	State agency with government financing	Limited liability company with an independent budget
SOE management	Politically appointed managers with public accountability	Professional managers with profit and loss responsibility
SOE basis for International strategy	Social and political interests	Growth and value creation

Figure 13: differences between the state and the market logic; figure provided by the article "Institutional Logics and the Internationalization of a State-Owned Enterprise: Evaluation of International Venture Opportunities by Telecom Finland 1987-1998" (see note number 132)

[135] Francesco Bova & Liyan Yang State-Owned Enterprise, Competition, and Disclosure; Contemporary Accounting Research (Volume 32 Issue 2); 14th March 2018; pages 596-621

Those companies usually are natural monopolists or have the biggest market share in the sectors where they are present. SOEs tend to operate in fields that have a fundamental importance for the survival of the state and where the monopoly power and/or externalities would create a divergence between private and social objectives (the energy power providers usually are fully or partially owned by the state due to the inconvenience to invest in this sector, at least in the past, and, obviously, for the strategic importance of it).

Their inefficiency is the result of the wrong use made by the government. The politicians, who seek to gain votes, use their importance to force those firms to hire for acquiring consensus. The result is an "operating cost" higher of 48% than it would be, this data was calculated considering the information provided by the European's public companies and the American's private company (there is a gap of 20%-30% in the employment rate, this is the motivation behind their inability to produce any profit). Excess employment and wages in public enterprises are not the only sources of benefits for the politicians, they are able to influence the production and the goods produced are not in line with citizens' desire.

This mechanism is the output of a "grabbing-helping hand" model, it is a variant of the game theory, (the managers promise new employment in exchange of the resources needed by the company). Shleifer and Vishny, the authors of this theory, postulated several different scenarios where the role and the importance of managers and politicians is different, as well as the presence corruption in the country. The result was that: in case of corruption, politicians have more easily the employment of their voters; while, vice versa, in absence of this phenomenon the result was the opposite with the needs of more and more resources. In a situation marked by equilibrium, under ideal conditions, the costs of political influence offset the benefits; there, politics has no effect on the firm's employment decision[136].

Several empirical studies were done and arrived at two different conclusions that fit with the result described by the two authors. Some researchers believe that the political connection gives a preferential access to the bank financing (Sapienza, Mian and Khwaja), a preferred tax status (Claessens), direct subsidies or other preferential policies, which allow to improve the

[136] Andrei Shleifer & Robert W. Vishny; Politicians and Firms; The Quarterly Journal of Economics (Volume 109 Number 4); November 1994; pages 995-1025

performances; in contrast, others believe that the politic will only interfere in the decision-making process[137].

The government can make or change laws, regulations and institutions; the political sector, with all that possibilities available can set the fundamental reward of the market and this has a huge impact on the strategic decision undertaken by the companies in the country. Some scholars arrived to hypothesize that in the emerging countries, where there are weak market institutions and the market is not yet fully organized, governments take the control of the businesses to restrict the opportunities and the figures who take the most important decisions[138].

In developed countries this issue is minor or it is not present because laws and regulations, regarding economic activities, tend to be stable over the time or to change in a predictable way, this is very helpful for companies that operate in those countries thanks to the lower uncertainty that they will face.

In order to fulfil this gap in the emerging state, where the actors of the political sector are less constrained by institutional checks and balances, the uncertainty can be reduced by maintaining ties to the state officials or high-ranking politicians, they have the role to regulate the economic exchanges and to control the access to resources.

The government, in theory, should always pursue the maximization of the citizens' wealth; sometimes id does not happen because the group of politicians that leads the nation may have different personal goals from the ones needed by the country. There are several studies about this topic in the business literature, the progenitors and the most important experts are Peters and Welch. Other political economical researches have done and showed that there are similar conflicts between individual bureaucrats and national interests. In an ideal situation the objectives of all the actors involved are the same, so there is no need for any direct intervention of institutions to coercively force the firms to take a particular decision. When the state bureaucracy is ambiguous and opaque

---

[137] Lyuyong Yang & Jingjing Zhang; Political Connections, Government Intervention and Acquirer Performance in Cross-border Mergers and Acquisitions: an Empirical Analysis Based on Chinese Acquirers; The World Economy (Volume 38 Issue 10); 26th April 2014; pages 1505-1525

[138] Esteban Garcia-Canal & Mauro F. Guillén; Risk and the strategy of foreign location choice in regulated industries; Strategic Management Journal (Volume 29 Issue 10); 8th May 2008; pages 1097-1115

the probability that someone pursues his/her personal interest is higher, he/she colludes with all the businesses linked with him/her.

Every nation has different objectives that it wants to achieve, and different ways to do it. Governments have the control different enterprises that operate in different sectors at different levels, sometimes it is easier to achieve a goal at the local or regional level with smaller companies than with a bigger one that operates in the national or even in the international market.

Those, either the biggest either the smallest, are always under the influence of several entities and people who have different points of view and desires, but State-Owned Enterprises must be able to manage the different situations, always with the same efficiency. Prior studies, the most important done by Dahl and Mills, analysed the differences between the official institutional preferences of the government and the unofficial individual preferences of the elite politicians in and around the government: results suggested that scholars are far from the reality, but this is not the focus of this chapter that will analyse the different types of connection between the politics and enterprises, especially in the emerging countries and how the government influences the outbound strategies of the firms.

Biggest companies are used to achieve the globalization desire of the government, while the smallest ones are used to solve the problems in the domestic market (on the next pages it will be discussed more in detail the different behaviours and goals of those realities).

Both, the ones that operate at national level and the ones which operate at a lower level -local or regional- are used to achieve political and economic goals on behalf of the government, as “reward” they have a preferential treatment.

2.1.1.1 Central Government Owned Company

Central Government Owned Companies are enterprises almost directly managed by the government, this one can be either the ultimate controller either its holding body. Those, usually, are the biggest firms under the control of the state. The most important roles are filled by people close to the government, it has the power to hire and fire who has the job.

This type of enterprise is used to achieve the hardest and most expensive objectives of the government (acquisition of political sensitive assets). In the last years, the goals of the emerging countries have followed the trend to expand their market and start to operate abroad; the ratio behind the encouragement is the desire of the nations to prove their global competitiveness and to raise their influence on other states (the best and more well-known example is provided by Chinese's "Go Global" strategy). Now governments are promoting outbound strategies, they rapidly became one of the primary internationalization economic activities needed to be achieved in the modern era -where globalization and integration are fundamental. As consequence, SOEs are under a pressure that forces them, due to their high responsiveness, to act as their "owners" want.

Their survival depends heavily on the subsidies received from the state, the amount is decided by actors that are out of the company environment, so they have to act in accordance with the official policies. Several scholars' studies have shown that there is a higher chance for the biggest SOEs to engage an outward foreign direct investment in comparison to non-SOEs or to the smallest SOEs that operate at the lower levels, due to their dependency on the government for resources and legitimacy[139].

Those resources are used by nations to put coercive pressure through their policies, to follow the dynamic of the globalization. The high risk to incur in the liability of foreignness[140] and the lack of proprietary assets are solved with the massive resources received through the state support, it is even ready to compensate the potential losses from those high-risk investments. Anyway, sometimes, they remain reluctant to do such investments because they are not seen as a profitable opportunity, so those expenses could maximize the income. Several studies have shown a positive correlation between state control and international expansion, but a negative one in case there is a connection with politicians (see 2.1.1.2 Central Regional/Local Government Owned Company). The correlation is weaker in case the enterprise has a successful story in cross-border M&As. The acquisition is not the only possibility available for going abroad, there are some other options that bring to have a lower commitment entry mode but the acquisition is the preferred by the government, even if it is the riskiest[141].

[139] Junjie Hong & Chengqui Wang & Mario Kafouros; The Role of the State in Explaining the Internationalization of Emerging Market Enterprises; British Journal Management (Volume 26 Issue 1); January 2015; pages 45-62

[140] The "liability of foreignness" is the limited knowledge of the host-country markets, cultures and institutional vis-à-vis local firms. This is a major problem either in the acquisition either in the post-acquisition phases

[141] Grimm Noh & Dongyoub Shin; The different influences of the government and politicians on the international expansion of Chinese firms; Asian Business & Management (Volume 17 Issue 2); 20th August 2018; pages 366-396

The purpose of cross-border M&A investments, especially from the emerging countries, is to accumulate valuable support that should be the base of future opportunities for economic growth. When this happens, the home market of the investors rarely provides the access to important resources, such as technological capabilities and/or brand names, so companies are forced to invest abroad in order to acquire this type of assets (see Lenovo-IBM case, chapter 1). In this case the negative effects of the connection with the government are weaker or even reversed, businesses only have the financial and nonfinancial benefits. Following this necessity, they are obliged to take risky decisions or proactively acquire critical assets abroad, this is their unique chance to catch up with the developed countries. In the emerging countries politics has a fundamental role on how and when the national firms start to operate in the international market, so it is the key to solve their dilemma about the strategy to follow. SOEs always need to gain the approval of the government, but when there is a large-scale project, like the outbound ones, it is also requested to receive the approval by the Economic ministry, it is only a pro-forma because often the "puppeteers" who move the strings are the politicians.

The traditional international businesses theory does not agree with the "risky" outbound strategy decision of the state because it claimed that the companies need to wait a more mature stage of their life, when it has the appropriate assets (knowledge or brands that can be exploited abroad)[142].

Ceteris paribus, in a normal situation it is very unlikely that a firm decides to take such a risky decision, unless it desperately needs new niches due to serious performance problems in its current market or has abundant resources to explore new possibilities regardless of success or failure.

Anyway the dominant influence of the government, especially through sanctions such as the cut of sources, is too strong and can push to undertake outbound strategies through the offers of incentives that offset the risk or threats. Various policies can be done to incentivize the international expansion such as: tax cuts, favourable financing, direct subsidies, diplomatic support and in case of insolvency a direct government bailout. Such supports can, partially, counterbalance all the problems that will be faced competing with global competitors, and if they are not enough to convince the State Owned-Enterprises to follow the industrial policies of the country, the risk of

[142] Charles P. Kindleberger; American business abroad; Thunderbird I*nternational Business Review; Spring 1969; pages 11-12*

losing the government support and becoming a target of tight monitoring will be the decisive factor to convince the sceptics.

The institutional pressure is not perceived in the same way by all SOEs, they are not influenced in an equal manner. Some organizations are more and others are less influenced: their vulnerability to the coercive pressure is determined by various factors, the most important are: the status of the company, the intra-organizational political dynamics and the resources available without the subsidies from the State.

Several studies have been done in order to understand and demonstrate if the political connection of those companies is positive or negative for the result of the government state-owned when competing in the global market. The experts are not certain about the answer. Pan, Xia and Yuming suggest that there is an improvement of the financial indicators for the acquirers, those data where extrapolated by the result achieved in the domestic market. Cheng and Young, on the contrary, highlighted that there is a principal-principal conflict and this leads the investors to have a less optimistic vision about the performance of the Central Government Owned Enterprises. There is not a certain conclusion about this topic, for sure the involvement of the government has both positive and negative aspects, it is the institutional environment that has a prominent role which may favour a result. The positive effects prevail when the acquirers are located in a country with low levels of government intervention, while the negative effects are greater if the government intervention is highly used by the political sector[143].

The only certainty is about the deal of the State-Owned Enterprises, from the national to the local level, the completion rate of acquiring political sensitive assets is lower; this topic has been studied by many experts and several data has been founded to prove it, the most recent has been done by Zhang assisted in a research by Zhou, 2010, and by Wei and Ebbers, still in 2010.

2.1.1.2 Central Regional/Local Government Owned Company

Similar to Central Government Owned Company, the regional and local counterparts are companies where the ultimate controller is a political entity, which operates at a lower level.

[143] Mara Faccio; Differences Between Politically Connected and Nonconnected Firms: A Cross-Country Analysis; Financial Management (Volume 39 Issue 3); 16th September 2010; pages 905-928

Geopolitical dynamics exist not only at the global level across countries but also inside the nation with different levels of wealth across regions and cities, even between the closest there could be large differences. Growing up inequalities will be part of the personal background and will have a tangible impact on the different opportunities available.

Due to their strong connection with the territory where they operate, it is less likely that the politicians decide to undertake an expansion abroad, they are less inclined to take risky decisions. The motivation could be the origin of their resources: they are financed by the entities that operate at lower level compared to the national one and they are more focused to maximize the wealth among the citizens of their land, than performing an investment located abroad; the pressure from the social environment has as a result the conformation to the desire of the local people, as suggested by neo-institutional theorists about the coercive isomorphism[144.]

Regional and local entities tie to powerful politicians and prefer to invest in the domestic market, their alliance is as strong as much the political environment is stable through the time (in a country where the dominant party changes quickly, it would be too dangerous to be correlated with just one person). At this level the collusive networking of the businesses is originated principally by a common regional or hometown background: some experts think that the university attended and the location where people work through the career path may have a minor role in the creation of this collusive relationship, there is not a unique mind about it and the statistic results do not support this possibility. Therefore, if many political figures have a geopolitical link with a firm, this last one has more opportunities to be provided with various types of benefits and to dilute the direct coercive pressure from the central government. Anyway, the government will still provide its support, because that will be the tool to solve the problems that are present in located areas, but it has less influence, due to the elite politicians' and local citizens' protection: the regional and local owned companies have social and political connections that "soften the iron cage of bureaucracy", it is a sort of buffet against the unwanted interference from the government.

The collusive networks between businesses and political sectors have been found to strongly affect strategic choices and the performances of a firm (Dinc in his studies discovered how during the election year the hiring are higher than in the other years, in this way they incentivize the election

[144] Paul DiMaggio; Structural analysis of organizational fields: A blockmodel approach; Research in Organizational Bahavior (Volume 8); 1986; pages 335-370

of their “candidate”). Politicians offer sources in exchange of employment and the implementation of unrelated diversification strategies, all that is done with the final aim to save or create job positions. Local and regional companies will follow social and political objectives, the potential disruption of their firm value is not a problem; they will undertake any type of actions, mostly they employ surplus labours or acquire other firms on the verge of bankruptcy. To sustain the stability of the environment and of the citizens; some politicians can exploit the situation to hide the higher number of assumption needed to gain the approval of the voters[145].

It cannot be a surprise how those enterprises are not as profitable and efficient as the private owned firms which have as unique goal the increase of the value of shares[146].

In some countries the promotion of the government’s officials is related to the results achieved in the territory. The main variables are: the regional/local GDP, the regional/local deficit numbers and the regional/local unemployment rate listed during their tenure. In order to influence those factors, they have a strong power and they are incentivized to intervene in business activities, being political figures they have the possibility to directly intervene in many cases and in many different situations.

2.1.2 Non-State-Owned Enterprise (Non-SOE)

This type of enterprise is not directly linked with the government, because there are one or more privates that own it and take the decisions. The final aim of this company is the maximization of its shareholders’ profit, for this reason the political and economic favours offered by the government are lower than the ones provided to a State-Owned Enterprise; but on exchange the Non-SOE suffers a minor influence from the political sector.

They may have an informal relational influence from elite politicians, a relational network with the most powerful ones can moderate the effect of the governmental pressure. Also a political experience of the most important figures, the director or the CEO served as deputy mayor above, can help the company to have a better access to the institutional aids. Some studies claimed that this connection is not beneficial for those enterprises that usually underperform without any political

[145] Hongjin Zhu & Chi-Nien Chung; Portfolios of Political ties and Business Group Strategy in Emerging Economies: Evidence from Taiwan; Administrative Science Quarterly (Volume 59 Issue 4); 28th July 2014; pages 599-638

[146] Lulu Gu & William Rober Reed; Do Chinese Acquirers Fail in Overseas M&As?; Economic Research Journal (Volume 46 Issue 7); June 2011; pages 116-129

figures in the decisional spots on: first day stock return, post IPO stock return, earning and sales growth rate[147].

Elite politicians are not always in accordance with the idea of the government about policies and may use their role in a company to pursue their self-interests. That collusive behaviour has a direct impact and it even discourages some possible actions that the government could undertake through the time. Using their authority; those who have more power can create opportunities and advantages for the companies where they are employed.

Value of an Enterprise's Political Connections

Value of Political Connections	Description
3	The firm's Chairperson or CEO formerly served or currently serves as a government official at the national or provincial level or is a current representative in a party
2	The firm's Chairperson or CEO formerly served or currently serves as a government official below the provincial level or is a current representative in a party at the provincial level
1	The firm's Chairperson or CEO is currently a representative in a party below the provincial level or is a provincial official of another civil society organisation
0	The firm does not meet any of the above conditions

Figure 14: different level of connection between an enterprises and the political sector, imagine inspired by "Political Connections, Government Intervention and Acquirer Performance in Cross-border Mergers and Acquisitions: An Empirical Analysis Based on Chinese Acquirers (see note 137)

Firms usually try to avoid risk, as Henisz and Williamson demonstrated in their works: if the domestic market provides a low risk high return environment, they would probably prefer to operate in the home one, so the networks have a tangible impact on the decision undertaken about the possibility to implement a risky internationalization strategy. Again, Italy is a perfect example for studying this phenomenon, the reports of Cingano and Pinotti (2013) show how business-politics

[147] Po-Hung Joseph Fan & Tak Jun Wong & Tianyu Zhang; Politically connected CEOs, corporate governance, and Post-IPO performance of China's newly partially privatized firms; Journal of Financial Economics (Volume 84 Issue 2); 1st May 2007; pages 330-357

relations contribute to increase the domestic sales and rise the profit margin, but it does not have any effect on the exports, being this connection useful only within the boundaries of the national market. Following the management entrenchment theory, a firm could potentially try to undertake large scale and over expensive cross-border acquisition, even if risky, just for the desire of the owners to build their "own empire" and to show their ability, as a result, shareholders could have a drop of their investment's values.

In situations of interest conflicts between the official policies of the government and the individual agendas of politicians there might be an opportunity for the firms to upgrade their networking, the link of the political actors with the non-SOE can become stronger. The collusion between the iconic political figure of the time and large firms are considered as one of the most powerful sources for the creation of additional shareholder value and they are able to offset the potential losses deriving from potential state pressures, particularly in the emerging countries. There is a higher chance that the collusive ties are between a business firm and an influential politician who share network ties through a common background, the easiest and most common one having the same geographical origins. This relation has a similar effect on the strategic decision on the one present between the government and the enterprises owned at the local or regional level. The elite politicians can present the most profitable business opportunities in the domestic market, they provide access to state-controlled resources, receiving more information about market or target companies; but at the same time they lighten the coercive pressure from the policies and regulations. Their presence has a fundamental contribution to the result achieved by any type of non-SOE, especially in regions and nations where markets and legal institutions are still immature.

The institutional support to non-SOEs is substantially weaker and, for this reason, they must resort on their personal connections to obtain loans from financial institutions or, in case they have any network with the political sector, they have to rely on their private and informal sources of credit.

The size of this type of enterprises has an inverse correlation with the influences that the government or the politicians can have on the life and the decisions of them, bigger are the companies and lower is the influence from the politicians. Studies about the acquirer size effect find that there are negative aspects of being a large company, the most important is the lower acquisition returns by M&As than the ones achieved by the small, especially in the developed countries where there is a strong governance presence. In financial and economic fields, there are evidences that show how being a large firm is one of the primary reasons of value destruction and agency conflict in a well governed and open economy[148].

The biggest companies usually have more, stronger and stricter political connections which may be the “passport” for important value drivers in “toxic” institutional environments (faster approval and less strict standards required), and the market power to protect them from government rent-seeking, corruption and expropriation in a weak-governed environment. It may lead to a rise of the shareholders’ wealth. Those, compared to the smaller ones usually have a larger resource base which gives them various advantages: the ability to perform exploratory searches, a buffet against performance fluctuation, a higher prestige, a management with better capability and, last but not least for importance, the possibility to maximize the benefits from the correlation of having a connection with the political sector (the acquisition process is facilitated and the investors react better to cross-border M&As when the state is involved in the process), without suffering or minimizing the negative aspects. The most important factor of having enough resources available is to be self-sufficient, this allows them to have more freedom in the decision making process from the external pressure; the richest companies do not have any necessity to receive direct subsidies to carry on their activities and they are able to find the resources by themselves.

According to the size theory, larger is a company and easier is to create an economy of scale, to improve operational efficiency and market power, thus having a bigger power through bargaining with both suppliers and customers. Following the result provided by this theory, the benefits are not exclusively for the firm but also for the management that takes the decisions; they are protected by the pressure of the market and can work with a lower threat of being substituted after a hostile takeover, it is more probable that this happens to a smaller company. In this sense, the size of a company can be a tangible impediment for the controlling function of the market about the corporate control: the phenomenon is known as “management entrenchment”.

Size can also have a negative effect, as highlighted by “corporate control theory”, there is an increase of agency conflict, which may lead to destroy corporate value due to the wrong decisions of the management which is focused to entrench and protect its autonomy. Another problem can derive from the arrogant behaviour of those, it is caused by the high consideration of themselves

[148] Idem 141

due to the results achieved in their career, it may lead to a smoother acquisition process and to pay a higher acquisition premium (the hubris hypothesis formulated by Roll in 1986)[149].

Although large firms usually have a lower return at the announcement date compared to the small one (probably the reason of the worst results achieved by companies where the CEO or the chairman are or were politicians is not their past experiences but the size of the companies where they are employed). Often they are able to perform a better post-acquisition integration process and, if the acquisition is done in a country with a weak governance, the bigger ones are able to gain a dominant position in the market and to undertake a "friendlier" acquisition. All those factors are fundamental for reducing the likelihood of an integration resistance and gaining the employees support.

2.2 MAIN VARIABLES

In this paragraph it will be explained how the decisions in the opposite trench are taken in the modern war, then the one analysed in the first chapter.

The cross-border acquisitions, but also the non-out bounded ones, are highly complex economic transactions where there is an incredible level of uncertainty. Between the due diligence, negotiation and post integration phase there is an attempt to have as much information as possible but there would remain some unknown data due to the environment and the cost that it would occur to discover it[150].

The domestic political factors can substantially influence the decisions of the companies about the size and the value of the potential investments abroad, especially in the emerging countries. When an enterprise decides to undertake a cross-border M&A, it has to consider different variables, not only it has to take into consideration its national environment, but also the potential issue that it may face once it starts to operate in a foreign country. There are seven non-economic main factors (the economic ones such as the availability of the resources needed, GDP, growth rate, etc… are well known and have their role at the beginning of the studies to find the different options of where locating the investment) that may influence this decision and the success of the post-acquisition process: cultural similarities, diplomatic/political relation between the two governments, the seller's

[149] Xi Zhao & Huanyu Ma & Ting Hao; Acquirer size, political connections and mergers and acquisitions performance; Studies in Economics and Finance (Volume 36 Number 2); June 2019; pages 311-332
[150] Sergey Lebedev & Mike Peng & En Xie & Charles Stevens; Mergers and Acquisitions in and out of emerging economies; Journal of World Business (Volume 50 Issue 4); October 2015; pages 651-662

country law, the ways of communicating, the consideration of the other country about the buyer's nation, the presence of corruption and how to manage it and the quality of institutions in the host bound.

In developed countries those variables have a minor impact, they can slug the deal while in an emerging one, with institutions not efficient and that, usually, are not able to protect their firms, they have a bigger weight on the investment decision and can even bring to block it. Anyway, those seven factors can lead one to prefer an opportunity rather than another.

2.2.1 Cultural similarities

This variable is one of the two most important when is taken the final decision about a potential takeover of a foreign company.

Until the beginning of the 21st century, the economists were reluctant to rely on that it as a possible determinant of economic phenomena, that was due to the difficulties to design testable hypotheses and it was used just as a selection mechanism among multiple equilibria. After the discovery and the use of better techniques and more data, it has become possible to find the similarities and the differences among people about their preferences and beliefs. It was the starting point for the culturally-based explanations into economics, which enriched the understanding of several economic phenomena.

The national culture varies across countries and in each one is the sum of the "customary beliefs and values that ethnic, religious, and social groups transmit fairly unchanged from generation to generation" (it is not a complete definition but it highlights those dimensions that may have an impact on economic outcome). Through the whole life of an individual, this variable will affect his/her skills, beliefs and behaviours, so it is part of the person. Another cut that was done through the years was the focus on only one of those dimensions of culture, inherited by an individual from previous generation, rather than considering those that needed little time to be abandoned or modified[151].

This idea is based on the writings provided by Becker who, in 1996, explained how "Individuals have less control over their culture than over social capital. They cannot alter their ethnicity, race

[151]Luigi Guiso & Paola Sapienza & Luigi Zingales; Does Culture Affect Economic Outcomes?; Journal of Economic Perspectives (Volume 20 Number 2); Spring 2006; pages 23-48

or family history, and only with difficulty can they change their country or religion. Because of the difficulty of changing culture and its low depreciation rate, culture is largely “given” to individuals”[152].

The doubts about the reason to be so slow to change is a major topic still today but there are three different hypotheses:

- Parents have a natural tendency to teach their children what they have learnt through their life, it is a way to rationalize their own behaviours. There are several examples all around the world of traditions that are not efficient (one of the most extreme cases are the large lip ornaments worn by the Mursi women. Gordon founded the historical motivation to make them less interesting to the slave traders, but today they have any motivations).
- The promotion and continuation by the most powerful part of the society (many identified it with church, state or academia) of any beliefs that allow them to have a rent. As for the previous hypothesis there are many actions that can be used as a sample, but it is sufficient to emphasise the dominance of the few on many (through human history the most common is the prevalence of male to female).
- The last one is based on the idea that some norms, even if they have a negative effect on the economic output, are inefficient, they are still used because they raise the fertility (in this case with the increase of the wealth among the poorest it will disappear)

This variable has an impact not only on daily life but also on the foreign investor’s capital structure decision making and on the risk attitude of companies. For this thesis, the most important implication is that, through the post-acquisition process there will be the acquisition from the acquired of the buyer’s habits and heritages, they will be mixed and there will be the creation of a new one. In presence of large cultural differences between the domestic and the foreign nations, it might compromise the deal completion due to an increase of the integration costs; this is true if and only if the business routines and norms need to be changed to allow to fully work cultural dependency businesses; otherwise it will not occur any extra-cost and the deal will not be under threat.

[152] Gary Backer; Accounting for Tastes; Harvard University Press, 8th July 1996

According to a study conducted in Europe if there is a kinship (same roots and ancestors) with a language, religion, gene, skin colour and, even, the height as similar as possible among all the parties involved, there is higher a probability to establish a bilateral trust and complete successfully the deal[153].

In case of conflicts a lower cultural distance might help to avoid lengthy and disruptive renegotiation phases with values and goals that are more likely to be aligned, so being similar is an important and it may be the difference between a successful or a failing deal.

Copper and Lybrand conducted a survey asking to the most important CEOs and Chairmen of the time which are the most dangerous problems that could lead to a failing acquisition, it resulted that they are the cultural differences.

	(%)
Detailed post-acquisition integration plans	76
Clarity of acquisition purpose	76
Good cultural fit	59
High degree of target management co-operation	41
Knowledge of target and its industry	41

Figure 15: result of Cooper and Lybrand's survey; imagine provided by "Making a Success Acquisition" (1993)

Other empirical evidences demonstrated that cultural differences can impair negotiation; they usually fail when CEOs from both parties have a different way to communicate, possess different social norms and understanding of time and success. It is possible to conclude that this variable can heavily affect negotiations, so there is a negative correlation between the volume of cross-border Mergers and Acquisitions and the cultural dissimilarities.

Problems will not end until the agreement is signed. During the implementation and the post-deal integration there will be challenges with several difficulties for the acquirer: entering into counterpart's business circle, the potential incapability to recognize and accept the local tradition and behaviour, quickly acknowledge local consumer's preferences, local government, policies, etc…

[153] Idem 151

This is the base for the famous “70/70 Rule”, it is used to point out that 70% of mergers do not achieve the shareholders’ desired outcome as final business value, and among them, the reason for the 70% of that failure is the post-merger cultural integration issues.

To sum-up, the impact of this variable is: culturally further are the parties involved in the deal and lower is the attractiveness of the investment, due to the negative impact that it has in terms of trust, individualism and hierarchy. This output is moderated if there is a previous exposure to the target nation.

2.2.2 Diplomatic relationship between the two governments

Diplomatic relationship between the two governments is a variable that is as important as the previous one. It represents the impact of diplomatic relationship, bilateral trust and the history of military, political and economic confrontations between the two parties involved. In case they have a positive impact, this will bring to a higher degree of mutual recognition of state sovereignty between the two countries, and more chances to find a better investment security environment in the host country, it increases the probability to successfully complete the deal. This is more important and probable when the investment is done by Sovereign Wealth Funds.

The current classification, used since 1996, to measure the diplomatic relation between countries is provided by the reports of Xinhua, Renmin and Yonhap. It has eleven different levels of closeness: no-diplomacy relation, simple relation, good-neighbour relation, partnership, cooperative partnership, all-round partnership, strategic partnership, strategic cooperative partnership, all-round strategic partnership, traditional friendship of cooperation and clan[154]; here the worst relationship is represented by no-diplomacy relation and the best by clan. In order to classify the relationship between two nations, it should be considered the number of formal visits since the establishment of diplomatic relations until one year before the transaction, and the frequency of visits (this value is given by the number of formal visits from six years until one year before the formalization of the agreement divided five).

An outbound investment has a higher chance to be located in a nation where there is a bilateral treaty that regulates the economic and political relations between the actors involved, the

[154] Currently there is any nation that is so close with any other

motivations are almost the same of the ones explained in the first chapter (see 1.2.2 Geopolitical Relationship). Several studies were done and all agree that there is a positive relation between bilateral political relations and Foreign Direct Investments, also from the buyer's point of view. In case there is a deterioration of the relation which brings to the stop of investments between the two countries, it would become impossible for any enterprise to carry out any due diligence works or cross-border transactions. Any type of alliance is positively related to the perceived risk, which has a direct impact on the augmentation or the reduction of investment costs. The bilateral investments, in case of close diplomatic relations, can be fundamental on the acquisition of a politically sensitive asset that otherwise it would be possible with the unmovable opposition of the government. This means that if there is a deterioration of any bilateral alliance there would be a direct consequence on the economic flow for both parties[155].

Trust is the basis for any type of relationship. It can be considered as the likelihood that the potential trading partner will act honestly. There have been many studies about its importance for singulars and for countries (previous writes show how a 1% increase of it, bring to an augmentation of 7% of the probability to close the deal). "Virtually, every commercial transaction has within itself an element of trust, certainly any transaction conducted over a period of time", so it has a major role on the final output of a deal, especially when there is an unknown counterpart, for the purpose of this thesis a foreigner buyer or seller, it has a positive impact on the direct investment from and to a nation. For finding an agreement time is necessary because it cannot be completed on the spot, anyway[156].

Several evidences show a positive correlation between the level of trust and the probability to do a profitable investment, but a negative one between it and the success rate of any potential deal (the selection is not as the usual, the parties involved are more willing to put their resources in a riskier project due to the idea that the other part will not fail). Those effects are highly significant, both statically and economically.

[155] Nandini Gupta & Xiaoyun Yu; Does money follow the flag?; SSRN Electronic Journal (https://www.ssrn.com/index.cfm/en/); 7th February 2009; pages 1-33

[156] Kenneth Arrows; Gifts and Exchanges; Philosophy & Public Affairs (Volume 1 Number 4); Summer 1972; pages 343-262

Scholars focused their attention on studying it, mostly, at the end of the previous century (the most famous writings were done by Knack & Keefer and by La Porta de Silanes & Shleifer & Vishny). Before that, it was just considered as a factor to be analysed in order to find all the possible equilibria among the different scenarios; it was Greif that understood that it was a part of the rational behaviour of the subjects studied. The most appealing feature, for the economist, is "the subjective probability with which an agent assesses that another agent or group of agents will perform a particular action", this has a fundamental impact on the economy. Among the nations the quality of the legal system of the other state, the previous strategic interactions or the similarities of the parties involved (theoretically it has a minor impact on negations because they would be carried on by cultured individuals who rely less on their past experience and base their decision on the current situation) are fundamental for the subscribing of any bilateral agreement[157].

2.2.3 Seller's country risk

The location of the target company is a really important factor in the final decision about acquisition or non-acquisition. It is not linked with the distance or the resources available in the country (those are known since the beginning) but, mostly, to the legal and political environment that will be faced once the takeover is completed. It is not possible to have a precise value about the riskiness of a nation, so companies' choices are based on their perception.

This topic, in the last 40 years, emerged as one of the most debated and important issues for the official institutions and private market operators. Several agencies study the country's risk as the ability of the countries to pay back their financial obligation. By the way, when there is a takeover the buyers are not concerned about it.

There are several indexes that try to give a mathematical value. The most important for the calculation of the risk, not linked with the ability to pay-back the financial liabilities, is provided by the International Country Risk Guide (ICRG)[158] which gives a value from 0 to 100, where 0

[157] Diego Gambetta; Trust: Making and Breaking Cooperative Relations Oxford: Black-well press; 29th April 1988

[158] In January 1984 it did its first evaluation to 90 countries. In October 2002, since the present, the number of nations analysed rose and arrived at 140. Through the time the criteria for the calculation changed to keep up with the new international environment created after the end of the Cold War. Before the 1997 its evaluation was subjective due to the lack of reliable data, from this year it started to use the data provided by international independent institution (principally IMF), which should be consistent over the time

represents the most dangerous situation and 100 the safest possible environment[159]. It is used by several experts of all the most important companies and international institutions (International Monetary Fund, World Bank, United Nations, etc…). ICGR is considered the only agency which gives detailed and consistent monthly information and data for a large number of countries over an extended period of time. The shared rating allows everybody to compare two or more countries about the economic, political and financial, they are fundamental for evaluating the stability of a country (they are all included in the calculation). This rating system is composed of 22 variables, they represent the 3 major components of the "country risk" with the economic and financial components having 5 variables each, while the political is composed by 12.

$$\text{Risk Rating } (0-100) = \frac{\text{Economic Risk } (0-50) + \text{Financial Risk}(0-50) + \text{Political Risk}(0-100)}{2}$$

$$\begin{aligned}\text{Economic Risk } (0-50) = {} & \text{GDP per Head of Population } (0-5) + \text{Real Annual GDP Growth } (0-10) + \\ & \text{Annual Inflation Rate } (0-10) + \text{Budget Balance as Percentage of GDP } (0-10) + \\ & \text{Current Account Balance as Percentage of GDP } (0-15)\end{aligned}$$

$$\begin{aligned}\text{Financial Risk } (0-50) = {} & \text{Foreign Debt as Percentage of GDP } (0-10) + \\ & \text{Foreign Debt Services as Percentage of Export in Goods and Services } (0-10) + \\ & \text{Current Account Balance as a Percentage of Export in Goods and Services } (015) + \\ & \text{Net Liquid as Months of Import Cover } (0-5) + \text{Exchange Rate Stability } (0-10)\end{aligned}$$

$$\begin{aligned}\text{Political Risk } (0-100) = {} & \text{Government Stability } (0-12) \text{ SocioEconomic Condition } (0-12) + \\ & \text{Investment Profile } (0-12) + \text{Internal conflict } (0-12) + \\ & \text{External Conflict } (0-12) + \text{Corruption } (0-12) + \\ & \text{Military in Politics } (0-6) + \text{ Democratic Accountability } (0-6) + \\ & \text{Bureaucracy Quality } (0-4)\end{aligned}$$

As previously written and shown by the formula, the risk rating is expressed by a value between 100 and 0. Any nation has a perfect or a flawed score. Currently the highest score is shared by New Zealand and Denmark, 88, while Somalia and South Sudan have the lowest, just 12[160].

---

[159] The classification is done following those value: 0-49,5 Very High Risk; 50-59,5 High Risk; 60-69,5 Moderate Risk; 70-79,5 Low Risk; 80-100 Very Low Risk

[160] Suhejla Hoti; The International Country Risk Guide: An Empirical Evaluation; University of Western Australia (Department of Economics; January 2003

The final evaluation of a company is pondered on the base of the risk and on the potential profit. In case of an equal risk, the resources will be used to buy the most profitable company and vice versa; this is how the human being thinks and it is the base for an efficient allocation of capital.

2.2.4 Institutions quality of the host country

Institutions quality of the host country is the exemplification of institutional governance, it can be defined as the traditions and the institutions by which the government authority is expressed. The institutions are able to influence the nature of the connection between firms and politicians, so their relationship. There are two different types of it: formal and informal. The first one represents the quality of the institution, including an effective and efficient regulatory framework and the absence of corruption; results show that the formal ones are important for the future growth and development, especially for attracting foreign investments[161]. The second one is the heritage that is transmitted from one generation to the following, this is the culture in general, so it is directly and strongly linked with the culture similarities, it is the step before which we find the general information about the citizens that will be "used" to make the comparison.

There are several indicators through which this variable is represented:

- Voice and Accountability: it is the measure of the citizen participation extent on national political elections and the decision making process on checking the equilibria among the institutions. Various aspects are included: political process, civil liberties, political rights, independence and the freedom of the media. This indicator is used to understand the tendency of the government to intervene in political and economic fields. In case of a good score the country does not concede many favouritisms or it is characterized by excessive bureaucracies, so it is an attractive land for investments; if it has a low score it is the opposite.
- Political Stability: it is useful to represent the capability of the government institutions to "survive" to a shock (domestic violence and/or terrorism attack) which can have a major impact on the policies continuity. Somebody, in the calculation, considers and includes the perception of a potential coup d'état among the "shock" events. All the tragic situations

[161] Hae-Jung Hyun & Hyuk Hwang Kim; The Determinants of Cross-Border M&As: The Role of Institutions and Financial Development in the Gravity Model; World Economy (Volume 33 Number 2); February 2010; pages 292-310

create uncertainty among investors and are a deterrent for the investment by foreigners in M&A activities.

- Government Effectiveness: it is the exemplification of the government capability to produce public goods, design and implement the policies. The quality of bureaucracy, public service provision, the credibility of the government commitment to its policies and independence of civil services from political pressures are all included. For foreign investors it is fundamental, before engaging in a takeover, to know if the government is able to implement and realize its plan; without this ability the development of the domestic firms will be lower, making them less attractive.

- Regulatory Quality: it measures the quality of many government policies, for this thesis the most important is how much those are market-friendly. Higher is the quality and higher are expected M&As inflow.

- Rule of Law: it is the representation of the fairness and the predictability of economic rules and social interactions. The most important for the investors are the protections offered to their property right. Considering this factor, it has to be included the perception of: incidence of crime, effectiveness and predictability of the judiciary and the enforceability of contracts. If the host country's rule of law is perceived as a good one, it provides a sense of security for the foreign investors, it is a positive input for future investments. Therefore, it is expected that the number of M&A deals increase at the rising of the quality of the rule of law.

- Control of Corruption: it is a representation of the corruption perceived. Corruption can be defined as the exercise of the public power to coercively gain over privates. The rampant increases the cost for the foreign investors on carrying on a business in the host country. As a consequence, nations with a better corruption control would be more attractive than one with worse.

Those six variables can be similar or partially included in the other six variables discussed above, but the difference is the point of view from which they are analysed. Previously, they were analysed from an economic and/or political perspective, it depends on the variable that is discussed, while in this case they are part of a bigger pitcher that has as main goal the fully understanding and the acknowledgement of something different with a focus to the environment presents in the other market.

Studies, conducted through the years, have shown that statistically the most important and impactful indicator, on M&As' inflow, is Voice and Accountability; it is followed by Regulatory Quality and Government Effectiveness. On the other hand, Control of Corruption, Rule of Law and Political Stability seemed to be less impactful if compared to the other three, the last one is statistically irrelevant[162].

Control of Corruption and Governance Effectiveness have weak positive effects, both from an economical and a statistical point of view, on the cross-border M&A inflows. This leads to the conclusion that even in the presence of corruption the investors may still acquire the assets in those nations.

Many researches provided the same empirical results which show that the Quality of Institutions are important and the effect of institutional reforms on cross-border M&A inflows is smaller in the developing countries rather than in the developed ones, so it is improbable that the gap will be filled and it is likely to persist.

Political Stability has a puzzling result. It would be expected to have a primary role in the decision, investors should be concerned about the host country's political stability more, or as much as, the regulatory quality. The explanation given by the experts to themselves and to the interested people more in general, is that this indicator is a prerequisite for any M&A investments in the country and, once a minimum level is achieved, any further improvement tends to have a little or any impact on the foreigner's decision.

By the way, if the "sum" of the indicators is positive there is a higher likelihood to invest there, this is more important in a takeover where the buyers come from an emerging country because they use strategic acquisitions to minimize the suffering from the disadvantages caused by the low home governance institutions.

2.2.5 Seller's Country Law

[162] Jung Hur & Rasyad A. Parinduri & Yohanes Eko Riyanto; CROSS-BORDER M&A INFLOWS AND QUALITY OF COUNTRY GOVERNANCE: DEVELOPING VERSUS DEVELOPED COUNTRIES; Pacific Economic Review (Volume 16 Issue 5); 8th December 2011, pages 638-655

In all the most important decisions the companies always try to protect their interests and their investments as much as possible. One of the most important and used “shields” are the laws and the regulations of the nation where the expense is located. In the contest of cross-border businesses, several writings have analysed the role of this variable. It is considered as a substitute of the trust when the diplomatic relationship is not a strong one, it protects from any undesired surprise.

In countries characterised by the presence of stronger laws and accounting standards to safe the investors, there is a higher number of takeovers; the impact is negative in case of legal complexity and risk of government expropriation[163]. Recent studies show that also the institutions (rule of law, an efficient judicial system, contract system, contract enforcement and good accounting standards), have a bigger role in the emerging countries than in the developed and there are even stronger and more impactful, they have to regulate a non-completely “formed” market.

For the acquirer, it is also important that the legal system follows the laws in the fairest possible way, this would lead to more transparency about the potential decisions undertaken by the judge with an enforcement of the trust by the investors. This variable, with the quality of institutions, is considered strictly correlated with the level of corruption with all the consequences that it may have for the firms and the influence by politicians. In virtuous nations the politics is strictly monitored and checked to prevent any possible power abuse, following personal interests at the public’s expense[164].

There are two different categories of laws: civil and common. The first one, the civil law, is the most common and used in the world; it is based on written rules which are the base for future decisions. The discipline is built on the codification of codes and laws; its structure is abstract with several hypotheses that try to cover as many cases as possible. The second one, the common law, is used especially in the Anglophone countries. The concrete case is used as reference for future lawsuits, the principle of the “*stare decisis*” obliges the judge to pronounce the same verdict every time. Codes and laws in this case have a minor role. Among firms, which decide to do an outbound investment, there is a preference for the common law because it gives more certainty about: what

[163] Stefano Rossi & Paolo Volpin; Cross-Country Determinants of Mergers and Acquisitions; Journal of Financial Economics (Volume 74 Issue 2); November 2004; pages 277-304

[164] Paul Brockman & Oliver Rui & Huan Zou; Institutions and the performance of politically connected M&As; Journal of International Business Studies (Volume 44 Number 8); 29th August 2013; pages 833-852

is and what is not allowed, the consequence of an illegal action; it can be prepared for almost every situation that it may face operating there.

This variable and the previous one (Quality of the Institutions of the Host Country) are strictly related with the presence of corruption which can be viewed as “the sale by the government officials of government property for personal gain”. In such a situation the companies have two options with two different impacts on them: the “positive” (bribing politicians help to overcome the various and redundant administrative and regulatory obstacles); and the “negative” (be a “fair player” who follows the rule but it has a handicap). The income for the corrupted is the possibility to have a rent which is a share of the extra-profit derived from their favours[165].

2.2.6 Communication Approach

Through the negotiation of the cross-border M&A is not sufficient to have similarities, but it is important to communicate in the best and most efficient manner in order to avoid any potential conflict. There are different possible approaches to be in touch with the other parties. Theoretically, from the best to the worst: face-to face meetings, conferences and emailing. More it is personalized the relation and more beneficial effects there, vice versa more it is impersonal and more difficulties and miscomprehension will be faced through the negotiation. The type of communication matters in different ways; it may be open to all or restricted in scope, it may be unidirectional or interactive. For sure, it has a major influence on the others’ perception. Sometimes the real issue is to share information without undermining the secrecy of the deal, it may bring an adverse reaction by the market.

By the combination of those two factors, time and richness, it is possible to define four different communication approaches: immersive (a continuous communication with a frequent interaction with the providing of rich information); drip-feeding (continuous communication that is carried on with the use of formal media, such as reports or press releases which do not share rich information); feast or famine (a non-continuous communication but with the share of rich information);

[165] Andrei Shleifer & Robert W. Vishny; Corruption; Quarterly Journal of Economics (Volume 108 Number 3); August 1993; pages 599-617

perfunctory (a non-continuous communication and the use of media that cannot provide rich information)[166]

There has been a long-standing debate, through the years, in the human resources and strategic management's literature about what determines M&A decisions and performances. There have been and still there are two main topics of study: why and how M&As are performed and how the different phases are managed. This variable is seen as the glue that holds together the merging organizations It is an antecedent of any performance and it is fundamental for the success of the operation, so it is important to consider it in the final choice of any outbound investments. Many experts think that it is the backbone for the success and the primary reason for the failure, all the inefficiency in the pre-deal stages will influence subsequent post-acquisition management issues[167].

The discussion of this variable has been for long-time taken in broad terms such as "open communication" and "effective communication". There was a concern about it because it was claimed that "more communication is better" was the solution to the problem, still today there are just few studies about it and it is not considered important as it should be. The implication of the previous statement leads to have an obvious result: the acquirers and the sellers share their ideas and the concerns, as much frequently as possible, to reduce their own uncertainty and this should lead to a better deal for both; on the other hand, an ineffective communication usually brings to have higher levels of ambiguity and a negative organizational outcome. Communicating in the wrong way has as a result the increase of anxiety, it has counterproductive outcomes and bring to not share the information needed to carry on the bargaining.

Although the appeal provided by the literature is fundamental, it is really difficult to do it the correct way. Sometimes, someone could overload the listeners, he/she shares too many information, this "snowing" is done for distracting the other and hiding a different problem or an important piece of news; the opposite problem could also from the intention to not annoy the other with useless data. The info overwhelming occurs when there is a continuous passage of bad news; this situation has a

---

[166] Duncan Angwin & Kamel Mellahi & Emanuel Gomes & Emmanuel Peter; How communication approaches impact mergers and acquisitions outcomes; The International Journal of Human Resources Management (Volume 27 Number 20); 3rd December 2014; pages 2370-2397

[167] Ruth Aguilera & John Dencker; The Role of Human Resources Management in Cross-Border Mergers and Acquisitions; The International Journal of Human Resource Management (Volume 15 Issue 8); 21st September 2004; pages 1355-1370

negative impact on the environment with a sense of threat for the agreement; while if there are too many good news there could be a sense of suspiciousness, as if the negotiator is trying to show that everything is under control, but in reality he/she is desperate. The second one is the result of the fear that the information is not perceived as relevant, reliable and/or honest, this would bring to the loss of the trust and to a negative outcome of the deal. Mohr and Nevin claimed that "though a minimal amount of contact is necessary to ensure adequate coordination, too much contact can overload organizational members and have dysfunctional consequences", just to make it easier to understand how it is difficult to manage this variable and how much it is important to find someone to communicate with in a similar way. Nevertheless, the benefits are superior than potential issues, so it is better to go on with this good practice through all the process, not just in the "traditional" phases of the negotiation, even with all the risks that it may bring to face[168].

Communications theory argues that this variable may be able to facilitate the commitment to the deal going forward and influence positively the other party if are shared: the right amount information, the best content, the news in time, it is done continuously, in the best manner and in a coherent fashion. Sharing data and news through the whole process, and not just in a few isolated moments of a particular stage, tends to reassure everyone that is involved. Doing it, it may be possible to prevent unintended information shortages, otherwise there may be rumour mongering or an information overload, due to the share of too many issues at the same time. Following the mechanistic perspective of communication theory, a continuous communication, rather than a fragmented one, is the base for building a sense of trust, with all the implications read before and also the one that will be analysed in the following variable[169].

---

[168] Duncan Angwin; Mergers and Acquisitions Across European Borders: National Perspectives on Pre-Acquisitions Due Diligence and the Use of Professional Advisors; Journal of World Business (Volume 36 Number 1); March 2001; pages 32-57

[169] Eero Vaara & Janne Tienari; On the Narrative Construction of Multinational Corporation: An Antenarrative Analysis of Legitimation and Resistance in a Cross-Border Merger; Organizational Science (Volume 22 Number 2); March-April 2011; pages 370-390

		Communication Timing	
		Intermittent	**Continuous**
Communication	**High**	Feast and famine *Rich but intermittent*	Immersive *Rich and continuous*
Richness	**Low**	Perfunctory *Lean and intermittent*	Drip - feeding *Lean but continuous*

Figure 16: matrix derived by the interaction of timing and richness of communication, imagine provided by "How communication approaches impact mergers and acquisitions outcomes (see note 168)

The lack of attention by experts is the main reason for the gap that still needs to be filled in order to have a deeper comprehension of the impact of communication. Everybody agrees that it has a vital role in M&A outcome, especially in the cross-border one where the different culture, law, etc… can bring to an amplification of the problems. By many, it is portrayed predominantly as normative in character. Literature views it as something that needs to be done as frequently as possible for reducing the stress of such a complex and risky situation and for not sharing a message of uncertainties and doubts. The lack of it may lead to the "merger syndrome", it is a clash among all the parties involved directly and indirectly in the deal[170].

The biggest impediment for a good communication is speaking different languages, it may be a major barrier for any type of business. The impossibility to speak the home country language can, subconsciously, affect the final decision because there is a preference to collaborate with people that communicate in the same language. The mother tongue has the greatest impact on the location of the investment, the geographical distance and the presence of a joint border has to be considered, but their role is smaller and it cannot be considered in same case, but the idiom it has not any real impact on the final outcome of a business. By the way, a deeper study of it could bring additional information about the long-term culture, so to have a better idea of the environment where the buyer could operate.

[170] Siddhartha Brahma & Kailash Srivastava; Communication, executive retention, and employee stress as predictors of acquisition performance: An empirical evidence; ICFAI Journal of Mergers & Acquisitions (Volume 4 Issue 4); 1st December 2007; pages 7-26

Speaking the same or a similar language (a different dialect) can enhance communication and trust, all the parties involved are sure that there will not be any opportunistic action to have private gains brought by a misunderstanding[171].

Once the deal is closed, the management of the acquirer can make an official announcement as the first step for creating a vision and a sense of freshness for gain the support of the employee, it is the beginning of the post-acquisition communication phase.

2.2.7 Consideration of the Other Country

With consideration of the other country it is meant a generalized trust, (it concerns what it might be considered as cursory beliefs, generalizations and/or even stereotypes) It is present in two different variables, this one and the diplomatic/political relationship; usually, it does not pertain to a specific individual but to the countrymen and the country's institutions, it has an instantaneous impact on the idea about the others and it can have a major weight on the final investment outcome.

In risky decisions the consideration about the other involved is a fundamental factor. As written by John Mill, "There are countries … where the most serious impediment to conducting business concerns on large scale, is the rarity of persons who are supposed fit to be trusted with the receipt and expenditure of a large sums of money". Following the idea behind his concept, it cannot be strange that there is a preference to invest in regions or nations where local partners and employees are thought to be as more trustworthy. It has several implications but the most important is an easier cooperation across the countries and the facilitation to solve all the potential problems faced through the negotiation; higher is the trust between the parties and higher is the possibility that there will be an investment that will not face any block[172].

There are five indices that help to have an idea about the situation:

[171] Oliver Williamson; The Economic Institutions of Capitalism: Firms, Markets, Relational Contracting; Free Press; 1985

[172] Laura Bottazzi & Marco Da Rin & Thomas Hellman; The Importance of Trust for Investment: Evidence from Venture Capital; The Review of Financial Studies (Volume 29 Issue 9); 1st September 2016; pages 2283-2318

- The country people honesty (Honesty): it was calculated in 2006 taking into consideration the return ratio of lost mobile phones. This study is called “Global Integrity Test” and was done by US Reader’s Digest. It was conducted in the most prosperous cities of 32 nations[173]
- The degree of civics’ trusts toward foreigners: the measure was done for the first time in 2003 by Guido, Sapienza and Zingales. It is the trust level of host country people primary to the foreigners (*Foreigner Trusted*) and secondary to other races in general (*Race Trusted*)[174]
- The level of bilateral trust: as easily understandable, it represents the bilateral trust of a country with the rest of the world. It is measured taking into consideration the duration (*War Years*) and the number of previous wars (*War Number*), since a historic and fundamental moment of the “country life” (for example for China is the Opium War). This index is able to have an impact also to the bilateral trust[175]
- Culture difference: it is the consequence of the variable previously analysed. Kogut and Singh found that the differences are equal to the Mahalanobis distance of four Hofstede cultural indices
- The blood relationship (*Kinship*): it used to see if the two countries belong to the same community and/or there is a blood tie.

Consideration is really similar to trust. It can be listed as a part of what the literature calls generalized trust. It is a set of beliefs about the forecasted potential behaviours that random members of an identifiable group, as the citizens of a specific country, have or will have. It is something

[173] Investigators left 30 middle-priced mobile phone in different block of the city to see if and how many would have been returned

[174] Those two index are based on the answers given by the respondents of the World Values Survey (WVS) to the questions:

- “Are you unwilling to be a neighbour of one of the following people” and one of the option is “Migrants and Foreigners”
- The second question as the same of the first but this time one of the options was “People of different races”.

The level of trust in the country is measured by the proportion of respondents who do not choose the above options

[175] Luigi Guiso in two of his writings pointed out that in the presence of many battles through the time, it is really hard to establish a mutual trust between people of both countries. In Europe the best example is provided by the frequent friction between French and England, but the best situation to fully understand the implication is the Sino-Japanese modern “war” where from both countries the citizens try to boycott the goods of the other nation

immediate that does not need time to be built up, differently from the personal one which is the type analysed in the "diplomatic/political relation between the two countries" which is focused more on a specific trading partner. Obviously those two types of trusts are present at the same time and are mixed together in every business, as it happens with the seven variables just analysed that bring to choose the final location of the outbound investment[176].

It is useful to remember that often it is difficult to separate the expectations derived from personal considerations and reasoning. As effect a part could not be satisfied by the performance of the other and it has a negative impact on the business.

2.3 INSTITUTIONAL INFLUENCES ON THE FINAL DECISION

Outward foreign direct investments have a fundamental role in the modern global economy. Even if few states move the greatest part of the economy, this practice is used by all the economies that would like to compete globally and not remain a marginal player, they would like to become actors that can influence the fate of the others. This phenomenon is the direct consequence of the economic development and of the implementation of liberal market policies all around the world; along with: the offshore availability of market opportunities, the entrepreneurial desire to conquest an own share in the international market and the intention to exploit economic advantages in cost efficiency. Today not only developed countries but also the emerging ones use this possibility very frequently and the value of their investment is increasing year by year. The internationalisation of those is one if not "the" topic of the most recent studies due to the changes it brings to the global economy and the relative power position among the nations.

More or less in the last two decades this phenomenon has started to accelerate, only the Chinese's government anticipated this process among the developing countries and now is a powerhouse and the second, maybe the first, economy in the world.

It is possible to divide this procedure in two phases: the first one characterised by the acquisition of natural resources; and the second by the acquisition assets that are fundamental for the growth and the modernization of the companies (technology, know-how, etc…). Those nations undertake very

[176] Steven Durlauf & Marcel Fafchamps; North Holland; Social Capital (Handbook of Economic Growth); 9th December 2005; pages 1639-1699

aggressive cross-border M&As with the support of the national institutions, they are used as a springboard for acquiring strategic assets.

The new centrepiece of the literature has attracted controversy in political and intellectual circles, with the curiosity and the attention by both. Many scholars focused their attention on the emerging markets and the motivation which bring them to decide where and how to invest. They found several evidences and developed a common theory that explain how the Multinational and the State-Owned enterprises follow an outbound expansion to reduce the negative effects of domestic market institutional constraints or acquire the resources needed for their growth, those which are not available in their home country. The formulation of this new point of view was necessary due to the insufficient explanation provided by the traditional investment motives (market size, labour cost and resource endowments are sufficient for explaining the actions undertaken by the Western countries) to reply to the new questions raised in the last years[177].

Many researches has been done and now there is a wide body of information that has established the role of institutions both in the developed and in the emerging nations. Since the 90s, a new institutional economics perspective about the government field rose. North was the most important expert and his ideas are fundamental for any research done; through his studies he understood that institutions are "humanly devised constraints that structure human interaction… and their enforcement", whose utility is to reduce the uncertainty of economic transactions. They are categorized, as written in the previous paragraph, or as formal (laws, regulations or private contractual arrangements) or as informal (norms of behaviour, conventions or codes of conduct)[178].

The complex nature of M&A transactions, especially for the cross-border one, many times leads to a direct or an indirect government intervention. Politics tries its best to develop a favourable environment with the adoption of measures that encourage local enterprises to go global. The government encourages some actions, while discourages others; everything is done with the aim to take an advantage on the international chessboard and raise the power and the influence on the other nations. The push received by institutions, previously analysed, has a major impact on the

[177] Carmen Stoian & Alex Mohr; Outward foreign direct investment from emerging economies: escaping home country regulative voids; International Business Review (volume 25 Issue 5); October 2016; pages 1124-1135

[178] Douglass Cecil North; Economic Performance Through Time; The American Economic Review (Volume 84 Number 3); June 1994; pages 359-368

investment decision, the firms tend to have an incautious behaviour with an apparent lack of risk analysis (this attitude is explained by many by the presence of fewer financial constraints, especially for the SOE, and by the imperfect domestic capital market, it is the origin of a specific financial advantage) and a preference for short-term economic rents that may arise in a very "dangerous" host country (the buyers in this situation do not pay attention to the growth rate of the foreign nation because are interested in a fast income, they have the intention to bring in the homeland the resources acquired). Sometimes the management of the emerging countries is not properly experienced and skilled in making outbound investment strategies as those of the developed nations (obviously, it depends from case to case and from the nation where the takeover would be done, Asians have better chance to succeed in location that are in the same continent due to the best knowledge of the market, laws, culture, etc… than the Europeans or Americans).

From the resource based perspective, the aim of all the acquisitions is to generate synergies by transferring the control of key strategic assets and capabilities. Starting to operate in a new market the company would have the chance to use, in a better way, its resources and would have more opportunities for developing economies of scale and of scope. In the final location choice is motivated by one of the following four categories: market seeking, resource seeking, strategic assets seeking and efficiency seeking (it is an important motivation but not as the other three).

This perspective is not the only available to study and explain the cross-border M&A decision by the firms and the governments. The institution-based view is another really useful and appropriate theoretical framework used for probing the motivation behind a choice, it works especially for the understanding the plan followed by emerging countries. It highlights the influence of the institutional framework embedded in national-level macro environments on strategic choices available. For developed nations the "rules of the game" are well-known, while in developing there is not a unique situation and each environment is different, every nation is characterised by a unique environment and context[179].

The Nobel Prize North and Davis originated a new institutional theory which is the base for the explanation of how the institutions, formal and informal, are able to decide the "rules of the game" through: regulative, normative and cognitive elements. Their writings are the base for this second

[179] Mike Peng; Towards an Institution-Based View of Business Strategy; Asia Pacific Journal of Management (Volume 19 Issue 2); August 2002; pages 251-267

theoretical starting point; they understood the importance of the institutional framework and how "the set of fundamental political, social, and legal ground rules that established the basis of production, exchange, and distribution" regulated the modern international market. Considering also the associated activities and resources, it is possible to find the meaning and the stability of the business organisation of all the actors involved Thus, differently from the traditional framework of FDI, goes beyond the micro-level organization structure of the firm and, also the task environment and analysis at the macro-connection among the nations are considered[180].

It is known that before any investment it is mandatory to determine and to consider the economic and non-economic attributes of every potential final destination. Before initiating the negotiation is needed to decide the location and the volume of the investment, they are two totally different topics. Doing it, it is usually used the Heckman's two-stage model.

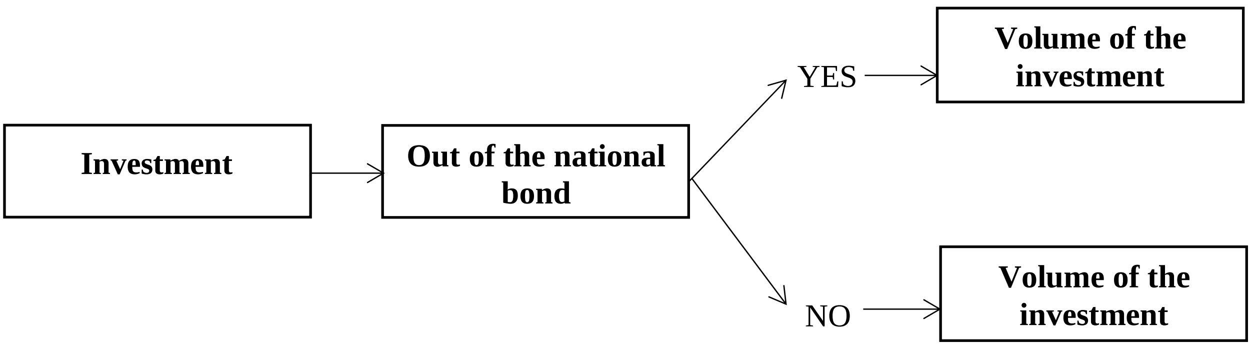


Figure 17: process followed in Heckman's two-stage model

Remembering that there are two phases during the internationalization process, whose aim is to increase the pool of strategic assets and the efficiency of the enterprises and domestic economy, the resources needed are different but the scope remain the same. There are some changes between those moments: inthe first phase there is not a specific preference and many investments are located in non-developed countries (China has bought many African's companies for this reason) with the aim to accumulate the raw resources needed; while during the second phase there is a marked preference for investing in developed nations for acquiring their knowledge, know-how, brands, technology, etc… There is the trust that with those acquisitions they will strengthen the competitiveness of their domestic market. The most common location choices are USA, Canada,

[180] Mike Peng & Sunny Li Sun & Brian Pinkham & Hao Chen; The Institution-Based View as a Third Leg for a Strategy Tripod; Academy of Management Perspectives (Volume 23 Number 3); August 2009; pages 63-81

Germany, UK and France. It may be interesting to know that even if the destination of the investments changes, from non to developed nations, the real volume and value of investment is not significantly affected by the endowment of strategic asset in the countries (emerging economies are still in their infancy in seeking strategic assets and may not be as selective as the developed counterparts). There is a last one motivation that may bring to follow an outbound acquisition, it is totally different from the others analysed and it has any goal about owning any type of assets, it is done for tax planning reasons. Spots as Cayman Islands, British Virgin Islands, Bermuda and Isle of Man are tax haven and are the preferred for those outbound movement of capital; by the way for the purpose of this thesis this option is not considered due to the different environments and behaves[181].

Many studies examine the channels through which the politics can influence or even impose its desire on a company. The states, through the use of institutions, as understood and claimed by North, have a major weight on the final decision about if, where and how invest abroad. The influence is exercised at national level and nor at the lower one, regional or local. This pressure is more important in the countries which are not ready to decentralize the decision. In some of those countries it is even required to ask the approval by the authorities, which accept, usually, exclusively the investment that are in line with those "encouraged" by the government, otherwise the firm will not receive any helps and/or subsidies and it may face a contraposition from the politics. This "encouragement" is done for promoting the interests and satisfying the needs that are presents among the citizens. As written before, an outbound strategy can be helped through a series of incentives or with the threat of punishments. Some scholars claim that we are in a Schumpeterian global competition and in an innovation era, where politics has a key role for encouraging and promoting the evolution of the market.

According to the political economy theory, the government is the controller, the regulator and the judge of all the business sectors. With its power it is able to: create legislations which regulate the national economy; frame the competitive environment and factor endowment; last but not least, to model the regulatory environment where the businesses will be conducted.

[181] Peter Buckley & Pei Yu & Qing Liu & Surender Munjal & Pan Tao; The Institutional Influence on the Location Strategies of Multinational Enterprises from Emerging Economies: Evidence from China's Cross-Border Mergers and Acquisitions; Management and Organizational Review (Volume 12 Number 3); 16th September 2016; pages 425-448

For fulfilling its role of promoter and supervisor of the cross-border M&As, governments frequently set up a cross departmental task force to explore, coordinate and the design the protocol or the provision that has to be submitted for: further discussions, revisions and the final approval (all is done at national level due to the importance of such decisions). Theoretically, it may bring to a clash between the national decision makers and the regional and local ones; the reality has shown a totally different situation where there is a convergence and a complementarity of interests, so there is a peaceful relation. Successful businesses generate numerous returns for both central and regional/local governments. Those lower entities wish to see more encouraging policies launched by state because they would rent the beneficial outcome (higher position in the" openness" ranking, it has as more immediate implication the skyrocketing of importation and exportation; higher income by the taxation; new knowledge; etc…) without incurring in any price. This is a field where rarely there is a clash due to the convergence and the complementary of their objectives.

Many states have a council that has as role the blueprint of the long-term plan of the Outward Foreign Direct Investment of the home enterprises. Its final aim is not to engage in concrete policy initiatives, instead deals with more fundamental and general issues (major regulatory or policy changes that would have a high impact and repercussion in the long run) and to encourage the internationalisation of the country at the best of its possibility[182].

Government policymakers are increasingly aware of the importance of their role. They are focused to map business response to regulatory changes. A failure on capturing the response can be fatal, the issue can go from ineffective to counterproductive decisions undertaken. The government is not exogenous to the economy; it has a proactive role to improve the inbound market. Institutional environment could be shaped by organization since government decisions may be to internalize inside a business; it is possible for those to improve their bargaining power, create the capital fund and boost the competitiveness of its country. Being more intensively engaged in global competition, enterprises become more and more important to governments because they can fulfil the role of

[182] Yadong Luo & Qiuzhi Xue & Binjie Han; How emerging market governments promote outward FDI: Experience from China; Journal of World Business (Volume 45 Issue 1); January 2010; pages 68-79

accommodator of social and economic concerns (steering economic growth, advancing technological infrastructure and/or enhancing national competitiveness)[183].

Political and economic global events coupled with a new generation of technological advances, they are the cause behind the birth of a new scenario where the governments of the emerging countries are “forced” to give their support to the local firms for “going global”. The institutions in those nations, if it is possible, have to leverage their support to their domestic companies that want to compete on outbound markets. It is necessary, maybe even mandatory, because otherwise their national representatives would suffer the late mover disadvantages and the liability of newness and foreignness, without having the right skills to pass those crucial moments. How this process will be spurred is fundamental for the rest of the process and for understanding the effectiveness of the actions undertaken by the home country government and the chance to grow for the acquirer.

Home country politics can be a powerful and a strict ally to those which want to expand their interests, the institutions may offer various institutional supports to the domestic challenger: a low-interest-rate financing that arrives directly, through a preferential channel, from a State-Owned bank (there would be a preferential access followed by a cheaper finance); fiscal incentives (reduction or incentives on fiscal payment), direct subsidies; a cut of costs or extra-sources that would not occur in a “normal” situation. Governments reduce the need of the firm to find access to resources through their own effort. Those special financing assistants are used for supporting the investment in: setting up the research in the foreign nation and developing centres. They may play an important role in using the new advanced assets acquired (technologies, management experiences, professional talents, etc…). This excessively facilitate access to the domestic bank financing could lead to non-weighted study of the potential consequence of the investment, this is a variant of the managerial agency problems that has the same result of the “classic” one, the destruction of the firm’s value[184].

There is a last one possible economic intervention that may be undertaken by the government to promote the openness to the globalisation process. This “opportunity” is not available for all the countries. It is based on the power and influence that the Central Bank has. Not all the nations have

---

[183] Ravi Ramamurti; The obsolescing “bargaining model”? MNE-host developing country relations revisited; Journal of International Business Studies (Volume 32 Issue 1); 1st March 2001; pages 23-40

[184] Thomas Murtha & Stefanie Ann Lenway; Country Capabilities and Strategic State: How National Political Institutions Affect Multinational Corporation’s Strategies; Strategic Management Journal (Volume 15 Special Issue); Summer 1994; pages 113-129

one that can directly influence the "fate" of the domestic economy (in Europe the states have renounced to this freedom and given this power to the European Central Bank, so they have to respect the decisions of this transnational entity). As known, thanks to the most basic knowledge of macroeconomics, those institutions have the power to decide the monetary and the foreign policy exchange policies. Exercising this influence, increasing or decreasing the foreign exchange reserve ratio, it is able to influence the value of the domestic currency and of the interest rate, this decision can make more appealing or invest abroad (if the currency becomes more valuable, it would become less costly to invest abroad) or for a foreigner acquirer to invest in the country (if there is a reduction of the currency value it would be less expensive than how it would be before the central bank intervention).

From a non-financial point of view, there are several ways on how a company can be helped; the most immediate is a political support that works through a cooperative tie with the host-country government, but it could also facilitate the business through some advices about the foreign bureaucracy (how to manage the different steps required to access to the initial public offering market and secure government procurement contracts) or with more relaxed standards required for supporting the investment. The other aids that may be offered are: an insurance against political risk; assisting the private during the negotiation with foreign agencies; signing double taxation avoidance agreement (all the states have signed many of those for incentivizing importation and exportation); enacting bilateral and regional treaties to protect investment abroad; arranging a bilateral or multilateral framework to liberalize investment in the host country; etc… This type of assistance is fundamental when the takeover is located in a nation where it is required the approval of the government, otherwise even if it is found an agreement the acquisition cannot be officialised (the extraction of natural resources always need it, see the Firstgold-Northwest Non-Ferrous International Investment Company case study provided in the first chapter for having an example of the government power in such situation). This is the reason why in the previous paragraph it was analysed the non-economic variable that can influence the final decision about OFDI. Anyway, once there is the approval the scale of the investment depends on the abundance and the availability of the resources requested, so it is better that the buyers are in line with the government's agenda of national economic development. Another important help may be the access to sensitive information in advance. Thanks to those information, they can easily and quickly identify the most interesting investment opportunities abroad and have a better understanding of the potential synergies if the takeover has success[185].

The main function of the political sector should be to promote and to manage the outward investment. The final aim of those actions are: the draft of specific policies and regulations followed by the ratification of the largest of the non-financial projects; bilateral or multilateral negotiations for supporting the internationalization of the domestic companies; ensuring the alignment of economic and trade laws with institutional treaties and agreements; and coordinating national's foreign policy aid policies with relevant funding and loan scheme.

The aid provided on supporting national enterprises can be classified in two different categories: promotional measures and monitoring policies. The first one is the exemplification of all the direct financial and non-financial interventions provided by the government. In addition, to those potential aids the government may choose to use its risk-safeguard mechanism to reinforce the immunity to risk avoidance for the companies that go abroad. At the macro-economic level, it is done with the promotion and the mutual protection agreement signed with other countries, while at the microeconomic level there is the personal accident insurance subsidies for expatriate work abroad. Moreover, for facilitating the overcome of the investment obstacles faced, the government may open and maintain an information service bank network, on this site there is a collection of data about the issues faced in the past and how they were solved, and information about the current investing preference of the government, so where it would be easier to receive all the aids of the state. The second one, the monitoring policies, is done for facilitating the investment abroad. There is a try to facilitate, as much as possible, the approval process, where required, such as delegating the approval to lower level institutions if the value is inferior to a certain amount and to not exceed a predetermined number of working days for receiving the approval. A more important facilitation for the enterprises is the cut of the mandatory feasibility report (the sole concern of the government is about the direction of the investment, rather than the economic or the purpose of the investment). All that is done with the goal to improve the efficiency of the service; obviously there are also some post-investment supervisory measures in place. It is more important for the emerging countries that

[185] Eitan Goldman & Jörg Rocholl & Jongil So; Politically Connected Boards of Directors and The Allocation of Procurement Contracts; Review of Finance (Volume 17 Number 5); 11th January 2013; pages 1617-1648

are in the second phase of their growth where the quality is more important than the quantity, so for the Western economies this may see still as an excessive role filled by the government[186].

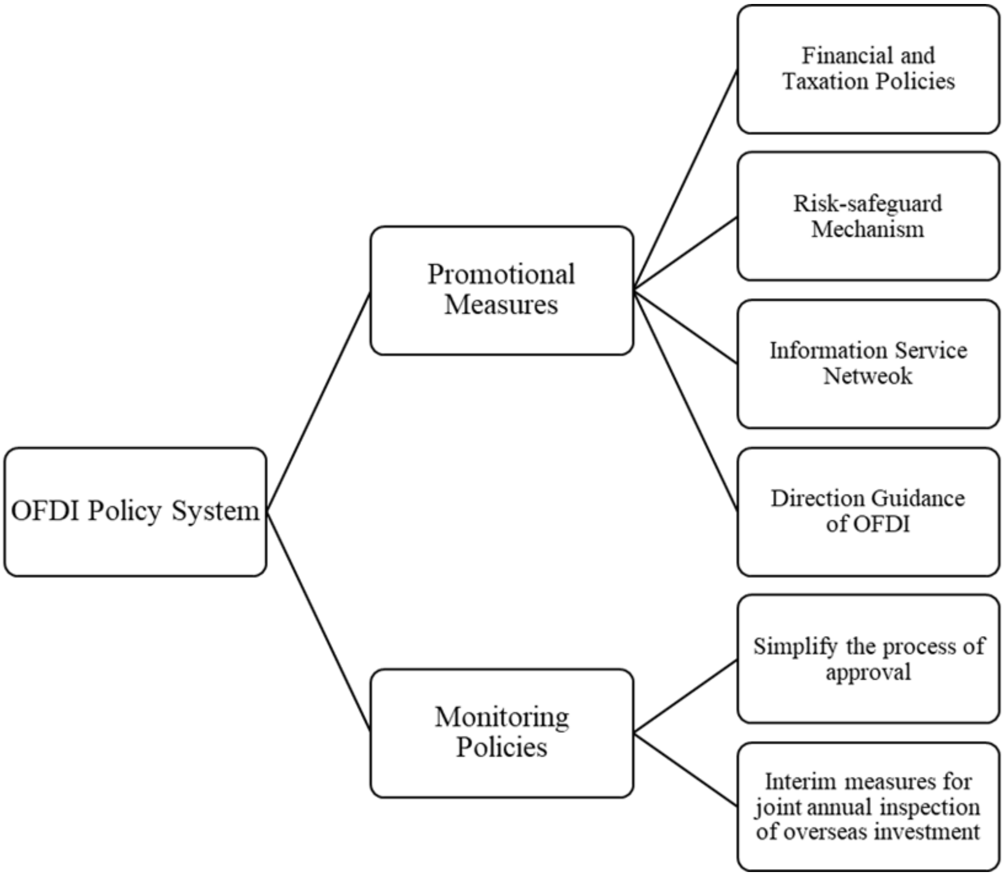


Figure 18: possible policies undertaken by the government, imagine inspired by "How emerging market governments promote outward FDI: Experience from China" (see note 181)

All the attention provided by the political sector is beneficial for reducing political risk and transaction cost along with an improved financial leverage. Accumulating experience and understanding the global market, the environment becomes more and more familiar and the ties, between the two, are more and more profitable for both parties. Political economy theory understood that strengthening this relation, the government will be able play a more significant role in shaping business activities and behaviours. For emerging economies there is not exclusively the typical income received by a transnational deal, but there is also the chance to start to play and compete in the global power board for projecting their influence and power beyond the boundaries of the state and facing all the biggest they may become their economic and political ally. Challenging and

---

[186] Idem 181

allying the most important countries there is, as natural consequence, a higher degree of openness and internationalization, maybe for an aligning with the "rules", and that have beneficial implication for the domestic firms that can receive more efficient flows of production factors through their "new brand" network ties in the global market. Once fully acquired new technologies, new managerial and new organizational skills, those will be transferred back in the local and the regional firms, so there will be a fortification of national competitiveness.

Accepting those rules, it is not as obvious as it could appear. Decentralization brings to significant political consequences for the authoritarian regimes. There is the struggle to find the perfect balance between empowering local officials and the desire to keep all the power in the hands of few. This authoritarianism should just persist where it can collaborate with the decentralization system, but the choice to give some decisional power is complex because of involved the political and economic considerations. Renouncing to supervise may be a risk, but on the other hand, it could be the only way to not decay for the most centralized and authoritarian regime, as shown by the Chinese's Communist Party. This "new" spot may just have a feedback sharing and administrative role, so it would not have any effective power but it would lighten the weight endured by the central government. Choosing trusted figures, it is possible to delegate some minor choices but keep the power to influence them; this solution is different from the one adopted by the Western states, but it looks like it may work, at least considering the results that have been achieved by those economies.

Global leaders and scholars understood that the participation on the globalization process by the emerging economies would be beneficial for those due to the opportunity to materially facilitate the rise and the fortification of their influence either at the regional and either at the global level, more than any potential adjustment to the structure and protocols provided by the institutions. This discovery is the reason behind the approach of many new actors to this challenging environment and their try to improve their cooperation with other developing states in the international politics. Anyway, this acceleration also has negative effects but they can be minimized by institutional mechanisms that filter, as much as possible, the issues and maximize the beneficial effect of the globalisation.

Considering what just read and the information shared in the second paragraph of this chapter, it is natural that there is a preference of the institutions on being in business with countries which have close political and ideological ideas. It is common to face a reduction of information search cost; the sellers share more information than what they would have done with some others. It does not matter if there is a higher political risk, it is reduced thanks to the friendly political relation, the only request is the abundance of the resources and the assets sought and the freedom to take it.

All those potential privileges, that may be granted as not, reduce the financial risk of an outward foreign direct investment, mitigate institutional distance and subsidize less profitable technology. By the way, in case of the presence of a bilateral treaty, the ones that are requested more often are the financial aid, there should be greater cooperation by the foreign country in all the non-financial steps.

Anyway, once the agreement is founded the role of the governments is over. Politicians can help the firms through the pre-acquisition phases. Once it is done its company has to find the best way to maximize its profit from the acquisition and to not incur any potential problem.

Companies operate in a fluid environment where every actor is influenced by the decisions of the others. The level of financial development of the domestic country is measured by the stock market capitalization to GDP ratio, it has a meaningful association with cross-border M&As, the effect is larger when the host nation is developed[187].

Obviously, the support is offered to every firm in general, but it is fundamental, especially, for the smaller firms, it is harder that they have the resource base necessary to try this gamble. As result, the biggest companies will be less affected by government policies and desires about the internationalization, so they will have more autonomy in this process.

In the last years, market and global forces extended their pressure and eroded some of the power formerly held by the states about the OFDI practices. It is the consequence of an inadequate policy in legal, fiscal, financial and taxation systems at the national level, followed by an excessive red tape of the bureaucracy, there did not provide enough guidelines and information. Currently, there is an attempt to solve all the problems arose, especially in the countries where the market is not fully formed, while in the others, that are mainly the developed states, where there is still the belief that the "invisible hand" of the market regulates itself, there is a reticence to admit its partial failure

[187] Julian Di Giovanni; What Drives Capital Flows? The Case of Cross-Border M&A Activity and Financial Deepening; Journal of International Economics (Volume 65 Issue 1); January 2005; pages 127-149

and to embrace all the changes needed (it depends from case to case, for example France has less problem to do it than the United State of America or the United Kingdom, it can be the consequence of a more accepted centralized point of view). For solving those problems and helping to compete, many governments decided to change many aspects of their policies related with the cross-border investments, the most important and frequent adjustments undertaken are: a creation of incentives for attempt this business; streamline administrative procedures (decentralization from national to regional or local level); easing capital control; share more information about investment opportunity and guidance; reduce political and investment risks[188].

2.3.1 CNOOC Ltd.-Unocal Case

In 2005, just the rumour of a potential acquisition of the American Unocal Corporation by the Chinese government-owned CNOOC Ltd., was the cause of an unpredictable and an almost unprecedented reaction in Washington. Among the politicians there was a widespread idea to block such investment through a strategy of an Unbounded Intervention (see 1.3.1). The aim of such action was to support the bid by the American company Chevron, so to ensure the victory of the national proposal over the foreign one in this "war". All the three parts involved operated in the oil and gas industry. The motivation behind this interest was not due to the size of Unocal, it was just the ninth largest oil company in the world, but the wholly owned assets in Asia. This company had relatively few assets in North America (mainly in the Gulf of Mexico) and Europe, but on the other hand a significant number in Asia (Azerbaijan, Bangladesh, Indonesia, Myanmar, the Philippines and Thailand) in addition to several joint venture projects in the same continent. At the time CNOOC Ltd., an American company which was located in Hong Kong, was seeking to expand its presence in this market, through the acquisition of more and more assets. At a first glance, the fit seemed obvious for the market. The real concern about this business was about how it could afford to make this deal. The controversy arose when it was discovered that the potential buyer was owned, for the 71%, by the Chinese government-owned and controlled China National Offshore Oil Corporation.

The "competition" for the acquisition started at the beginning of the year, 2005. The Chinese owned company announced its intention to make a bid for Unocal the 7th of January, while Chevron shared its intention to launch a takeover a few months later, the 3rd of March. Almost one month later, in

[188] Idem 181

the early April, CNOOC withdrew itself from this bidding process and explained that it was due its non-executive board members, who were “troubled by the amount of debt” that the company would have to take in order to complete the deal[189]. The 4th of the same month, Chevron publicly announced its intention to buy Unocal, the final valuation given was $18 billion in a debt/cash deal worth, with an overall estimation of about $62.00 per share. The 10th of June, there was the approval for this deal from the Federal Trade Commission (FTC) of the United State, and the 29th of July by the US Securities and Exchanges Commission (SEC).

However, even if the competition looked over, the 7th of June confirmed again its intention to make an offer in the next future. They have fulfilled this promise the 22nd with a bid that, at least economically, was more profitable than the American one, the final overall evaluation was $67 per Unocal share.

At this point there were the last three hurdles that any foreign takeover must be able to clear before successfully announcing an acquisition.

The first one is the Foreign Ownership, Control or Influence (FOCI) review, it is done by the DOD Defense Security Service (DSS) with the aim of ensuring that there will be any unauthorized access to classified information or that the acquisition could have a negative impact on the performance of classified contracts[190]. FOCI, as the CFIUS review, is classified and it is not clear the reason why Unocal had classified contracts that triggered the FOCI review.

The second obstacle, in a competition review, is provided by the 1976 Hart-Scott-Rodino Antitrust Improvement Act. It occurs even before any transaction is successfully completed. This process is carried out by the Federal Trade Commission (FTC) and the Department of Justice (DOJ), with the support of the Department of Defense. The objective of this process is to “protect competition and prevent transaction-specific adverse impacts on prices and innovation”[191]. There was any particular concern about the potential deal in this field.

---

[189] Heather Timmons; China Oil Giant Expected to Vote Wednesday on Unocal Bid; The New York Times; 22nd June 2005

[190] Ann Barr & Thomas Denomme & Brandon Booth & John Krump & Karen Sloan & Lillian Slodkowski & Suzanne Sterling; Department of Defense: Observation of the National Industrial Security Program; Naval Postgraduate School Monterey CA (Approved for public released); 16th April 2008

[191] Matthew Byrne; Protecting National Security and Promoting Foreign Investment: Maintaining the Exon-Florion Balance; Ohio State Law Journal (Volume 67 Number 4); 2006; pages 849-910

The last hustle for a foreign investment is the CFIUS process. This step was initially established by the Exon-Florion Provision of the 1988 Omnibus Trade and Competitiveness Act. The executive act was signed in 1988 by President Regan and it delegated the presidential authority to investigate and review foreign takeovers to the CFIUS. In 1992, with the "Byrd Amendment" the role of this entity was enlarged and took the mandate to investigate proposed takeovers where the acquirer was "controlled by or acting on behalf of a foreign government". The review done for checking the foreign takeovers was referred to, for a long time, as the "Exon-Florio Process". In the next few years, it was updated by the Foreign Investment and National Security of 2007 (FINSA). This new process was the response to the concern deriving from the strength, transparency and oversight of the CFIUS process followed by the CNOOC/Unocal and the DPW/P&O cases, all those events occurred in a short-time gap, and was the response to the necessity to more transparency.

For a deeper understanding of this case it is crucial to know how does the CFIUS works. As read in the Firstgold-Northwest Non-Ferrous International Investment Company case, this procedure is usually voluntary, with the parties involved that notify the deal to the Committee once a preliminary or a formal agreement has been reached. Once the notification is received, the review process begins, most of the time it is a simple 30-day review, but in case there is any national security issue the Committee can require an extension of 45 days (Extended 45-day review) which is followed by a report to the President, who will announce his final decision within 15 days, for a total of 90 days[192]. This time extension can bring to two different types of problems for the acquirer: the loss of financing opportunities, so to face a total higher cost; and a rise of uncertainty, so to have a higher degree of risk for the investors, shareholders and board of directors that is unusual to be accepted by them. This last issue is the one faced by CNOOC and it is fundamental to know it for understanding all the story.

This deal occurred in a period of tension between China and the US. The 17th June, US Congressman Duncan Hunter and Richard Pombo requested that the CFIUS investigate about the potential ramification of this takeover, due to the threat that it could bring to the "US jobs, energy production, and energy security"[193]. On June 22, just five days after the request, Samuel Bodman, the Energy

[192] James Jackson; The Committee on Foreign Investment in the United States (CFIUS); CRS Report (Prepared for Members and Committees of Congress); 14th February 2020

[193] Idem 188

Secretary, stated that there would have been a review. By the end of the month, a letter, signed by 41 members of the Congress, was sent asking an investigation for a better knowledge about the implication of the potential acquisition. The 27th Joe Barton and Ralph Hall demanded to the President Bush to block the takeover carried out by the Chinese company because it was a clear threat to the energy and national security of the United States. It was the exemplification of how many politicians wanted an Unbounded Intervention[194].

The 30th of June, through two separate formal actions, this strategy was solidified. The fist was an official recognition of the congressional concern about national security. This was mostly due to the belief that the Asian country could use the acquired assets for a dual-use technology that could have a military application. The second action undertaken was the addition of Amendment 431 to H.R. 3058. The purpose of this proposal was to not allow the use of treasury funds for the deal, so it would have been the fastest and most direct way to block the acquisition by CNOOC, and to negate to the president the possibility to approve the deal under such a scenario.

The unprecedented actions undertaken by the US Congressmen brought the CEO of CNOOC, Fu Chengyu, to request to participate in a CFIUS review, the 1st of July, and the spokesman for the Chinese Foreign Ministry of the time, Liu Jianchao, to request to find a win-win solution because private companies should not be damaged by political tension[195].

This series of protectionist actions frustrated the Chinese government which, the 5th of July, officially requested the American government to not interfere in normal commercial exchanges between enterprises. The 13th of the same month, it started to circulate the rumour of a new bid for winning the "war". The response by CFIUS was the denial to the request of a preliminary review about the deal and, most importantly, the House Armed Service Committee was ready to start all the necessary study to check if there was any risk for the national security.

Despite the critical situation CNOOC was sure to win all the resistance and had convinced its shareholders with the promise of high return from the investment. An inspired help arrived from the sellers, their only concern was to have the highest return with the lowest risk; the board of

---

[194] Kam-Ming Wan & Ka-Fu Wong; Economic Impact of Political Barriers to Cross-Border Acquisitions: An Empirical Study of CNOOC's unsuccessful takeover of Unocal; Journal of Corporate Finance (Volume 15 Issue 4); September 2009; pages 447-468

[195] Paritosh Bansal & Soyoung Kim & Benjamin Lim; Special Report: The U.S. and China Start an M&A Cold War; Thomson Reuters; 12th April 2011 (latest version updated)

Unocal shared the information that if the proposal of the Chinese company would have been more profitable, it would be ready to withdraw its support to Chevron. On July 19, the American enterprise raised its bid to $63.01 per share and received, as expected, the recommendation from the board. As read before, the CNOOC offer was higher but the uncertainty that surrounded it made it less interesting.

By the time the greatest portion of the American citizens, the 73% for a survey done by the Wall Street Journal, was against a CNOOC-Unocal deal, but the most important figure still did not take any position. The reason for the president to not express its preference was the uncertainty that there was and the waste of valuable political capital taking a position. All the parties involved knew that the Chinese would have to pass a review by the CFIUS, which would have been a major obstacle for this business.

Despite all that issue, there was a last attempt by CNOOC, the firm augmented it proposal for a total value of $19.3 billion, around $70 dollar per share, 2 billion more than the Chevron evaluation. There were two requests that followed this new offer: paying the $500 million break-up fee for terminating the other bids; and to help to influence the American government's final decision. Both were too complex for being satisfied.

On August 2, due to the refusal from the buyer to accept those requests and the unprecedented opposition done by the politicians, the Chinese's company withdrew its offer. It could not afford this operation once its national government pulled back its support.

The 10th of August, Unocal held a shareholder meeting to officialise the merger agreement with Chevron, after it was announced the approval[196].

Cultural similarity

The countries involved in this case, USA and China, are considered to be two of the greatest nations in the world. Being so important in the economic and political global balances, they have been deeply studied through the time. Their cultures are really different one from the other, but they have

[196] David Baker; Chevron completes Unocal deal/ Purchase spells end of 115-year-old oil company; SFGATE; 11th August 2005

a common base on their characteristics: industriousness, braveness, warmness and being positive in enterprising. By the way, the similarities are almost finished with this short list.

The first main difference is about the importance that is given to the society. Americans are known for the importance that they give to themselves. Their own achievement, so the individual value, is more important than the wealth of the society. They pursue personal freedom, independence, freedom of consideration and the possibility to choose for themselves; it is a common practice that the sons leave the parent's house when they are 16 years old to follow their pattern. As long as they do not do any illegal action, they can do whatever they want and no one has the right to obstruct or interfere. On the other hand, the Chinese can be considered the opposite. They are famous for their group consciousness and pay a great attention to the overall value. The individual has to contribute to the wealth of their family, of the descendants and of the whole society. From their point of view, the personal interest has to "obey" and respect the community values. The results achieved by them are the opposite of the one reached by the Americans. There is a sort of neglecting on the personal individual development and constraining the freedom of the individual's independence and individuality; those are fields where the United States of America are considered to be the best in the world, at least they claim it.

Another behaviour where they are different is the consumption and the value of the money. The citizens of this Asian country think that the money has to be spent just on goods that are usable, so appearance is not important, and if and only if they have enough resources, so they do not take a debt unless it is strictly necessary. They are ready to spend any amount for drinking and eating well ("the purpose of one's life is drinking and eating", this is almost a mantra for many of them). On the contrary, the American spend any amount that is required to satisfy a desire and make a great use of debt. They prefer to not spend money if it is possible to postpone the expense, because the present is more important than the future.

In China there is not any important religious tradition, anyway the most important are Buddhism and Taoism which had a profound influence. They are more "attracted" by superstitions. On the contrary, there is a religion that is considered the base for many of the most important characteristic that are present in the USA, it is the Protestantism (the succeed is the expression of the love of God, for this reason the personal achievements were and are so fundamental in the daily life)[197].

The last factor that may influence the similarity or the cultural differences is the ethnicity. In the USA there is a Babel of people that come from all countries. The Chinese were not one of the biggest communities at the time, in percentage it was around the 0.1%, but through the years it rose to around the 0.5%. Even if it is still a minority, they are almost a quarter of the Asians in the USA, 23.8%, and they will probably continue to augment their presence. Becoming a presence more and more important in the US, they will deliver their culture and, at the same time, they will acquire the American one, as result many of the differences will become less and less important; but, at the time of the case, they were really far one from to the other.

Considering all that information, it is clear that it could not be the reason why they decided to try to undertake such investment[198].

Diplomatic/political relation between the two governments

Since 1977, the year when the two nations tried to normalize the Sino-US relation, the situation has never been too quiet. At the time the only interest from Washington was to be in a position of power against Moscow and not to really recognize this Asian country. It was highlighted by the intention to establish diplomatic relations, even before the start of any negotiations. Due to this hurry some important issues were not appointed and there were criticalities in the following years or even decades (Taiwan).

The 29th January 1979, there was the first official visit by a Chinese politician to the USA. During the meeting it was discussed of several topics but even the greatest differences were not enough to compromise an agreement that was too important for both. At the end, during a press-conference,

[197] Lijun Yang; Comparison between Chinese and American Cultures from the Perspective of Consumption View; International Conference on Education, Language, Art and Intercultural Communication (Atlantis Press); 31st May 2014; pages 661-664

[198] Abby Budiman & Neil Ruiz Key facts about Asian Americans, a diverse and growing population; Pew Research Center (https://www.pewresearch.org/fact-tank/2021/04/29/key-facts-about-asian-americans/); 29th April 2021; online version

it was officialised the first Sino-US agreement and that the different political and economic point of views would do not be a problem[199].

Until this case the political connection among the two nations had experienced higher and lower points. The collapse of the U.R.S.S. signed an important sliding role in their relationship. Before that moment they had a sort of common enemy, but once it disappeared they became the most important power, so it had been almost impossible to keep the old balance.

Even in such a tense situation the United States has almost never blocked a deal where China was involved, as for all the countries, except the Japan in the 80s. Another important factor was the attempt of the president Bush to have a pacific co-existence and to "introduce" and make the counterpart a "responsible stakeholder" in the global market. In this situation, an investment in an "ally" state could look like as a reasonable choice, but what they Beijing government did not know was the raising fear of the American politicians due to the impressive growth experienced in the buyer's country[200].

So the CNOOC/Unocal and the DPW/P&O cases, as read before, were the beginning of a deterioration of the political connection that arrived at other failed acquisitions, even if of minor importance.

Seller's country risk

The US was considered a very safe country with an overall risk that was classified as "Very Low", the final value, following the ICGR method, was 81.76. Still now it is considered as a safe location for an investment. From a financial point of view, it was considered so safe, it was a AAA and it was, that it was an investment with any risk[201].

From the economic perspective it had a GDP per-head of $44,114.75, one of the highest among all around the world. During this year it had also experienced a growth of its economy of 5.76%, really close to the one of the previous year, 5.71%, with an inflation rate that was only 3.115%, so there

[199] N.g (Author Unknown); The Establishment of Sino-U.S. Diplomatic Relations and Vice Premier Deng Xiaoping's visit to the United States; Ministry of Foreign Affairs of the People's Republic of China
[200] Jean Garrison; Managing the U.S.-China Foreign Economic Dialogue: Building Greater Coordination and New Habits of Consultation; Asia Policy (National Bureau of Asian Research, Number 4); July 2007; pages 165-186
[201] Data provided by ICGR dataset (https://dataverse.harvard.edu/dataset.xhtml?persistentId=doi:10.7910/DVN/4YHTPU)

was a real improvement[202]. The state, between the 2004 and 2005, invested about the 4% of the national GDP, while its total debt was the 3.4% of its gross profit[203].

From the political point of view, the USA was a safe location for an investment. The government was stable, there was a general good socio-economic condition, it was not involved in any conflict, the corruption was not a problem, the military did not have any role or weight in the political decision, the bureaucracy was not an issue and the citizens had the power to express their desire through the election. The situation in 2005, was better than the actual one due to the last critical events, happened after the last election. Those could have dropped the points received during the evaluation.

Last but not least, it was not subjected to any particular financial risk. It was, as in the present, one of the most important exporters in the world, with a positive balance with almost all the countries in the globe. At the time it even had a foreign debt that it was smaller than its Gross Domestic Product[204].

Considering all that information the value of 81.76 is the obvious consequence of one of the safest countries where locating an investment, as in 2005 as now.

Quality of institutions of the host country

Through the history of this country the quality of its institutions have never been stable. 2005 is one of the best years from this point of view.

The US is well known for its try to give as many freedoms as possible. The citizens can vote for their representatives every 2 years for the senate and every 4 years for the president. This system has provided a stable balance through the lifetime of this state and even the tragic event happened at Capitol Hill, on January 6 of 2021, cannot change it.

[202] Data provided by the World Bank (https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=US)
[203] Kimberly Amadeo & Janet Berry-Johnson; US Budget Deficit by Year Compared to GDP, Debt Increase, and Events: A Look at Trends and the Deficit-Debt Dynamic; The Balance; 5th March 2021 (last version); online version
[204] N.g (Author Unknown); United States External Debt: % of GDP; CEIC Data (https://www.ceicdata.com/en); 2021

As written before, in this country corruption was not a big issue. Operating in the American market the entrepreneur has not the expectation to face coercive pressure from the public field. This was not the case and it was well known by CNOOC[205].

The law offered many protections once the deal was concluded and the government did many interventions to favour the private, designing and implementing many policies that had to make it faster and easier to carry one a business.

As for the previous variable, the quality of institutions in the United States were an attractive point for the choice of the investment.

Seller's country law

When there is an acquisition of a national company by a foreigner, usually, it voluntarily submits its procedure to the "three hustle", viewed a couple of pages before, which are: the FOCI, the Hart-Scott-Rodino Antitrust Improvement Act and the CFIUS.

Often, this process is almost a pro forma where, after 30 days, there will be the acceptance and the recognition of the acquisition, the extension of the time limit is done when a problem was found but it does not necessarily mean that it will bring to a stop of the deal. This process is well known by any interest buyer, so it is not an issue. The United States is famous for its openness from this point of view and it is not common that there is any interference in a deal.

Once the "three hustle" are passed the buyer will operate in a civil law system, this approach is preferred by many because it gives a better idea of what will be the result of an error. The economic laws are done for trying to create the best environment that is possible and know the precise effect of a decision is really important everyone[206].

The American laws were very attractive for every potential buyer, so they were a motivation that pushed CNOOC to try so hard to complete the deal.

Ways of communicating

---

[205] Muhammad Asif Khan & Muhammad Atif Khan & Mohamued Elyas Abdhulahi & Idrees Liaqat; Institutional Quality and Financial Development: The United States Perspective; Sayyed Sadaquat Hussain Shah; Journal of Multinational Financial Management (Volume 49); March 2019; pages 67-80

[206] Ejan Mackay; Law and Economics for Civil Law Systems; Edward Elgar Publisher; 27th June 2014

Communication is the lubricant which mitigates frictions, resolves conflicts, improves pre and post-deal collaboration and, in this globalized era where there is any geographical or temporal border, it has become fundamental in all the businesses.

When studying all the different options of investment, CNOOC top management had analysed what they would have faced from this point of view. As previously read in the second paragraph of this chapter, sharing the information in the right way and at the right time can make the difference between the success and the failure of a negotiation.

The first main difference between the people of those two nations is the approach of how they express something. The Americans prefer to speak up and directly share their point of views and feelings, so they go straightforward to the topic of the discussion. On the other hand, the Chinese have a completely opposite approach. Having a more indirect manner is considered as a form of respect and politeness, so using the American's behaviour could be considered aggressive and abrasive for their etiquette.

This difference is the result of a masculine, American (the independence, the activity, the strength, the competitiveness and the directness are considered as priority), and a feminine, Chinese (they try to conform themselves for showing their respect and honesty), culture.

Another important dissimilarity is the importance of the word given. In the US it is not important and for consider a deal conclude, it is necessary to draft the contract, while in this Asian country once it is founded a verbal agreement, it can be considered concluded the deal (some historians believe that it is the consequence of the feudalism which was based on the authority's "whim" rather than law; unless the householder has a different opinion, even when retired those have the power to influence every decision)[207].

When communicating the last important factor, as analysed, is the timing. Even from this point of view those two realities are different. In the US there is practice to share it as soon as possible,

[207] Yue Li; Cross-Cultural Communication within American and Chinese Colleagues in Multinational Organizations; Proceedings of the New York State Communication Association (Volume 2010 article 7); 16th April 2012; pages 113-131

probably for this reason they are so direct, while in the CNOOC's home country there is the attempt to find the proper moment and the proper situation[208].

Those dissimilarities could lead to several misunderstandings and compromise the success of the deal, so it has to be considered before undertaking the negotiation.

Consideration of the other country

Most Americans would have been surprised to learn about the Chinese consideration of their country. In the second most important economy in the world, the most common thought was that the USA is a revisionist power that has the goal to curtail China's influence and obstruct its interests.

This point of view was the result of, not only, the counteractions undertaken by Beijing against Washington but, most important by the broader Chinese outlook of the international system and its place in it; this was caused and amplified by the sense of vulnerability present in this nation.

Considering the past helps and actions done by the USA, it could be seen, at least, as a strange reaction. Washington has done more than any other power to favourite the modernization of this old ally. It helped the Beijing government to start to operate in the global economy; given the access to markets, capital and technology; trained the Chinese most brilliant minds in science, technology and international law; and, probably most important, it prevented the full remilitarization of Japan, maintained the peace on the Korean Peninsula and avoided the war in Taiwan. The policymakers of this country were not impressed by those behaviours and policies, but more by the other actions which were not benevolent.

This pessimist vision was shared by both the older and the younger analysts, mostly of whom have studied in the USA, it was based on the assumption that this rival wanted to protect its power and it was ready to do whatever it was necessary. The assumption led to the pessimist thought that: "as China rises, the United States will resist". Just a smaller portion of experts, only among the new generations, believed that the interests of the two superpowers were not completely at odds. For

[208] Lijun Yang; Comparison of Chinese and Westers' Communication Pattern; International Conference on Education, Language, Art and Intercultural Communication (ICELAIC 2014); 31st May 2014; pages 665-668

them those two state are far enough in their personal interests that a clash is not required; there is an economic and political collaboration will bring to have benefits for both[209].

Using the five indices previously analysed (see Consideration of the other country, 2.2), it is possible to have an idea of why there was such a situation in 2005.

The global interest test was done for the first time the year after the acquisition attempt by CNOOC. Even considering that value is not the same, it is a strong assumption that the result listed in 2006 should not be very different from the one that could have been registered in the previous year. On December 2006, the USA achieved the highest result with 87. So, from this point of view, the Chinese consideration should have been different due to a result that listed the United States as an honest country[210].

The trust on foreigners and on the races for the Americans was a main issue and that could have an opposite effect than the one of the previous index.

Those two nations had never had any wars or battles, on the contrary they were allies during the Cold War. The real issue was the delicate situation about Taiwan. Even if, until now, it has never brought any important confrontation, in the future it could. Considering the historical period of this case, the bilateral trust should have been one of the highest in their history because President Bush pushed to enforce their join.

The two cultures are very distant. Using the Kogut and Singh theory they are the further among all the possible comparisons that were made considering the USA.

The last index is the blood relationship. There were any blood ties and the two were not part of the same community. Even the percentage of Chinese that lived in the home country of Unocal was very low, as read just around 1%.

2.3.2 Mayhoola for Investments-Valentino Fashion Group S.p.a. Case

[209] Andrew Nathan & Andrew Scobell; How Chinas Sees America: The Sumof Beijing's Fears; Council on Foreign Relations (Volume 91 Number 5); September/October 2012; pages 32-47

[210] Data provided by Global Integrity: Data, Learning & Action for Open Governance (https://www.globalintegrity.org/)

This story started with the interest of an unknown company based in the oil-rich desert of Qatar. Lately it was discovered that the potential buyer was the private investment vehicle Mayhoola for Investment.

Valentino Fashion is an Italian company that operates in the fashion segment. It was founded in 1960 by Valentino Garavani and Giancarlo Giammetti. This enterprise operates in more than 100 countries with over 1500 points of sales. This firm is famous all over the world for its high quality and luxurious products where the innovation and the tradition are mixed for creating a higher level of beauty.

The other part involved in this story, Mayhoola for Investments, is an investment entity incorporated under the laws of the State of Qatar and its headquarter is located in Doha. It was founded in 2006 and since that moment its primary target was to find profitable local and global investment opportunities. It is supported by the current Sheik Tamim bin Hamad Thani and led by the mother of Sheika Mozah bint Nasser al-Missned[211].

First rumours started to circulate on July 12. Among the experts of the sector there was the certainty that an agreement between those two companies was founded but they did not know the total value of it. A couple of days later it a Milan-based source claimed that the price tag was around $907 million, around €700 million at the exchange rate of the time.

The contracts were signed by Mayhoola and Red & Black Lux S.r.l, the second one is a company indirectly controlled by Permira Funds and the Marxotto family.

The Qatari bought the totality, the 100%, of Valentino Spa and the M Missoni license business, while remaining out the MCS Marlboro Classic are still owned by Red & Black, and the majority of the Hugo Boss' stakes.

Once officialised the acquisition, a spokesman of the Qatari company stated that: "Valentino has always been a brand of unique creativity and undisputed prestige" and exalted the work done by Chiuri, Piccioli and Sassi for "Their ability to blend the aesthetic values of the founder, Valentino Garavani, with a contemporary and sophisticated vision, has been instrumental in enhancing the

[211] Lauren Sherman; Mayhoola: Inside the Secretive Qatari Luxury Empire; BOF (Business of Fashion); 11th February 2018

brand's relevance and establishing a platform with significant future potential… We believe Valentino is ideally suited to form the basis for a global luxury goods powerhouse"[212].

Also the most important figures of the Italian company expressed their pleasure for the success of the deal and the opportunity that it gave for the future of Valentino Fashion Group. Sassi, the CEO of Valentino Fashion Group Spa at the time, highlighted the great interest to the company with several investors ready to acquire it, but how the final decision was the best option available. Garavani did not share any official or unofficial statement about the business but in private he expressed his happiness for this conclusion. His long-time business partner Giancarlo Giammetti, reported that the designer was "very happy and very relieved" that is was a "brilliant result obtained by an unquestionable prestige of the brand that we created, and equally to the work of the two designers [Chiuri and Piccioli] and the CEO [Sassi]".

Such a quiet statement was considered as a lesson for the entire sector which is characterised by the presence of excessive inclinations, scandals and stardom behaviours; while the modesty used by Valentino's most important figures was appreciated by many.

This was a win-win situation for Valentino Fashion Spa with the recognition of the work done by the management in the previous years and the injection of support and confidence. The Qatari holding group was different from the other equity fund because it had long-term interest in the business and it was a great base for the achievement collected in those years.

The hope of Giammetti was that this deal would have helped the company to accomplish its future projects with all the resources and the support that were lacking in the previous years, obliging the company "to perform under a visionless ownership that was only interested in the bottom-line of a future sale".

This desire became true with the Italian brand experienced a marvellous growth, in a sector that at the time was considered in a declining phase, with a profit that was almost doubled, €664 million

[212] Luisa Zargani; Valentino's New Owners, Mayhoola for Investments: In July, the investment backed by a private investor group from Qatar agreed to acquire the fashion house; WWD; 15th October 2012

in two years and tripled, €987 million, in three years from the result achieved the year of the deal, just €372 million[213].

Differently from the previous case, this time the domestic politics did not intervene and even did not pay any particular attention, as highlighted by the absence of any statement or intervention through the political rooms. This was easily forecastable due to the market interested in the luxury fashion, which does not have any role in the safety of any country, so it could not represent a threat.

Cultural Similarities

The UAE is a recent nation that was created December 2 of 1971. In the previous 150 years it was governed by Great Britain. It was a land where, for the greatest portion, the poor population of Bedouin Tribe lived, all over the desert. In 1968, the British government officialised its intention of departure and three years later it happened. Their presence in the region, then called Trucial Coast, was viewed as beneficial but, at the same time, also exploitative, especially when in the late 50s it was discovered the presence of the oil. Once the find was done, the economic and social condition of the country changed drastically due to the newly acquired petrodollars that were used to upgrade the economy, the infrastructure and the society more in general. It happened in a really short time and this is the motivation for a society that is completely different than the one of the 60s[214].

To allow such transformation arrived several workers from Western-speaking countries, Asia and other Arab nations. Those imported their knowledge about construction, retail work and about the fields of medicine, teaching and business. English became from that moment on the lingua franca that allowed people from different countries to communicate. Just the 20% of the citizens are native of the UAE and the 80% are expatriates[215].

Such a high presence of foreigners is a concern for politicians of this country that are afraid that the Arab culture will be completely lost. Since 2008, it was created a national day for celebrating their culture, it was instituted for trying to defend the heritage. Even with all that efforts, among the middle and the upper class families, English is the language used to communicate. Due to the fast

---

[213] Luisa Zargani; Valentino Fashion Group Sold to Mayhoola for $858M: Trough the acquisition, the Qatar investment group will acquire 100 percent of Valentino Spa and the M Missoni license business; WWD; 12th July 2012

[214] Jamal Al-Majaida; The press and the social change in the United Arab Emirates (1971-1991); Abu-Dhabi: United Arab Emirates Zayed Centre for Coordination and Follow-up; 2002

[215] Frauke Heard-Bey; The United Arab Emirates: Statehood and National-Building in a Traditional Society; Middle East Journal: Democratization and Civil Society (Volume 59 Number 3); Summer 2005; pages 357-375

pace of changes and high use of English the Arab culture in this nation is really fragile more than in other countries.

Islam religion has an important role in the daily life of the citizens of the UAE, but it has a minor role than other states, there is a more open minded environment and a culture that is closer to the Western one.

Being the native a minority in this country, they have decided to live in community and very often they show proudly their heritage, with a very strong sense of solidarity[216].

Italy, Valentino's homeland, is a less recent country but, anyway, it is one of the youngest among the Europeans. Several events and experiences have marked and influenced its past. The history of the peninsula, as a unique state, initiated in 1860, before there were several different governments where were spoken different languages and there were different traditions and cultures.

Due to this millennial regional, political, and linguistic fragmentations there was a very low attention about cultural differences among the lower classes, while the attention was focused more on the middle and higher classes. Another problem for a more generic study was the presence of several dialects that made it almost impossible to have a unique literature and a more generic point of view.

It was necessary to attend the end of the Second World War with the arrival of the mass media and of the national educational system to diminish all those differences. The presence of all that fragmentations is the reason why for centuries the Italians did not have any difficulties to assimilate foreign influences.

Since the unification in 1860 there has been an open-endedness and an internal diversity between north and south, this was a major problem in the past and still now.

The first one who really tried to give a profile of the Italian national characteristic, not considering the attempt of Dante which is too generic and it can be associated with almost every human being, was done by Eugenio Scalfari. He described the citizens of his nation as: hard-worker, individualistic, wily, deceitful, very attached to the mother, with a lack of morality and "spirit of

[216] Sarah Hopkyns; The effects of Global English on culture and identity in the UAE: a double-edged sword; Learning and Teaching in Higher Education: Gulf Perspectives (Volume 11 Number 2); 1st August 2014; pages 43-63

service". Many important figures through the centuries of the peninsula had such characteristic, but, in his opinion, the best were those that "had almost nothing Italian about them"[217].

It is easy to understand that the two cultures have many points of contact, both are masculine societies where the personal success and social position are fundamental, in addition the tradition and the community cover an important position in the daily life of either.

Diplomatic/political relation between the two governments

The diplomatic relations between the UAE and Italy began in 1971, the year when the Arab country was founded. At Rome it was decided to establish the embassy at Abu Dhabi, eight years later the initiation of the alliance, while UAE one attended another two years, 1981, for doing the same, in the capital of the other nation as decided by the Italian government, in this case Rome. Since 1971 the two states shared a common vision of development and move forward that would bring benefits for both in various fields: politic, economic and culture[218].

Through the time the interactions skyrocketed with the non-oil trade that raised from Dh5,5 billion to Dh22 billion for the UAE; while the Italian exports to the Arab nation growth, 28% the year of the deal, for a total worth of €4.7 billion.

That year there was an official visit by the Italian Prime Minister Mario Monti. This was a great opportunity to strengthen the relations in several areas, especially in the political and economic fields. The Emir Sheikh Mohammed bin Zayed Al Nahyan called this visit as a crucial step for the developing of the bilateral trust, while Monti made a similar statement wishing for a broader cooperation with the Italian's most important trading partner among all the Arab countries.

Such profitable meeting produced a new cooperation agreement between the Government of the Republic of Italy and the Government of the UAE in the fields of Culture, Arts and Heritage, the contract was signed the 20th November[219].

[217] Zygmunt Baranski & Rebecca West; The Cambridge Companion to Modern Italian Culture; Cambridge University Press; December 2001

[218] N.g. (Author Unknown); Bilateral Relationship; United Arab Emirates Ministry of Foreign Affairs & International Cooperation

[219] Akhbar Alsaa; Promoting UAE-Italy Relations; The Emirates Center for Strategic Studies and Research; 22nd November 2012

The year of the deal was a moment of great closeness and any intervention by the Italian government would be a surprise and it could damage the political and economic alliance between the governments.

<u>*Seller's country risk*</u>

The year of this case, Italy, following the ICGR method, was considered as a safe country where investing. The overall valuation provided by the index was 73.00, so it was listed under the category of "Low Risk", it was riskier than one attempted by the Chinese company[220].

Starting again from the economic perspective the Italian had a GDP per-head of $35,053.53, this value is just below the European average and placed this nation as the 45th in the global ranking. This was a year of recession for five European states, appointed as P.I.I.G.S.[221] by some European politicians; among those there was the home country of Valentino Fashion Group Spa, where it was experienced a negative growth of 3.242%. The inflation was low, just 1.547%, but it was not enough to cover the loss of richness in the country. The debt reached a value of more than the 100% of the nation GDP, it was the 132.3%, but it was during a "unique" situation due to the cut of the GDP in this year of crisis; the other ratio linked with the GDP, national expense on GDP, is partially doped from the moment of crisis with a value of 50.6%, also in the following years was close to this value, while out of a critical situation it is lower of a couple of percentage point. Such a great difference in this last data is associable with the different behaviour of the US and Italian governments daily life, in the peninsula many services and helps are offered by the state[222].

From the political point of view, this was not the best situation that there was in the history. In 2012 there was a technical government, led by Mario Monti, for emanating and reformatting all the laws necessary for driving the state out of the Sovereign Debt Crisis. The corruption is a problem since 1860, the year of the unification, and many cases, such as "Kickback City" (Tangentopoli), are well known all around the globe[223] and the ICGR index gave for this voice a value of 2.5 which is less than half of many other European countries. The bureaucracy is another critical point, even the easier practices need a long time, before receiving the approval. The last variable on political risk

[220] Data provided by ICGR dataset (https://dataverse.harvard.edu/dataset.xhtml?persistentId=doi:10.7910/DVN/4YHTPU)
[221] Portugal, Italy, Ireland, Greece and Spain
[222] Data provided by the World Bank (https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=IT)
[223] Idem 217

is about the power of the citizens to express their idea and desire, this is not a problem because in the country there are regular elections.

The financial risk as intended by the ICGR index was not a problem. Italy is one of the greatest exporter and the year of the case coincided with the return of a positive commercial balance, between 2009 and 2011, due to the financial crisis, it was experienced a decrease of the quantity of goods sold but not of the price[224].

As shown by the overall evaluation of 73.00, Italy was a safe location for an investment, not the best option from this point of view but a good one. Mayhoola studied all those factors before the investment and thought that the potential problems that it could face were minor than the benefits deriving from the acquisition.

<u>Quality of institutions of the host country</u>

Italy since the day of its unification was in a strange situation when considering this variable. There has always been a marked difference between the Southern and the Northern regions of the republic. It is the main issue for the growth of Mezzogiorno (South Italy). In this zone the corruption, the excessive bureaucratization, the inefficiency of the public services, a lower endowment of infrastructures and a lack of securities have been an obstacle for the economy. Those are more important especially in the labour-intensive firms, which are the greatest portion of those present in this area[225].

The situation in the North of the peninsula was better with a better economic environment. Even if there the Institutional Quality Index (IQI) did not provide any information about the situation on 2012, the calculations were done just considering the time period 2004-2008, the difference was important (for more precise information is required to wait few months, since soon the data referred until 2012 will be published in the S.I.E.P.I site)[226].

---

[224] Data provided by the ISTAT. (Istituto Nazionale di Statistica; (https://www.istat.it/en/)

[225] Davide Piacentino & Giorgio Fazio; A Spatial Multilevel Analysis of Italian SMEs' Productivity; Spatial Economic Analysis (Volume 5 Number 3); September 2010; pages 299-316

[226] Gaetano Vecchione & Annamaria Nifo; Measuring Institutional Quality in Italy; Rivista Economica del Mezzogiorno (Volume 1 Issue 2); 2015; pages 157-181

The investment was done for a company which was not located in the south, but in Milan that was one of the best location, if it is hypothesized that I four years later the draft of the IQI index the situation was still the same, or at least similar.

Considering it, some Italian spots are not considered as a good investment target, while some other are as efficient as many others options all around the globe.

Seller's country law

The Italian legal system has its origin from the Romanistic family or to the Romano-Germanic one. By many experts it is considered as the "cradle of Western legal culture"[227].

Through the century it had a continuity and it had been the base for every law through the different regions of the peninsula. In the last decades, its importance started to rise again and it was the base for the common European law.

The central concept is the "ius commune", which is the base for the civil law, it is based on a generic law that tries to cover a specific situation. By the way, being a case different from the other there is not the certainty that the decision of the judge will be the same all the time.

The roots of the Italian civil law are academic. In the 12th and 13th century in the university the most important experts were called "doctores" (they could be considered the current professors) and they interpret rules and laws, more they were known and famous and more they were considered important, so with their study they brought different point of views.

Today, during a process there is the attempt by the lawyers to try to conduct the case to a law and then the judge with its logic decides which is the correct settlement. This methodology is used until the Corte di Cassazione, also known as Suprema Corte, that has the last word on a decision but it does not have the power to influence future court cases[228].

The legal system as the Italian one, so the civil law system, are not well perceived when an investment is done. The acquirer would like to have as many certainties as possible but this is not

[227] Thomas Glyn Watkin; The Italian Legal Tradition; Routledge; 1997

[228] Marinella Baschiera; Introduction to the Italian Legal System. The Allocation of Normative Powers: Issues In Law Finding; International Journal of Legal Information: the Official Journal of the International Association of Law Libraries (Volume 34 Issue 2 Article 10); 1st January 2006; pages 278-326

possible, every judge and every case are unique and there is also the possibility that the same person in a similar case would take a different decision.

<u>Ways of communicating</u>

Italians are people who love to interact with the others. They have a communication style that can be described as voluble and loquacious. The use of rhetoric is a central point in every discussion and it is very important for convincing the listener. In a debate they tend to show their emotions without any fear, in this country it could be perceived as cold or not interesting if the speaker does not "follow" this "pattern".

Even in the business life this style is not strange to be used or faced, it goes against the approach used in the many other countries. In this nation, it is a common practice to have fewer formal meetings but more informal ones, those are spread through the time and are faster than the other type.

The verbal communication is a centrepiece even in a deal. The Italian businessmen prefer to verbally communicate a news, even if there would be time to write it. They tend to communicate as soon as possible the information but orally and not through an email, a letter, etc…[229].

In the United Arab Emirates, Arab is the official language, but the most spoken is the English tongue, as read before due to the high presence of foreigners. The unofficial one has on it some changes that bring it to have the same features of the official one.

In this language, that is based on the hyperbole, it is "mandatory" to do and receive compliments. Especially during the relationship-building process is important to praise the host (this always happen in the Muslim world in general) and it is important to not be embarrassed, aloof or distant; just take it in the spirit and the mood that they are done.

As for the Italians they are very direct and act in a familiar way since the beginning. In every situation there will be personal questions about marital status, children, personal wealth and religious conviction (for them being atheist is not an answer, in their mind the existence of a god is

[229] Keith Warburton; ITALY: Italian Business Communication Styles; World Business Culture: Delivering Global Communication (https://www.worldbusinessculture.com/country-profiles/italy/business-communication-styles/)

absolute and it cannot be the opposite). Another common practice between the two countries is to speak loudly, it shows the interest of the speaker to the dialogue.

In the business practice they hate and try to avoid, in every possible way, to share bad news, so when they share good information it is useful to not take it as granted. This could lead to a delay of the knowledge of important events and, as learnt in the previous paragraph, have disastrous consequences for the outcome of the deal.

The last practice Italy and U.A.E. has in common is a strong eye-contact. In the Arabic culture, it shows the sincerity and the honour of the person, this could be an issue for some, especially in the Asian nations, but not in this case[230].

Consideration of the other country

Italy is synonymous of quality and luxury all around the world, not just in the United Arab Emirates. Even in a moment when the economy of the peninsula had a negative momentum, due to the Sovereign Debt Crisis, the outlook was bright. The emerging economies were, and still are, raising their expenditure power and more and more young men and women have the certainty that their income would rise and spending is not a problem. According to several estimations done between 2011 and 2012, the consumption of the emerging nations would have risen from 12 trillion to 30 trillion dollars in the following 10-15 years, this augmentation will interest around a half of the globe.

Italian economy is based on small and medium manufacturing enterprises. Their goods and products are focused on the medium-high range customers, characterized by a particular design, care and quality of materials and workmanship. This image is reflected to the state in general and the allure of the Italian brand is an asset for “winning” the foreign competition.

The UAE in 2012 was not the most important buyer among the emerging nations, but it was forecasted to become it in the following years, considering the growth of the importation just that year it could not be considered as an unrealistic vision.

[230] Keith Warburton; UNITED ARAB EMIRATES: UAE Communication Stiles; World Business Culture: Delivering Global Communication (https://www.worldbusinessculture.com/country-profiles/the-uae/business-communication-style/)

A survey conducted by the research Centre on Made in Italy of the Università degli Studi Internazionali di Roma (MADEINT) and by the Università del Sannio studied the perception of the foreigners about the citizens of the Bel Paese, as called sometimes in the document. The people of Valentino's home nation are thought as: "sociable" and "friendly"; while the life as: "exciting", "high quality" and "ideal country to live". The economic is perceived as an advanced one, while the only negative aspect highlighted was the "political instability" and the "level of corruption"[231].

Using the five indices previously analysed (see Consideration of the other country, 2.2), it is possible to have an idea of why there was such a situation in 2012.

The global integrity test closer to the time of the case is the one done in 2010. As for the previous case it is assumed that the value listed is equal or closer to the one that would have been registered if the evaluation was done at the same moment. On 2010 the overall result of Italy was 78, listed as a moderate score. This country was considered as a honest location even if not the best among all the possible options studied[232].

The trust on foreigners and on the races for the Italians was not a main issue and that could have a positive effect on the Mayhoola's decision.

Those two nations never had any wars or battles, on the contrary they were allies during all their story. There never been any issue between the two and since the foundation of the U.A.E they have been important political and economic partner for achieving the individual objectives.

The two cultures are not very distant. Using the Kogut and Singh theory they are in the middle among all the possible comparisons that were made considering the two (Italy is closer to many European states, while the United Arab Emirates is closer to other Muslim nations).

The last index is the blood relationship. There were any blood ties and the two were not part of the same community. The percentage of Qatari that lived in Italy was very low, the census of that year

[231] Alessandro De Nisco & Giada Mainolfi; COMPETITIVENESS AND FOREIGN PERCEPTION OF ITALY AND MADE IN ITALY ON THE EMERGING MARKETS; Rivista Italiana di Economia Demografia e Statistica (Volume 70 Number 3); July-September 2016; pages 15-28

[232] Data provided by Global Integrity: Data, Learning & Action for Open Governance (https://www.globalintegrity.org/wp-content/uploads/2019/08/GIRScorecard2010_Italy_comments.pdf)

reported the scarce number of 3 people that, obviously, impacted for the 0% on the total of number of the population[233].

[233] Data provided by tuttaitalia.it (https://www.tuttitalia.it/statistiche/cittadini-stranieri-2012/#:~:text=Gli%20stranieri%20residenti%20in%20Italia,Marocco%20(10%2C1%25).)

Chapter 3

Governments' Impact on Firm Results

3.1 IMPACT OF GOVERNMENT PROXIMITY

As read in the introduction, in the previous two chapters, it was analysed as a singular government could impact in a cross-border M&A decision and outcome. As demonstrated, in the second chapter, a political connection brings to have several benefits for a company (assistance when a difficulty is face, a greater and easiest access to loans, favourable tax rates and sometimes an increase of the corporate value). Anyway, there are also many evidences that this tie may lead to have negative economic effect, from a reduction in the quality of accounting information to a deterioration of the performance in pre and post-IPO objectives achieved, compared to those which have weaker or have any link[234].

All the aids received may be useless if the domestic government decide to block the deal or to interfere in some way. During the review process the merger parties can interact with regulators, they have the possibility to gauge and to have a more precise idea of whether regulatory authorities tend to oppose. Companies with a state connection, thanks to their tie with the government or a politician that guarantee for them, can expect their deals to be approved more often and more quickly than those of non-connected acquirers.

The aim of this third and last chapter is to discuss about the consequence of the collision between the governments involved and their impact on the final results achieved by different types of enterprises. This process is done also by the foreigners who want to invest abroad. They must incorporate the cross-border political context in their deal-making and recognize the current political environment where they could decide to start to operate.

Historically, from a global perspective, cross-border M&A activities were often restricted or even blocked. Through the time there were periods when it was easier to receive the government approval and other when controls were stricter. This new form of protectionism is a crucial factor that has to been weighted. The presence of a good relations between the domestic and the foreign governments has a key-role because it allows the buyer to have more opportunities and to bargain for the most

[234] Po-Hung Joseph Fan & Teoh J. Wong & Tianyu Zhang; Politically Connected CEOs, Corporate Governance, and Post-IPO Performance of China's Newly Partially Privatized Firms; Journal of Financial Economics (Volume 84 Issue 2); 8th May 2007; pages 330-357

appealing M&A opportunities. Forward-looking investors know how crucial and important is the politics role when going abroad and how it has to be considered when a foreign investment is done.

Almost all the scholars agree with Porter's idea that the M&A deals are the easiest and fastest way through which a company can go beyond its limit but, at the meantime, this option is really risky. This is a critical strategic and organizational change. A foreign investment extreme both pros and cons, it allows to have a potential unlimited growth but with a higher chance to fail and lose the resources invested, for this reason it is so intriguing and so scaring at the same time. Consequently, due to the riskiness of the operation, enterprises conduct a detailed research for forecasting the outcomes, evaluating all the potential threats and which would be the result for the company if those happen[235].

In a cross-border M&A is fundamental the political affinity[236] between the two countries. This variable is also an important determinant of military conflict, closer are the countries and lower are the reasons to fight, so there are less conflicts (as read in the introduction the cross-border M&As are the new form of conflict and it cannot be a surprise that there are similar variables with the military counterpart). Bilateral agreements imperfectly reveal the similarity in countries' national interests, it could reflect competitive economic pressure to gain access to capital, regional security needs, etc…

Closeness has a key role during the negotiations and will have a major impact on the initial acquisition premium offered (difference between the price proposed for the target company and the pre-acquisition market value). Lower is the affinity and more likely is an intervention by the domestic government against foreign firms in an acquisition deal. On the other hand, higher is the level of similarities and lower is the probability of an intervention from the domestic politicians, this will result in a stronger bargaining position for the acquirers.

---

[235] Katsuhiko Shimizu & Michael Hitt & Deepa Vaidyanath & Vincenzo Pisano; Theoretical Foundations of Cross-Border Mergers and Acquisitions: a Review of Current Research and Recommendations for the Future; Journal of International Management (Volume 10 Issue 3); 12th December 2004; pages 307-353

[236] The political affinity is defined the similarity on the national interest in global affairs between the parties involved in the business. The political affinity is high when national interests between countries are aligned, and vice versa. It is a high-order process that is able to explain the willingness of governments to conduct cooperative or conflictual foreign policy actions

If the government intervenes, the position of the buyer will be weaker and it will be harder to conclude a deal that is profitable or, more in general, to terminate it. Consequently, due to the fear of an intervention, there is the need to open the negotiation with a more lucrative initial offer in cash, there is a preference for this type of payment compared to the stock one, for dissuading target companies from leveraging a government intervention that would use an aggressive regulatory defence strategy, it would lead to higher costs to carry one the negotiation or in a block of the business. This "fear" can be used as a regulatory strategy from increasing the bid premium offered. This is the main reason why there is a preference to invest in a market where the two government are closer and it is harder to be perceived as threat.

The effect of political affinity might be contingent by the ability of the host country government to intervene against a foreign acquirer. In case there are difficulties to take countermeasures, there is no or less need for the buyers to consider such scenario. Consequently, the variables that may lead to an intervention by the politics have a lower relevance in the pricing decision

A reason for this difficulty to intervene on defending the national interest may be absence of a majority in the politics environment, so there is not a coalition but a fractionalized government. While each coalition member may have the ability to veto, none would have enough power to impose its idea and to change the situation. A fractionalized government cannot take important decisions because it is too weak for act in those extraordinary situations. Evidences found how in cases like those the government is less likely to intervene in a foreign cross-border M&A[237]

Countries that share a similar political perspective, does not necessarily have the same point of view for economic issues. Usually in this situation a state is more incline to accept economic interdependencies and it is less incline to do hostile actions, it wants to safe the current status quo. It is important to remember that once the asset is sold and it is under the control of a foreign company, the host country should expect its external dependence to increase, in this scenario there would be an increase of economic and political uncertainty and vulnerability[238].

[237] Serdar Dinc & Isil Erel; Economic Nationalism in Mergers and Acquisitions; The Journal of Finance (Volume 68 Issue 6); 12th December 2013; pages 2471-2514
[238] William Dixon & Bruce Moon; Political similarity and American foreign trade patterns; Political Research Quarterly (Volume 46 Number 1); March 1993; pages 4-25

There might be international constraints, it results from the intensity of economic linkages between the host and the home countries, both from the economic and the political point of view. The government of the domestic company knows that in case of protectionist actions there would be a similar reaction by the government of the buyers, so there would be countermeasures that will be detrimental for the others enterprises that may decide to invest there. This expectation could dissuade the politicians of the host state to undertake an intervention. Sometimes it is not even necessary any diplomatic communication because the coercive power is strong enough to intimidate the other party[239].

In sum, internal and external constraints can lower the ability of the government to interfere, that result in a lower importance of political affinity for the foreign acquirer and in a boost in the bargaining position.

During a confrontation between two governments there is one that has a dominant position and the other that has a minor bargaining power. The initial positions are determined considering the variables studied in the first chapter (relative military power, resource dependency and inward foreign direct investment). The bargaining positions of the parties involved in the negotiations are indirectly revealed by the initial bid premium offered. Stronger is position and more is the power through the negotiation and that will result in a more lucrative deal for the part; on the other hand, weaker is the position and less lucrative will be the deal. When the domestic government enters in the discussion the bargaining positions always change in favour of the seller[240].

If the local government has a dominant position it may exploit it for gaining more from the deal or even after it. Thanks to its strength it may expropriate some assets or even all the company, require a higher taxation or subscribe an unfair regulation.

A weak country can avoid those issues subscribing an economical and a military alliance with the other part. There are several ways through which it is possible (be part of the same security community, subscribe a bilateral agreement, etc…) but it is not important the one used, all should

[239] Stephen Engelberg & Martin Tolchin; Foreigners find new ally in U.S. industry; The New York Times; 2nd November 1993

[240] Oliver Bertrand & Marie-Anne Betschinger & Alexander Settles; THE RELEVANCE OF POLITICAL AFFINITY FOR THE INITIAL ACQUISITION PREMIUM IN CROSS-BORDER ACQUISITIONS; Strategic Management Journal (Volume 37 Issue 10); 5th October 2016; pages 2071-2091

work and reduce the probability of a friction for future businesses where are involved enterprises from the two nations.

In many countries there are supranational rules that regulate the cross-border M&As and even if the jure power is not given the review process can be highly politicized and it will be found a way to intervene and influence the outcome. During this procedure it may be leveraged the topic of the national security in order to have the possibility to actively be part of the negotiation of the deal. The sole goal, usually, is to safeguard the economic interest of the company using the fear of the citizens of losing their job positions or ohe espionage of a foreign power in the military R&D topic or the protection of secret information (see Firstgold-Northwest Non-Ferrous International Investment Company case, first chapter). Especially when there is not an affinity between the two governments an intervention is really likely because an increase of dependence is perceived as a potential threat of the national security. That action can alter the balance of power between the parties during the price negotiations. This opportunity influence all the process in favour of the target company that since the beginning see higher bids in order to avoid the scenario just analysed[241].

The size of the acquisition is a key decision because, as it is known, premium is crucial component in the acquirer's bid strategy and it is a major strategic decision during the pre-acquisition process. Ceteris paribus, a price that is correctly settled should avoid at all the government intervention. If it is proposed a too high price, there is a higher probability that the target is dissuade to undertake any form of opposition to the acquirers, it would be the opposite because it would sell, but it would lead the buyer to underperform from the financial point of view; vice versa, if it is too low there high a high probability that the target will try to resist but the buyer, financially, should over perform and have several other benefits. Larger and most visible cross-border M&As are most likely to be exposed to economic nationalism and, hence, to government interference. As understood there is a negatively correlation between political affinity and the initial acquisition premium proposed[242].

The acquirer may benefit from various sources of value gains (scales economies, complementary assets-based synergies, market power effects) and when it will make its offer those represent the

[241] Edward Graham & David Marchick; US National security and Foreign Direct Investment; Peterson Institute for International Economics: Washington DC (PIIE); May 2006
[242] Idem 240

limit over which the deal it will not be profitable and it would be better to give up on the research of an agreement. For the buyer's shareholders there could be a convenience if and only if the acquisition proposal is above the value of the firm, otherwise they will not sell. To sum up, both want to have a profit and in this case the agreement will be found with a split of the extra value added by the profit deriving from the forecasted synergies between the acquirer and the seller.

When entering in a host country via acquisition, foreign enterprises are often exposed to difficult challenges that are not only from the cultural and economic point of view but also from the political context. Governments encourage inflows of greenfield investment through favourable legal regime, direct and indirect subsidiaries, etc… A foreign acquisition can raise concern from the host government and for this motivation it does not receive the same treatment[243].

There are few reasons why a firm undertakes this pattern: for financial gains (spread fixed costs through greater scale and scope, a broader price discrimination, taxation, price arbitrage, etc…) and for diversifying its risk exposure related to resource revenues. When the deal is carried on for those motivations there will be a passive investment with a little value, usually, in this case, the domestic government will not intervene. When there is a strategical acquisition, often with the final aim is the extracting of technological or industry know-how (this can happen only through a cross-border M&A), there could be an active participation of the buyer, it takes the majority control, and in this case the government may study how it could impact on the national security and to the domestic economy. Depending on the weight of the expense the seller's country politicians can react differently depending to the case.

The benefits are not exclusively for the buyer but also for the domestic government that can find a profitable deal that allows to have a greater influence on the decisions and to increase the cash inflow from taxation. The beneficial effects for the domestic economy can be several. It could be possible, as main goal, to extract knowledge and technology, it could be an objective for both parties involved, it depends on which is more advanced, because the buyer needs to bring the equipment. Through that new know-how there should be an increase in inputs (R&D), outputs (patents) and the total factor productivity (GDP). The deal may be approved for increasing the competition and the efficiency of the local market. In this case, the aim is to augment the pressure to the market in order

[243] Peter Enderwick; Understanding the rise of global protectionism; Thunderbird International Business Review (Volume 53 Issue 3); 14th April 2011; pages 325-336

to have a higher quality, lower the price and generate new ideas at a faster rate. Stimulating the domestic market, the less efficient companies will be kicked out and there will be an increase of the total wealth. Last but not least, the government may accept the deal with the intention to exploit its dominant position for having a rent, with all the pros and cons previously analysed[244].

Once the deal is concluded the buyer experiences an increase in foreign sales and government-related contracts. Another important "upgrade" is the decrease of the foreign liability that will make easier for the company a future investment in the foreign country because it knows the culture, the laws and all the potential issues that it may face. For all those reasons, there is a positive reaction by the market when a deal like that is concluded. Anyway, there could be a not good response from the local consumer because they are not familiar with the foreign products or services (it does not match their needs) or because they are perceived as under the a foreign government control (there is a bad reputation of the country abroad, like it happen with the Chinese goods in the US); buyer could be reluctant to try it and that could cut the forecasted profit, this scenario cannot be avoided even with a political connection[245].

3.2 IMPACT ON SPECIFIC FIRMS

The earliest studies (Fishman, Hillman, Zardkoochi & Bierman and Johnson & Mitton) about the impact of a political connection brought to the conclusion that this tie was always beneficial. Anyhow, more recent papers suggest that such connection could also be unhelpful or even detrimental to firm value. The impact is not the same among different types of company, the economic benefits and the costs that may be faced from such connection are several but it is not completely understood why there are those differences.

There are several levels of connections depending on how strong it is a government can be more or less able to influence the decision. Private Owned Enterprises (POEs or non-SOEs) are free to conduct an acquisition without any interference, while on the opposite situation there are the State Owned Enterprises (SOE) that have to satisfy the desires and achieve the objectives of the government.

---

[244] Jack Baranson; Technology Transfer through the International Firm; American Economic Review (Volume 60 Number 2); May 1970; pages 435-440

[245] Elvira Sojli & Wing Wah Tham; Foreign Political Connections; Journal of International Business Studies (Volume 48 Issue 2); 31st January 2017; pages 244-266

SOEs and non-SOEs are moved by different motivation for seeking political connections, so they value it differently depending to their controlling shareholders[246].

It is fundamental to understand that the connection does not have an impact solely on the cross-border M&As but also in the domestic version. They have a major impact both on the international market and on the modern conflicts.

If the role of the government is just to provide access to subsidized financing and to share information for reducing information asymmetry, there would be little or any differences between cross-border and domestic mergers.

In the following paragraphs it will be discussed and analysed the average results achieved by SOEs and non-SOEs, with a focus to the result achieved by the family and non-family firms when they complete a cross-border deal. For the calculation it was used the cumulative abnormal returns (CARs) of shares either for short-term and long-term in the stock exchange market. Studies that used the event study method indicate that investors use information about a firm's cross-border M&As to correct their expectations about potential future performance, so it is supposed that there is a semi-strong efficiency market where the actors are able to react to the new information spread and nobody can obtain them before the release (no cyber-trading). This method is widely used to capture market reaction to an announced event that was unexpected[247].

The abnormal return is estimated based on standard market model; the equation used is the following:

$$AR_{it} = R_{it} - (\alpha_i + \beta_i * R_{mt})$$

AR_{it} = Abnormal Return	α and β = OLS parameters estimated through the regression

R_{it} = Actual Daily Stock	R_{mt} = Daily Return from the Market Stock Exchange Composite Index

The calculations were done considering a 3-day and 5-day event windows, in this way even if the information came out after the close of the market, the public has all the time to evaluate it and

[246] Po-Hung Joseph Fan & John Wei & Xinzhong Xu; Corporate Finance and Governance in Emerging Markets: a Selective Review and an Agenda for Future Research; Journal of Corporate Finance (Volume 17 Issue 2); 7th April 2011; pages 207-2014

[247] Abagail McWilliams & Donald Siegel; Event studies in management research: theoretical and empirical issues; Academy of Management Journal (Volume 4 Number 3); 1st June 1997; pages 626-657

adjust the price in the following days. It was also calculated the CAR for the following 3 years because it offered a glace to the efficiency of the investment done by government-linked firms.

It was used a sample of 100 cases. They were chosen for their size, location (it follows the continental distribution of the cross-border M&As saw in the first chapter) and importance for the global and for the market.

The first step was to find the announcement date of each deal and the daily stock return through the previous year for the firm and the Market Stock Exchange Composite Index. Once those data were available, it was calculated the beta, β, and the alpha, α, and with that two information it was possible to estimate the return for the 3-day and 5-day event windows without any agreement or special event, they were subtracted from the actual values experienced in the reality. When the abnormal return of the 100 cross-border M&As were estimated, it was calculated the mean to see if the governments have a positive or negative impact in the market return of the buyers.

The cumulative abnormal return is calculated as the sum of the abnormal returns for the days of the event windows[248]:

$$CAR_t = \sum_{t=1}^{n} AR_t$$

The cross-border M&As considered goes from the start of the 21st century, 1st January 2000, until the 5th of August of this year. 70% is composed by non-SOEs deals, while the remaining 30% by SOEs one, the size and the frequency of the deals conducted by this type of enterprise is becoming more and more relevant and in the last few years it had represented around the 30% of the total, some years a little bit more and other less. The chosen of the cases was led by the distribution of OFDI shown in the figure 4 (see the first chapter) in order to have all the results that are as close as possible to the reality.

[248] Stephen Brown & Jerold Warner; Using daily stock returns: the case of event studies; Journal of Financial Economics (Volume 14 Issue 1); 1985; pages 2-31

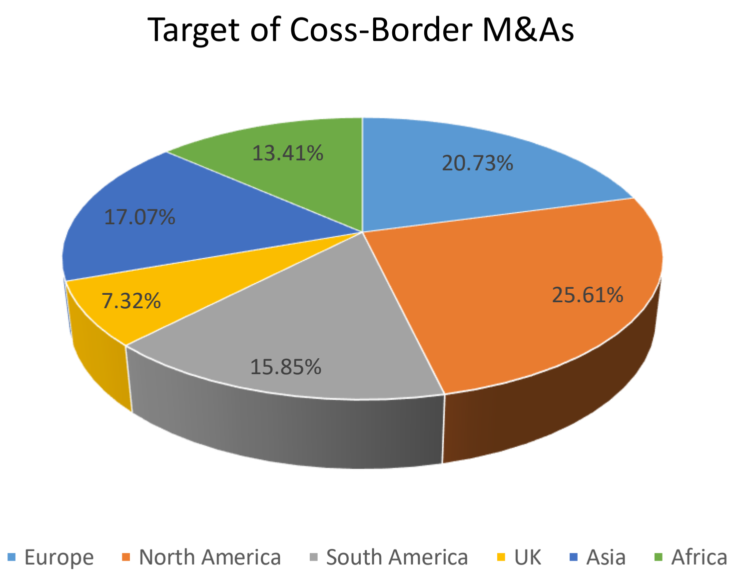


Figure 19: Distribution of the outward foreign direct investment for the sample used

The total distribution of the buyer it is not taken into consideration because in the emerging countries the presence of SOEs is bigger and it would have brought to a wrong representation, this problem is less relevant for non-SOEs, either family and non-family company, where it will be presented.

Combining all the results obtained of the calculation for this thesis, it was possible to estimate the impact of the government tie in the cross-border M&As in the cumulative abnormal return. In a 3-day event window there is a value rise of the company's shares of 1.00%, while extending the study period to the 5-day event window there is an increase of 2.17%.%. In the next 3 years there still is a positive correlation between the results achieved by the enterprises and a relationship with the government.

Previous studies have shown how there is a negative correlation between the strength of the political connection in SOE and market and long-term accounting performance; while in non-SOE it is the opposite. The value found for this thesis do not match whit that statement and show how they are not a major issue for the market, instead this tie is seen as a value creator.

A study carried on by Megginson and Netter confirmed Porter's theory calculating the average abnormal return of a company which conclude a domestic M&A, 0.84% for the 3-day event window 0.80% for the 5-day event window. They did the same for the cross-border deals when it is not involved the government, in this case the values are 0.83% in a 3-day event window and 1.15% in

5-day event window. Those last values are lower if compared to those achieved by companies with a tie with the politics, just SOEs have lower cumulative abnormal returns. It is important to remember the Megginson and Netter's results in order to have a better understanding of how those cross-border M&As are perceived by the market[249].

3.2.1 State-Owned Enterprise

SOEs, as analysed in the previous chapter, have different capabilities and behave differently if compared to non-SOEs, it depends on the presence of different institutional constraints and competitive pressure. State-Owned companies have a strong and indestructible connection with the politics that influence and distort their decisions. They have several facilitations that may lead to undertake a business without a proper evaluation of the real benefits and costs that will occur[250].

Many experts believe that this type of enterprise does not only represent an ownership structure or a form of corporate governance, but it is an exemplification of the institutional environment. They are the main tool of the government through which control and coordinate all the different economic activities, this implied that they can be perceived as the one of the main element, if not the main, of the economic institutions. This process start from the selection of the executives that are appointed to achieve the government's objectives. As for all the other companies those have to follow the shareholder's desires, in this particular case the state, so when hired they have to be sure that the company's goals are aligned with government wish, rather than maximizing firm value. Those figures are considered as a channel through which the political agenda is pursued. Therefore, SOEs can be effectively perceived as unique and the foreign government can act in a different manner compared to the acquisition from a different type of firm[251].

The managers of SOEs are self-motivated to fulfil the government's desires. They do not own any share in the company, so they do not bear about the financial consequences of their distorted decisions, but they still enjoy the potential promotion and political capital created by accomplishing

[249] William Megginson & Jeffry Netter; From State to Market: A Survey of Empirical Studies on Privatization; Journal of Economic Literature (Volume 39 Number 2); 3rd June 2001; pages 321-389
[250] Chaohong Zhou & Arjen Van Witteloostuijn; Institutional constraints and ecological process: Evolution of foreign-invested enterprises in the Chinese multinational construction industry, 1993-2006; Journal of International Business Studies, Asia and Global Business (Volume 41 Number 3); April 2010; pages 539-556
[251] Garry Bruton & Mike Peng & David Ahlstrom & Ciprian Stan; State-owned enterprises around the world as hybrid organizations; Academy of Management Perspectives (Volume 29 Issue 1); 13th May 2015; pages 92-114

social and political objectives. It is important to keep in mind that in case of extraordinary decisions the government could have the power to take those by itself, to approve or to refuse the proposal of the managers, so it is not just involved in the decision making process but it may be the primary decision-maker.

Researchers do not have a unique mind about the profitability and the market valuation of State-Owned companies. In the 20th century there was the idea, supported by many writes (the most important published by: Caves & Christensen, 1980; Kay & Thompson, 1986; Wortzel & Wortzel, 1989; Martin & Parker, 1995; Kole & Mulherin, 1997; and Calomiris et al, 2010) that there is a positive effect by this partnership. From the beginning of the following century the perception is changed and the new discover brought to completely change the point of view, now there is the conviction that it has a negative impact on profitability and market valuation[252].

Those type of company are really common in the emerging markets, while in the developed ones they have a minor role but they usually have a fundamental role because they operate in key sectors (energy, telecommunication, transport, etc…). SOEs are characterized by: a poorer corporate governance, government intervention and agency problems. All those may lead to a worst corporate governance and so to a higher operational risk. In this environment it is a common practice the exchange of favours because it would allow the company to have the access to all the benefits previously listed. In a scenario like that, the lack of property rights and stable political structure increases uncertainty around the business operations and, more important, it is more difficult to grow through internal expansion or external M&As, both domestic and cross-border. The uncertainty that is present in such environment can be reduced by building and keeping networks and personal relationship, so SOEs can maximize the advantages from their structure[253]. Enterprises in an emerging market cannot achieve any competitive advantages without establishing a solid tie with the local government. In other words, this may bring to consider a good relation with the politicians as a fundamental intangible asset[254].

[252] Qui Chen & Itay Goldstein & Wei Jiang; Price informativeness and investment sensitivity to stock price; Review of Financial Studies (Volume 20 Issue 3); 6th May 2007; pages 171-181
[253] Mike Peng & Peggy Sue Health; The Growth of the Firm in Planned Economies in Transitions: Institutions, Organizations, and Strategic Choice; The Academy of Management Review (Volume 21 Number 2); 1st April 1996; pages 492-528
[254] Idem 130

The sale of the government's shares can be motivated just by the intention to privatize the company. This decision may be led by political reasons[255] or due to the country's legal structure[256]. In this situation there is not a complete privatisation because the government wants the opportunity to intervene in case of need but at the same time it wants to improve all the inefficiencies that there are in SOEs.

In the past the M&As conducted by those enterprises where focused to the domestic market (the objectives were to pursue certain political agendas: increasing local employment, generating more tax revenues or promoting social welfare program) but since the end of the previous millennium and the start of the 21st century they started to operate also on the international market (nations now see this opportunity as the place where find new resources, knowledge, talents and as the mechanism where increasing their importance in the global chessboard). Nowadays, this is a common practice and a common path to undertake also for the State-Owned Enterprises. Anyway, the motivations that move the managers to undertake this path are still the same, the achievement of political and economic objectives[257].

In the domestic market they receive a preferential treatment from the government and a favourable allocation of sources which improve the total value of them. In this situation, many times their success in not due the management capabilities but due the monopoly position that they can exploit.

When SOES compete in the international market those advantages are not available and they may be not prepared to compete in the market. This type of enterprise is characterized by the presence of a weak corporate governance and the interference of the government, in the national environment it is not an issue but when they compete in the international market those are the main reason why, many times, SOEs are not able to fully compete with the foreign rivals[258].

---

[255] Enrico Perotti; Credible Privatization; The American Economic Review (Volume 85 Number 4); September 1995; pages 847-859

[256] Bernardo Bortolotti & Juliet D'Souza & Marcella Fantini & William Megginson; Privatization and the Sources of Performance Improvement in the Global Telecommunications Industry; Telecommunications Policy (Volume 26 Issues 5-6); 21st March 2002; pages 243-268

[257] Biley Zhou & Jie Guo & Jun Hua & Angelos John Doukas; Does State Ownership Drive M&A Performance? Evidence from China; European Financial Management (Volume 21 Number 1); September 2015; pages 79-105

[258] Lutao Ning & Jing-Ming Kuo & Roger Strange & Boya Wang; International Investors' Reactions to Cross-Border Acquisition by Emerging Market Multinationals; International Business Review (Volume 23 Issue 4); 28th August 2014; pages 811-823

The biggest and most known issue that may be faced but those is the agency problem of free cash flow. As happen for a non-SOE, when a company has a cash that is bigger to the one required for financing all the projects with a positive net present value, the managers have an incentive to waste it in low-benefit or even unprofitable acquisitions, so there is a higher probability the management decides to engage value destroying M&As. The corporate managers want to have as much power as possible and they need to have resources on following this desire. The fastest way is to cut the dividend and utilize the cash saved and invest it. When the management undertake unprofitable investment, it creates new prestigious positions that those would like to fill but also the increase of their compensations which are calculated on the basis of the sales growth that they were able to achieve. They do not want to maximize the shareholders' wealth but their personal one. While the creation of new job position can be also an objective of the government, the second one is just a way through which managers want to increase their salary; there is an increasing number of studies that show how those excessive expenditures have a negative effect also on the regional and local economy growth[259].

A second issue, highlighted by the agency theory, is the desire of the managers to build their own "empire". This theory posits that a concentrated ownership structure can restrict the investment to those that have as unique aim to increase manager's personal gains but impair shareholder's wealth. The only way to contrast this potential issue is to have a good corporate governance that is able to contrast any opportunistic behaviour(there is a negative correlation between state ownership and number of board meetings with corporate governance performances; there is a positive correlation between the number of independent directors and the corporate governance performances; while internal governance mechanism such as foreign ownership, size of the board, size of the supervisory board, etc…do not have any direct impact on the corporate governance result achieved). There are any practical advantages from those acquisitions, they are not efficient and sometimes can even cut the total value of the company. Their decision is driven by their desire to increase their reputation in the sector through a rapid expansion that is supported by an almost unlimited amount of resources and the protective umbrella offered by the government. Usually, this type of company is encouraged to have an opportunistic behaviour, they have a greater antitakeover provision and the market does

[259] Michel C. Jensen; Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers; The American Economic Review, Papers and Proceedings of the Ninety-Eight Annual Meeting of the American Economic Association (Volume 76 Number 2); May 1986; pages 323-329

not answer with enthusiasm and that bring to a lower abnormal stock return (as demonstrated by the calculations done for this thesis and show in the following pages). The only understandable reason behind deals like that is the angry of fame and recognition from the sector but it becomes a double-edged sword for the company[260].

Governance Mechanism	Definition	Measurement
Chairman tenure	Number of years the chairman has been in service	Equals 1 if the chairman's tenure in current year is less than the mean value of the sample in current year, otherwise 0
Board size	Number of directors on the board of directors	Equals 1 if firm's board size in current year is less than the mean value of the sample in current year, otherwise 0
Supervisory board size	Number of independent directors on the board of directors	Equals 1 if the number of independent directors on the board of directors in current year is less than the mean value of the sample in current year, otherwise 0
Board meeting	Number of annual meeting of the board of directors	Equals 1 if the number of annual meetings of the board of directors in current year is less than the mean value of the sample in current year, otherwise 0
Ownership concentration	Percentage of shares held by firm's largest shareholder	Equals 1 if the percentage of shares held by firm's largest shareholder in current year is greater than mean value of the sample in current year, otherwise 0
Separation	The separation of control rights from ownership	Equals 1 if the separation of control rights from ownership in current year is less than the mean value of the sample in current year, otherwise 0
Managerial shareholding	Number of shares held by managers	Equals 1 if the number of shares held by managers in current year is greater than the mean value of sample in current year, otherwise 0
CEO duality	The duality of firm CEO and	Equals 1 if firm's CEO also serves as the chairman

[260] Oliver Hart; Firms, Contract, and Financial Structure; Oxford University Press; 1996

chairman of the board	of the board, and 0 otherwise

Figure 20: construction of corporate governance quality index, imagine inspired from "Political connections corporate governance and M&A performance: Evidence from Chinese family firms" (see note 285)[261]

The third potential problem is that State-Owned firms are less focused on productivity and profitability and this may bring to the creation of a "principal-principal" and of a potential moral hazard conflict. The minority shareholders may be damaged by the desire of the main shareholder (the state) because their objectives are different and cannot be achieved at the same time. The managers are incentivized to pursue only the political agenda and do not take into consideration the requests of the other because they know that it will be the government that will have the last word about their confirmation or the dismissal. This scenario occurs on countries where there is a higher frequency of government intervention and a weaker protection for minority shareholders. The only available solution is to have the right ownership structure that allows to have a good quality corporate governance[262].

Another reason why they may have a poorer performance is because the managers have to follow the government's desire but at the same time they try to pursue their own personal interests. In this ticklish situation those figures are forced to undertake a less risk investment to satisfy the desire of the politicians and, many times, they are forced to pass on good investment because it does not match with the national's agenda, there could be a trade-off between the good relationship with the government and improve the firm value[263].

The cross-border M&As have a different outcome because the government of the seller will not accept that the benefits are distributed disproportionally across the two nations, so it is almost impossible to extract any rent. This bring to a more accurate study and decisions process by SOEs and for this reason this business usually outperform the domestic one. Domestic officials rarely bear about the consequence of a bankrupt of a company in the other country because there is not the

[261] A value that is as close as possible to 0 from this index (good corporate governance quality) can signal to the market of firm's good quality, a low agency cost and potentially a competitive advantage; on the other hand, higher is the value and worst will be the perception of the market about the firm. In the first case a M&A deal, especially the cross-border one, can create value for all the shareholders and will not just maximize managers' personal gain

[262] Carl Chen & Yingqui Li & Danglun Luo & Ting Zhang; Helping hands or grabbing hands? An analysis of political connections and firm value; Journal of Banking & Finance (Volume 80); 23rd July 2017; pages 71-89

[263] Xuan Vinh Vo; Do firms with state ownership in transitional economies take more risk? Evidence from Vietnam; Research in International Business and Finance (Issue 48 Number 1); 21st February 2018; pages 251-256

possibility to pursue any personal desire and the government cannot interfere in the same way. The inefficiencies cannot be covered by the aids, so this firms have to act similarly to a non-SOE.

Many researches showed how SOES have a bigger interest in the acquisition of utilities and infrastructure industries (energy, telecommunication, transport, etc…). Being strategical sectors the sold may be a threat for the national security, it may raise the political and the public concern. The only available option for solving this potential problem is a higher bid to assure the foreign government that it is a win-win business. Even though a better offer can solve this issue in the short term, the fear of the foreign government could lead to political interferences that could be the main reason for a negative market performance in the long-term. Therefore, the announcement of a cross-border deal by a SOE has a different impact on investors and on stock market perception.

This type of firm tends to have a better performance when it operates in a weaker legal system on in a highly corrupted environment. The benefits in the long run are not only when the company operates in the market but also when it is involved in a deal. This is due to the presence of the government that should shield the company from any type of fraud.

SOEs have a larger presence in emerging economies where the market is not fully formed and the government has to actively intervene in order to regulate it and ensures the highest efficiency ad wealth for the buyers. The highest portion of deals completed by the SOEs are done for enterprises located in emerging countries and not in the developed one.

In cross-border M&As political connections are used by politics for achieving the national needs rather to maximize corporate value, so it is really likely an active intervention by the government in the target selection, business integration and on the hiring and the dismissal of the employees[264].

[264] Chong-En Bai & David D. Li & Zhigang Tao & Yijiang Wang; A Multitask Theory of State Enterprise Reform; Journal of Comparative Economics (Volume 28 Issue 4); December 2000; pages 716-738

Nowadays the deal concluded by the state-owned enterprises in the cross-border M&As represent around the 30% of the total, with a further study the 70% of this total is carried on by companies which had their headquarter in a developing nation[265].

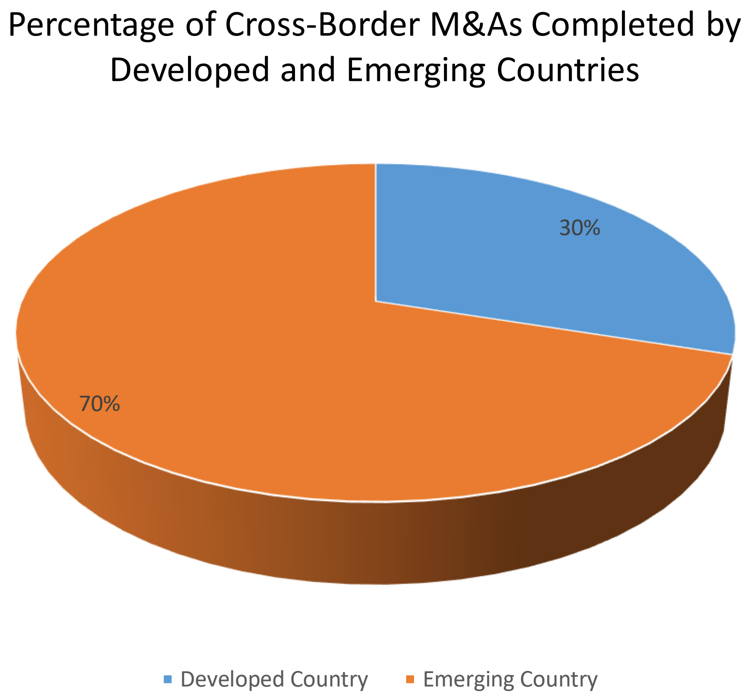


Figure 21: percentage weight of developed and emerging countries on the sample used

There is a preference to invest in developed country where the market and the law system is fully formed and where there is a chance to have an easier forecast of the future. Another fundamental factor is the political relationship between the two governments; there is a preference to invest in an ally country where there is a similar culture (China-Japan, United States-United Kingdom, France- Spain, etc…). Below there is the distribution of the target investment done by the State-Owned company in the time period considered for the study following the sample used.

[265] China is the country where there is the highest number and the biggest SOEs in the world. The second most important nation from this point of view is the UAE that is engaged in several deals every year but those are characterized by a smaller value, a similar total number but the target usually are private companies. From the rest of the globe there is a lowest number of deal or because the country is not rich enough or because the SOEs have not a central point in the national economy

SOEs Location of Cross-Border M&As

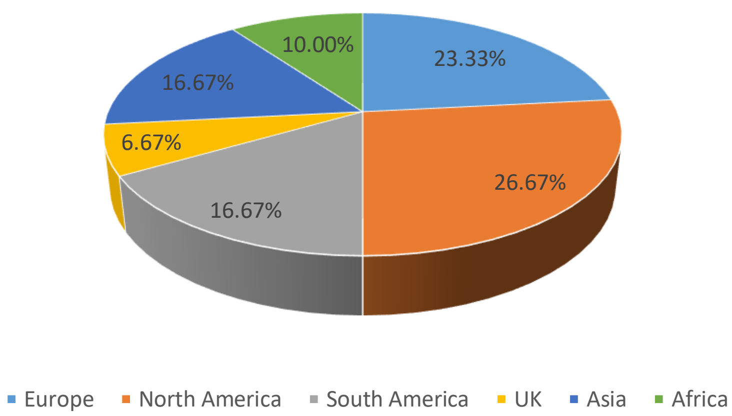


Figure 22: preference of the companies on where locate the investments

In the short-term it was taken into consideration the reaction of the market to the information. When there is the announcement of an agreement, the investors, usually, show to have a slightly positive reaction. In the 3-day event window there is an average abnormal return of 0.59%, while in the 5-day event window it is equal to 1.14%. The market is not really fast to react and needs of, at least, of one extra day to react to the change and adjust the price. The reason behind those worse responses from the market to an M&A announcement, compared to non-SOES, is connected to the excessive bear on policy burden, this may cause an expansion of the enterprise just for coping with policy pressure or maximize personal gains. Those potential issues, as previously analysed, are lowered when SOEs start to operate abroad and this is why the stock exchange market answer better for cross-border M&As compared to the domestic version, just minus 0.13% and 0.14.

On the other hand, for the medium-long term it was considered the changes in values experienced by the buyer in 1st, 2nd and 3rd year since the announcement of the deal. In countries where there is a high legal quality SOEs experience a positive abnormal return with a mean of 0.72% in the first year, 1.46% in the second year and 2.18% in the third year. When they operate in a country characterized by a low legal system, SOES experience a negative abnormal return of 18.14% which is a negative return but it is higher compared to the other firms. In case of a higher level of corruption the results are similar to the one just listed with the situation that become worst and worst after the third year that the deal is completed[266].

[266] Idem 164

Some experts have linked those results to the lack of business skills. There is the possibility that top managers or controlling shareholders are not able to run the firm and are keen on seeking rent by establishing a political connection. In this case the political connection is just a surrogate for poor manager abilities and the negative association of post-merger performance and political connection is merely a spurious correlation.

In the past, some scholars thought that M&As conducted by SOEs were a value-destructing deal for the firms but this is not true all the time, otherwise the market would not positively react to the announcement and the share value would drop in the following days (the opposite of the data found). When that happen there is a high number of interventions from the government for trying to solve the problems (may happen when there is the need of accumulate assets that will be fundamental for the development of the national economy and a lost in the short-time will be covered in the long-run).

3.2.1.1 ChemChina-Syngenta Case

About one year after the acquisition of the Italian company Pirelli, ChemChina concluded another international deal. The State-Owned Enterprise focused its attention again on the European Market, not geographically far from the previous one. The target this time was the Basel-based company Syngenta.

The Swiss firm was founded on 2000 with the merger between Novartis and a part of AstraZeneca. Even before the acquisition by ChemChina was one of the global leader in its sector. Nowadays, it operates in 90 countries and it has employed 90 thousands of people in all its factories. The Chinese firm operates in the production of pesticides and genetically modified seeds.

The year before the agreement, 2015, Syngenta experienced a hard moment. Its earnings had a reduction of 5%, with a total value of $2.78 billion (in line with the analysts' estimates of $2.76 billion), while the sales had a drop of 11% compared to the value of the previous year. Even considering all those reductions, the Swiss-based company was one of the global leader able to strongly influence the balance of several markets.

The deal followed on the heels of another massive takeover on the chemical sector, the Americans Dow Chemical and DuPont reached a $130 billion agreement. This was the answer of the Chinese company to the American business and it was done for returning the global leader of the sector.

It was not the first time that Syngenta was the target of a company but all the time the bids were refused for the same motivation. Once the deal was officialised Michel Demaré, and John Ramsay, the Chairman and the Chief Financial Officer at the moment of the sell, explained how the cultural differences had stymied all the previous attempts and that brought to have "a lot of tension" during the negotiation with some potential investors, "…that has to be taken into consideration" on the final outcome of a deal. The offer received from the US rival Monsanto, which was higher, $46 billion, was rejected, officially for the cultural differences and for some competition issues but that brought to a deterioration of the relationship between the two competitors[267].

On February 4 2016, the agreement between the Chinese ChemChina and the Swiss Syngenta was found and the target's board voted unanimously in favour of the bid. More than one year later, 10th of May 2017, there was the formalisation of the acceptance by the shareholders, it was necessary the acquisition of the 67% of shares but the proposal in that moment was accepted by the 80.7%. The 18th of the same month there was the first settlement and the 24th the end of the acceptance period. The 31st was the day of the final announcement of the proposal result, the Chinese State-Owned company announced the purchase of the 94.7% of Syngenta's for a total expense of $43 billion ($465 per share) that was completed for the end of the year. This was an historical moment for the Beijing government because this was the largest acquisition never made by an enterprise of the country[268].

The buyer promised to not make any relevant structural change, from the lower to the highest levels, and to provide all the necessary resources to finance the long-term investments in innovation. Another interesting point for the seller was the opportunity to enter in the Chinese market with all the potential opportunities of growth linked to it and to the favour of the domestic government. However, Syngenta was obliged to delist from both Swiss and the American stock exchange markets[269].

---

267 N.g. (Author Unknown); ChemChina offers to buy Syngenta for $43 billion; BBC News; 3rd February 2016

268 N.g. (Author Unknonw); Syngenta Shareholders Accept ChemChina Offer; Syngenta Global Official Web Site (https://www.syngenta.com/en/company/media/syngenta-news/year/2017/syngenta-shareholders-accept-chemchina-offer); 5th May 2017

269 Song Lifang; ChemChina completes acquisition of Syngenta; XINHUANET, Xinhuanet App mobile version (http://www.xinhuanet.com/english/2017-06/08/c_136350606.htm); 8th June 2016

Once the transaction was completed, it was organized the new board of directors. It was composed by six members, four from the previous board, and was chaired by Ren Jianxin, president of ChemChina.

From one member of Basel's City cantonal government, Christoph Brutschin, it was expressed regret for the takeover. He admitted that there was a preference from the local government to remain the company independent and publicly demanded "what the goals and the timeline will be for the new owner". The priority for the Swiss government was to safe the local employment and to remain the headquarter in the country. As read, both the Swiss government's requests were satisfied, the same it would not be done with the bids received from the other potential buyers[270].

From the home country of the buyer, China, the announcement was saw by the media as the official indication that the government was entering in the second step of its internationalization process, in the first one there is the collect of the necessary assets for help the economic growth, and the deal concluded in Italy it was not una tantum but the beginning of more investments in developed economies. Through this cross-border acquisition the Beijing government was trying to secure the food supply to its growing population. The country has a fifth of the world's population but just the 7% of its national land can be used for farming; in this situation it is almost mandatory the utilization of chemicals for feeding the citizens. The Chinese President Xi Jinping, just few months before the deal, called the attention of its nation to the necessity to modernize the agricultural method used in order to ensure national food security, the national standards were below the global standard. The desire of the government was to use Syngenta's portfolio of top-tier chemicals and patent-protected seeds to improve domestic agricultural output and to solve this issue that was highlighted even by their President[271].

On a 3-day time period, between the day before and the day after the takeover was concluded, ChemChina experienced an abnormal return of its stock of 6.234%, while in the 5-day the rise was just of 2.617%. This was an incredible answer from the market to the information that showed how it was perceived as the right move for the Chinese State-Owned Enterprise.

---

[270] N.g. (Author Unknown); ChemChina buys Syngenta in record Chinese deal; site web SWI swissinfo.ch and agencies (https://www.swissinfo.ch/eng/takeover_chemchina-buys-syngenta-in-record-chinese-deal/41936208); 4th February 2016

[271] Michael Shields; ChemChina clinches landmark $43 billion takeover of Syngenta; Reuters; 5th May 2017

In the first years there had been some problems that did not bring to perform as thought during the negotiation. The Chinese feeding problems were not solved due to the negative view of the population on GMO foods and the preference to not buy those products. Even from the financial point of view the business was not working, Syngenta sales did not rise as forecasted, due to the Chinese fears of GMO foods, and the debts accumulated for complete the acquisition were getting closer and closer to their maturity, 2021[272].

The situation now is completely different. The two enterprises decided to merge and create a unique company. That decision helped to solve the problems that derived from the cultural differences and to have a unique headquarter which takes the decisions. There was a stabilization and a cut of costs and that made a great difference, the Beijing government was another important variable in this recovery. The debt, at the moment that this thesis was written, was not a problem and the new group decided to undertake the IPO process in Shanghai. The final evaluation was around the $10 billion and will probably become the greatest IPO that there will be this year; the company was so enthusiastic about the result achieved that is scheduling a second one in Syngenta home country, Switzerland.

3.2.2 Non-State-Owned Enterprise

All the different types of non-SOEs compete focusing their strategy on their technological and marketing capabilities in order to survive and excel in the market. They do not have any monopoly position that ensure a profit. For this reason, they are more effective in terms of market orientation and innovation. In additional, non-SOEs are characterized by a higher flexibility and autonomy in the decision-making process for and the daily and "special" decision. This freedom is the main reason why non-SOEs, usually, over perform in the international market. They operate in an environment really fluid where the quickness on taking a decision can make the difference between the success and the failure[273].

As analysed in the second chapter, differently from SOEs, those company have a unique objective the maximization of the profit of their shareholders, so they do not pursue any social achievement.

---

[272] David Fickling; China's Giant Crop Takeover Has Failed. Time to Admit IT; Bloomberg Opinion Business; 11th December 2020

[273] Xiaohui Liu & Lan Gao & Jiangyong Lu & Eleni Lioliou; Environmental Risks, Localization and the Overseas Subsidiary Performance of MNEs from an Emerging Economy; Journal of World Business (Volume 51 Issue 3); 3rd April 2016

It is cannot be a surprise that every decision undertaken by private companies is motivated by this specific goal, so also the strength of the tie with the government is led by this aim. During the decision-making process the company has to weight the costs (the rent required from the politician or from the government) and the benefits (all those that were previously analysed and listed), weight both should bring to the maximization. Too many resources may lead the firm to bear too much on policy burdens, this may be an obstacle in the development of a company, especially the small and medium.

In country where there is a less developed legal system, a less developed market, a higher unemployment rate, the bureaucrats are corrupted and a higher fiscal deficit it is more profitable, so there is a higher return, to have a strong tie with the politics. In this way, they can have many privileges and can try to compete with State-Owned competitors from a more equal position. The most extreme scenario is characterized by the presence of the "red hats[274]" phenomenon, it allows the non-SOE to have all the benefits on exchange of a rent-seeking. This mechanism can become a substitute to the market competition because not be the most efficient company will "win" but the ones which pay more for the government assistance and it will have a dramatic effect on the market environment.

Companies with a stronger connection have exhibited a lower quality of accounting information because they have less incentive to respond to the market pressure, thanks to the higher quantity of resources available, due to the government aids. It is the main reason for a poorer performance[275].

The managers of those can decide how strong is the tie, while SOEs do not have this option since they are managed by the government. If a firm operates in a country where there is a strong legal system and it is characterized by a low level of corruption, it does not need to have a strong correlation, it would not lead to a maximization of the profit; on the other hand, if it operates in the opposite scenario, it can choose to try to be closer to the government and have benefits that are the same provided to SOEs. In the second case, some have argued that in a weak institutional environment corrupt politicians would be free to overexploit firms for their benefits, imposing

[274] This term means that non-SOEs can obtain a state license for production and operations by paying an administrative fee to the local or the national government organization. Those will be treated as a state-owned asset but they will remain a private organization

[275] Paul K. Chaney & Mara Faccio & David Parsley; The Quality of Accounting Information in Politically Connected Firms; Journal of Accounting and Economics (Volume 51 Issues 1-2); 8th February 2011; pages 58-76

additional cost on shareholders, but it is unlikely because in this case the link would be broken by the company. The closeness to the politics is fundamental variable, companies need to evaluate if the pros (lower cost of bank loans, help on entering in regulated industries, obtain contract from the government, a more favourable taxation, etc…) overbalance the cons (lower operational efficiency and a worst corporate performance). If well balanced the political connection can significantly improve the efficiency of the cross-border M&As; otherwise, if not properly managed, it will bring to have a negative abnormal return and will affect managers who took the decision, they could lose the control due to the unhappiness of the shareholders[276].

Non-SOEs with high corporate governance quality are characterized by a good profitability and a better developed prospect of the firm. They have the chance to choose between an active or a passive political connection. The chosen between the two has the same impact of the decision of how strong is the connection (passive is like a weak connection, while an active one is comparable to a strong tie). Thanks to their better results, they need to have a bigger workforce and that bring the nation to prop up the GDP .

The response of the market to the information of a concluded deal by a political connected firm allows to understand if the company had taken the right decision. If a company has a poor corporate governance the ties will be perceived as a fundamental assets and will increase the company's value, otherwise if it has a strong corporate governance this alliance will be considered as an obstacle to the full growth of the company and will decrease its valuation. In the first case the main issue may be that the managers use the political connections as vehicles to pursue personal gain and the benefits are overwhelmed by the issues from the market prospective.

Executives in non-SOE are not appointed by the government. If it is appointed an executive with a political background, the chosen is led by the forecast that he/she will increase the value of the firm through his/her connection. Through this new relationship with the politics, the company want to have a special treatment: a prior access to a bunch of opportunity that otherwise would be almost denied, reducing information asymmetry with government authorities, break regulatory barrier and affect the political agenda. When the society is characterized by a limited legalistic framework the

---

[276] Charles J.P. Chen & Zengquan Li & Xijia Su & Zheng Su; Rent-seeking incentives, corporate political connections, and the control structure of private firms: Chinese evidence; Journal of Corporate Finance (Volume 17 Issue 2); 2nd April 2011; pages 229-243

government protection is perceived as a shield from the uncertainty and the companies invest their resources to establish and maintain the relations. Another option is to encourage executives to enter in the political environment[277].

Most of the empirical studies found that there is a beneficial effect from those connections for the firm value; even in the developed country, if a member of the top management or of the board served in a political position, there is an increase of company' and shareholders' richness. Similar results are faced when the executives or large shareholders enters in politics, even the strongest legal system cannot interfere in such vale extraction. Many studies found a significant abnormal stock return when it is nominated a politically connected director. By the way, if a corporate executive has a political background there is a higher probability that they may be influenced by the political forces and they do not focus their effort to the increase of the shareholder's wealth but to the government's objectives[278].

The connected non-SOEs may enjoy the opportunity to have access to some national secured markets and they may receive the approval also for the toughest deal. They have more value-creation acquisition opportunities, either in horizontal either vertical M&As. This tie with the home country politics is more important when the target is located in a country where the government has a greater discretionary power, a partnership with the government facilitate the collaboration in the national project.

Actually there are two competing views: the alternative mechanism and the governmental tools. The first theory state that market incompleteness and legal system inefficiencies increase the uncertainty and risk of business operations, the political connection acts as an alternative mechanism for legal protection; therefore, it may enhance corporate value, it is supported by several empirical studies[279]. On the other hand, the "governmental tools" approach is based on the assumption that political connections are government's tools for controlling or influencing enterprise behaviour. Through this connection the government can obtain economic and political

[277] Qigui Liu & Tianpei Luo & Gary Gang Tian; How do political connections cause SOEs and non-SOEs to make different M&A decisions/performance? Evidence from China; Accounting and Finance (Volume 59 Issue 4); 13th December 2019; pages 2579-2619

[278] Mara Faccio; Politically Connected Firms; American Economic Review (Volume 96 Number 1); March 2006; pages 369-386

[279] Andrei Shleifer; Government in Transition; European Economic Review (Volume 41 Issues 3-5); 5th April 1997; pages 385-410

benefits, while enterprise value does not increase; a study arrived to indicate that the post IPO performance of private politically connected enterprises decreased of 37% more than non-politically connected counterparts but this is out of the topic of this thesis. Many experts have thought that the worst performance is caused by an inefficient resources allocation[280].

When a non-SOE decides to try to conclude a cross-border deal the involvement of the government may bring to have a more profitable taxation and the access to the better resources and supports (the domestic politicians do it in order to ease the international alliance between the two countries).

Buyers of the cases considered are from all around the world. The majority of them are from developed economies which combined weight for more than the 80% of the total transactions. The remaining 20% conclude a lower number of transaction with a smaller average value. Below there is a graph that show the continent from where is located the headquarter of the buyers, that will help to have a more precise idea about the distribution of the cross-border M&As deals concluded by non-SOEs.

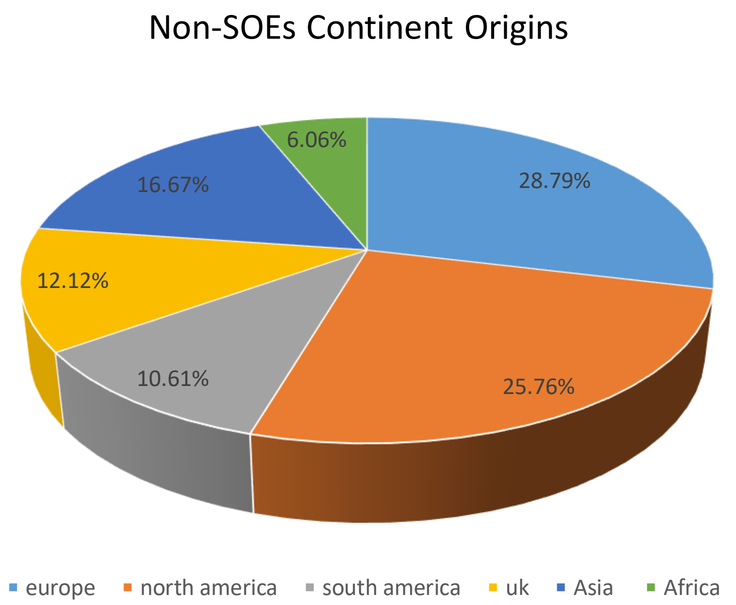


Figure 23: origin of the investments done by the non-SOEs for the sample used

[280] Idem 147

The graph for the targets follow a similar pattern but it is not exactly the same. In this case the developing countries have their attractiveness because they have a potential growth that is appealing but on the other hand the buyers still prefer to invest in location that are safer.

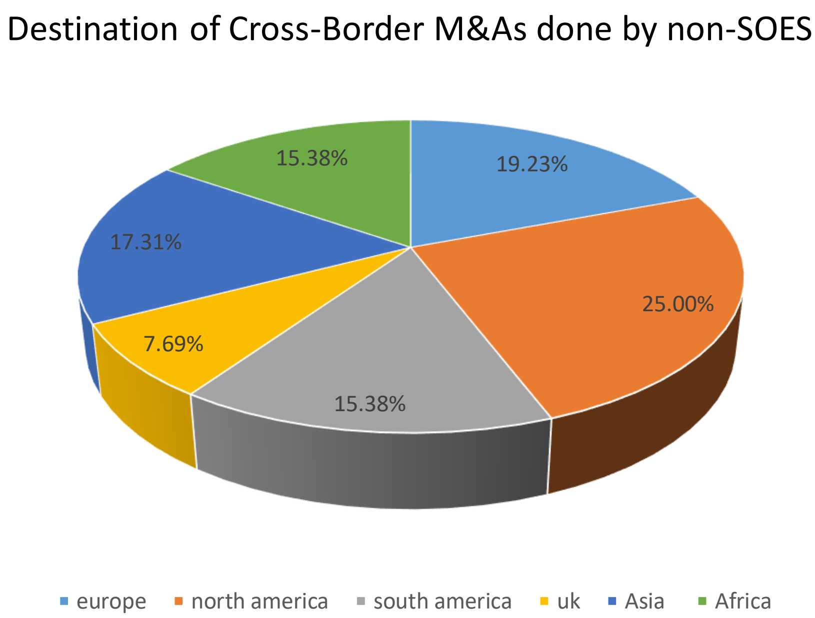


Figure 24: destination of the investments done by the SOEs considered in the sample

Non-SOEs have a positive abnormal return when undertake a cross-border acquisition in a country characterized by a higher legal quality system. In the short-period they experience an increase of 1.18% in the 3-day event window and of 2.62% in the 5-day-event window. Those values are almost the double of SOEs ones in the same period of time.

In the first year non-SOEs experience the same abnormal return of SOEs, while in the second it is 7.22% and in the third it is 13,48%, this pattern is followed by almost all the companies. When they have a strong tie with politics and operate in a country characterized by a low quality of the legal system, non-SOEs have a result that is similar to a SOE, otherwise the face an abnormal return that it is minus 22.83%. In case of corruption those firms have better outcomes because they can cut any relation with the politicians and avoid their rent seeking. In an environment which is not characterized by either any critical or positive situation Non-SOEs over perform if compared with SOE, their abnormal return is 15% higher in a time horizon of over 3-year period[281].

[281] Idem 164

3.2.2.1 Familiar vs Non-Familiar Enterprise

Family firms are all the business where the majority of the control is owned by a family. The business is inherited from the following generation to the previous one. For subtraction it is possible to have the definition of the non-familiar which are all the companies where the control is not in the hand of a family.

In family companies, the desire of earn money is the cornerstone that moves all the decisions and the desires. It is more important than the one present in the non-family enterprise because there is the wish to keep alive the business and give it to the next generation, this is the core of the "Stewardship theory". The base of this theory is the strong demands for creating and developing wealth across generations and the family enterprise is an asset that can be passed from father to son. Wealth across generations is a continuous wealth stream that cannot be influenced by market changes and the erosion of asset values. From a broader point of view, it may be fundamental for responding as quick as possible to market risks but also to bear a more policy burden strategy[282].

The cross-border M&As are a fundamental tool that enlarged the opportunity to increase the wealth that will be passed to the next generations. They are used by managers for expanding firm scale with anti-takeover risk plan, which can potentially impair firm value. If it is not possible to manage this risk, the family can control the company with a little portion of the total shares and there is a high probability that it will try to expropriate resources from minority shareholders, in such situation the independent directors do not respect their role of supervising managers[283].

All the considerations done previously for the non-SOE about the decision of a potential connection with the government are valid also the family companies. Usually, those have more difficulty to have access to a mortgage. This issue is the main reason why a connection with politics is desired by a family enterprise, it is the easiest and fastest way to solve their shortage of resources; it transmits the endorsement signal that the firm has the government as recessive guarantee and provide a positive signal of firm's quality to all the private and public institutions. Naturally, the problems remain but tends to be smaller, thanks to a different ownership structure that helps to

---

[282] Jess Chua & James Chrismas & Pramodita Sharma; Defining the Family Business by Behavior; Entrepreneurship Theory and Practice (Volume 23 Issue 4); 1st July 1999; pages 113-130

[283] Sara Moeller & Frederik Schlingemann & René Stulz; Wealth Destruction on a Massive Scale? A Study of Acquiring-Firm Returns in the Recent Merger Wave; The Journal of Finance (Volume 60 Number 2); 9th April 2005; pages 757-782

maximize the profits (better it is organized the buyer and more enthusiastic is the market response to M&A news). This link is able to enhance the positive correlation between the market and the long-term M&A performances.

This tie is really useful not just for the abundancy of resources available but also due to the opportunity to access in the regulated industries, this may bring to a better diversification of the investment. It has another potential benefits, it may be used for tunnelling capital and resources away from minority shareholders but this scenario is really hard to happen[284].

Family businesses experience a higher creation of marginal value. Moreover, they have lower financing constrains and reduce their risk of getting into financial distress.

Those enterprises are concentrate in developed countries because they had the time to grow and now they have a dominant position there. Family-Owned Enterprises are present also in developing nations buy they not reach a dimension that allows them to invest enough resources in a cross-border M&A and to face and successfully solve all the post-acquisition issue that may be faced. The following distribution is explained by the critical factor just explained.

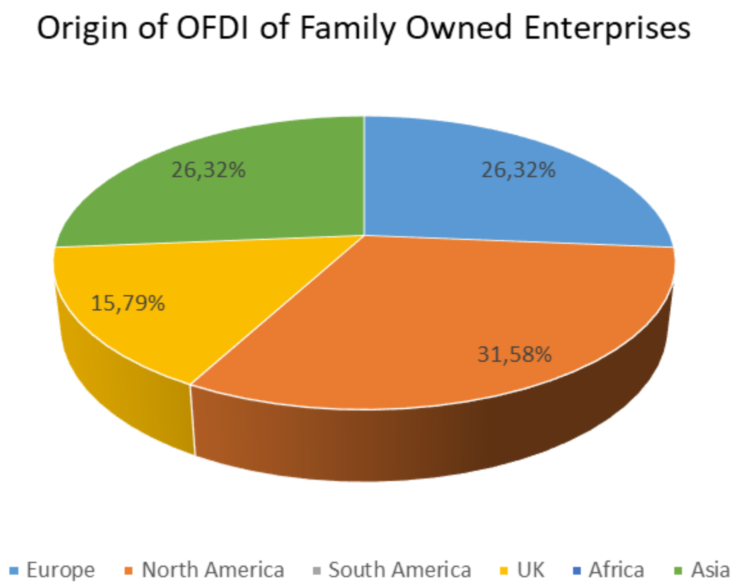


Figure 26: origin cross-border M&AS done by family owned companies considered in the sample

[284] Nianhang Xu & Quingbo Yuan & Xuanyu Jiang; Founder's political connections, second generation involvement, and family firm performance: Evidence from China; Journal of Corporate Finance (Volume 33 Issue 2); August 2015; pages 243-259

In emerging nations where laws and the market do not provide enough certainties, political connections can be the signal to the market that the firm is characterized or of a good quality or that it has a recessive guarantee and protection from government. In those countries political connections are a certification and an endorsement for family firm's economic activities. Cross -border M&A deals conducted by politically-connected family firms, receive a better market response.

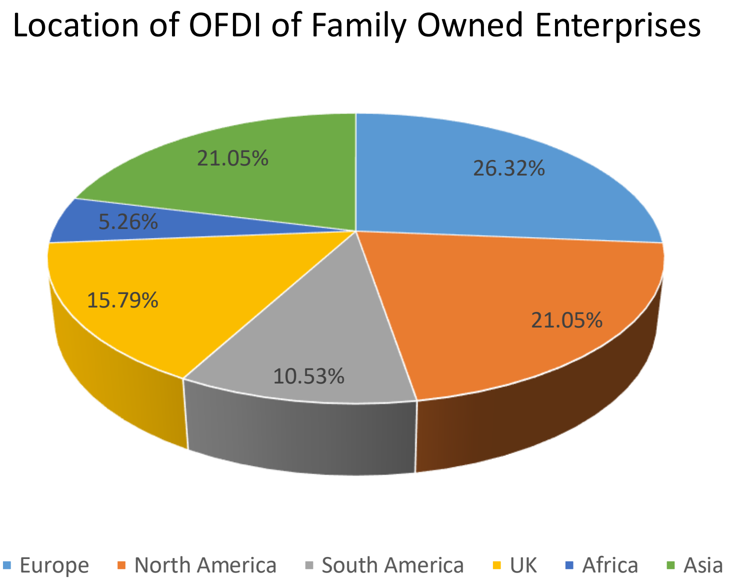


Figure 37: origin cross-border M&AS done by family owned companies considered in the sample

Those companies prefer to invest in culturally well-known and developed nations. The only motivation to undertake this expenditure in a different country is the presence of a really appetizing opportunity that can open new possibility (rare source, entering in a new market with good possibility of growth, etc…) or for the intention to acquire a major competitor well positioned in the international market.

Family firm have a better response from the stock exchange market when a cross-border deal is formalised. In the 3-day event window there is an average abnormal return of 1.40% while for the 5-day event window the value is 2.68%. Those result are higher than the ones achieved by all the other type of company, almost three times if compared with the SOEs' data. The better answer of the market to the announcement is linked to the ability of this type of company that, thanks to their internal environment, are able to mitigate the negative effect of political connection on M&A performance and the trust of the market that the enterprise will be able to maximize the value from the acquisition. Those results show how when a family firm have a strong relationship with the government, it experiences a positive link between market competition and M&A performances.

As analysed a better answer of the market about this type of information is directly linked with the corporate governance quality of the company, family firms are really careful about that and it is the main explanation of the results found. Many scholars agree about the beneficial effect and how it improves the performance.

Since the cross-border M&A's deal is concluded there is any difference between a family company with a political connection and the others without in the post-deal process. Anyway, the result of the short and long-term cross-border M&A performance both indicate that political can boost the performances, this is possible because they are able to eliminate imperfect market mechanisms' negative effect on their internal development and solve their financing constraints[285].

In the non-family firm political connection is no so beneficial either in the short-term and either in the long-term cross-border M&A performances. This conclusion is leaded by the frequent misallocation of resources, sometimes are even wasted for inefficient M&A deals.

This tie may produce a substitution relationship between political connections and market competition. In this case, there would be a reduction of the positive effect of market competition on long-term M&A performance.

The majority of those companies which undertake a cross-border M&A deals are located in developed economies where there is a bigger amount of resources available. The situation is not the same in developing countries and often the enterprises do not have enough assets for those extraordinary deals. As natural consequence, there is the greatest portion of the pie chart that is in favour of the continents where there are several rich nations which have a longer history in this economic field.

---

[285] Weiwei Gao & Zhen Huang & Ping Yang; Political connections, corporate governance and M&A performance: Evidence from Chinese family firms; Research in International Business and Finance (Volume 50 Issue 1); 13th December 2019; pages 38-53

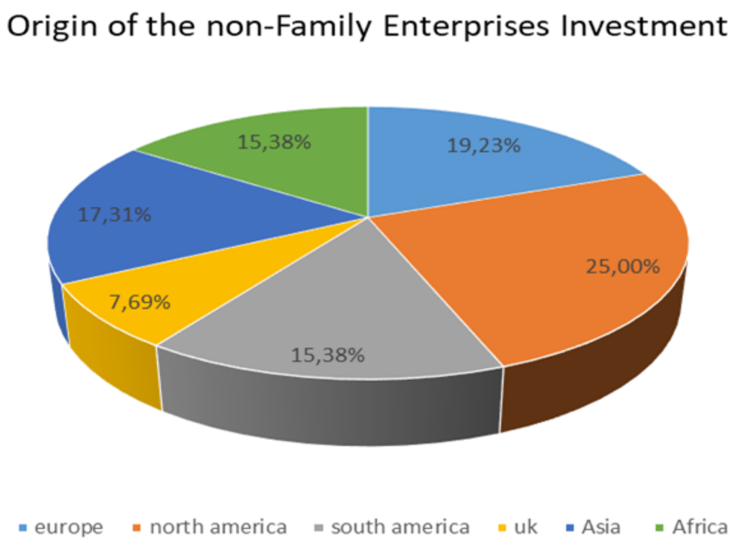


Figure 28: location of the cross-border M&As undertaken by the family owned enterprises considered in the sample

Their cross-border M&As have a various location as final target. The pattern in similar to the ones showed at the beginning of this chapter with just few differences but there is a preference to invest in environments that make easier to forecast the outcomes of as many situations as possible. In a country surrounded by the uncertainty that cannot happen and it is a deterrent for any type of investment. Another reason is the weight of the state in those environment. In this land the government has an active role as regulator because the economy is not able to fix itself and there is the necessity of an outside force that fill this role.

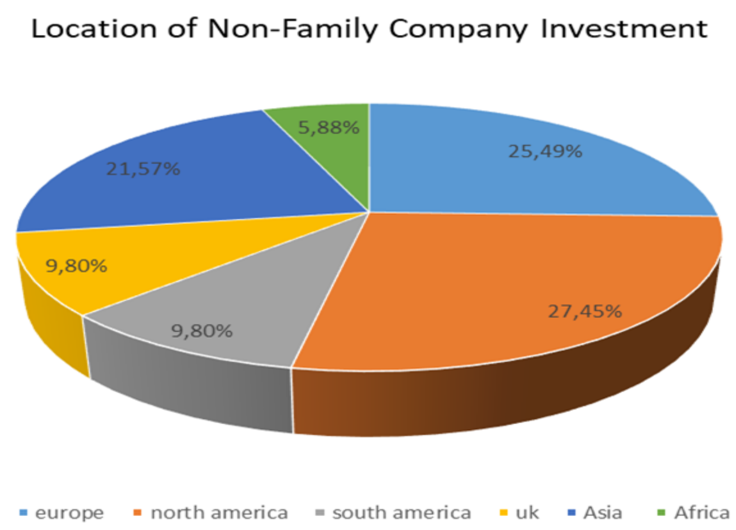


Figure 29: location of the cross-border M&As undertaken by the non-family owned enterprises considered in the sample

Once this introduction is done it is the time to evaluate the average answer of the market to the news of a cross-border M&A deals concluded by a non-family business. Obviously, it has been taken into consideration the same observation period of all the previous. Compared to the family owned company the results are slightly worse both for the 3-day and the 5-day event windows. In the shorter one the average value is 1.09%, while for the longest one the average abnormal return is 2.59%.

3.2.2.1.1 Stellantis Case (Family Enterprise)

During the 2019 it started to circulate a rumour that potentially could completely change the power balance and the fate of the automotive sector. The Italian-American Fiat-Chrysler and the French Peugeot were planning to merge and to create the fourth biggest vehicle producer in the world, the initial estimation settled a total value of $38 billion and around 400 thousands of employees all around the globe.

Both companies have a strong tie with their national governments, the French one is even a shareholder of Peugeot, while Fiat-Chrysler has been really close to the Italian politics since its foundation

It was not the first time that the Italian-American enterprise tried to find a partner. The decade-long research was initiated by Sergio Marchionne, he was the CEO of the company for over a decade, even before the merger with the American Chrysler. The Detroit-based company was saved from the bankruptcy with a federal bail-out during the Obama's administration and at the meantime Fiat acted as white knight. It was just the first step in Marchionne's project, he wanted to find a third partner but all his proposals were rejected. It was only after its unexpected death on July 2018 that his successor, Mike Manley, finally found a potential marriage partner. The other party involved was the French Renault but at the eleventh hours it felt apart. Unexpectedly, a month later the CEO announced a deal with another French enterprise, the Renault's rival Peugeot. The gaps of each company are filled by the other and even from the geographical perspective they matched perfectly with the needs of the other (Peugeot wanted to return in the American market where Fiat-Chrysler has a good market share, while it has a strong presence in China where the Italian-American company has only a modest presence).

On December of the same year, it was signed a first bidding contract but it was modified on September of the following year due to the Covid-19 pandemic that is hurting the automotive sector and the global economy more in general. The sector where those two super-power operate, it has been in crisis for the last decades, there are too many vehicles on the road, so the potential sample of customers is smaller if compared to the one in the past, there are even more cars than drivers (there has been a double-digit decline in global car sales just in the last year and half due to the several lock-downs in the world that obliged people to remain in their apartment and to not use any vehicle). Those issues are even more emphasized by: the fast pace technological change environment of the sector, the COVID-19 pandemic, the necessity to have the minimum scale for cutting the cost and the threat that the transition to the electric vehicle, which is happening faster than predicted by most of analyst, poses to the survive of every automotive company[286].

The President and Chairman of Fiat-Chrysler, John Elkhann, empathised this concept because, as stated by him, “We are living through a profound era of change in our industry” that “will redefine mobility as we know it”. Knowing the moment, analysts had a positive reaction to the news because it allowed to the two parties to cope for cutting costs and for increasing their total potential market share[287].

At the beginning of January 2021, there was the vote by the shareholders of both the companies. Through two separate online meetings the shareholders of Fiat-Chrysler (99.15%) and of Peugeot (99.85%) approved the merger, the deal involved a $58 billion cash movement from Peugeot to Fiat-Chrysler. On January 16, 2021, the merger was concluded and born a new entity called Stellantis.

The first estimation forecasted an increase of the sales for over 8 billion of units per year, an EBIT (Earnings Before Interests and Taxes) of €10 billion on a €180 billion of revenues, those value were calculated just as the sum of the results achieved by the two companies. Most important, it was estimated €5 billion from synergies per year [288].

[286] Paul Eisenstein; Fiat Chrysler and Peugeot shareholders vote to merge, creating world’s fourth-largest car maker; NBC news; 4th January 2021

[287] Jack Ewing; Fiat Chrysler and Peugeot Approve a Merger They Need to Survive; The New York Times (Business Section); 4th January 2021

[288] N.g. (Author Unknown); Fca e Psa a nozze: i numeri del nuovo colosso europero dell’auto da oltre 8 milioni di veicoli all’anno; La Repubblica Economia; 4th January 2021

Before the deal was completed both companies took some critical decision. Fiat-Chrysler paid an extraordinary dividend of €2.9 billion, this amount is inferior to the €5.5 billion previously planned. This was a forced decision because the difference was necessary for safeguarding the liquidity of the new enterprise in the pandemic environment where this merger was next to happen. Peugeot stopped the spin-off of its 46% participation in Faurecia (automotive component producer) until the end of the process because in this way it can share the benefits to the new owners of the company.

Through this merger several brands have been unified under the same entity. The most important and known are: Fiat, Jeep, Dodge, Ram Alfa Rome and Maserati from Fiat-Chrysler; while Peugeot participates with Citroen, Opel, DS and Peugeot[289].

In the following days it was revealed the organization of the new enterprise, now all the rumours are confirmed and Stellantis started to operate. There is a board of director composed by eleven people: six appointed by Peugeot, one is the CEO of Peugeot, and five by Fiat-Chrysler. Stellantis' CEO is Carlos Tavares who has the same role in the French company, while the role of president is filled by John Elkann, he has the same role in the Italian-American counterpart. The three major shareholders (Exor, BpiFrance Participations and Peugot Family) are under a lock-up period of three years. For the same time the three just mentioned and Dongfeng cannot undertaking any extraordinary operations that may compromise the governance, any shareholder can have the power to exercise more than the 30% of votes cast or have a double-voting rights at the shareholder's meeting[290].

The headquarter is in Netherlands. This decision was not welcomed by either the Italian and the France government that perceived this decision as a way to not pay them the right amount of taxes (the tax rate in Netherlands is lower).

Since the day one it was listed in the Milan, Paris and New York Stock Exchange. The answer to the news from the stock exchange markets were enthusiastic. Fiat-Chrysler and Peugeot saw an incredible rise of the value of their shares, in a three-day event window the abnormal returns were about 4% on average for the two, while for the five-day event window over the 7%.

[289] N.g. (Author Unknown); Groupe PSA and FCA agree to merge; STELLANTIS official site; 18th December 2019
[290] N.g. (Reuters Staff); SCHEDA – Fusione Fiat Chrysler-Peugeot: come funziona; Reuters; 26th October 2020

Bruno La Maire, the French economics and finance minister, and Stefano Patuanelli, the Italian counterpart, "warmly welcome" the news about the merger, which created a "new European champion" and they highlighted how "both governments will… pay attention to Stellantis' contribution to industrial employment in Italy and France".

There was a discussion between the new company and the two governments for finding a way to solve all the future potential issues. Stellantis proposed to the two governments to buy some stocks of the company, in this way they can monitor the decisions and the actions undertaken by the enterprise. The answer to this proposal from the Italian and the French were at the opposite, while Bruno La Maire expressed the indifference from its government because shielded by the direct participation in Peugeot (5.7%), its Italian counterpart Stefano Patuanelli showed interest but since the end of Conte's government and the beginning of Draghi's one the situation has never been discussed again in the political rooms[291].

It looked like the situation was solved, on May the Italian government even conceded a credit line of €6.3 billion directly linked with some points to respect for the company (the most important to not lay-off any employees). The fears of the two states became reality during this summer, Stellantis decided to close the credit and to be financed by 29 international financial institutions, the next step of the plan was clear to all the parties involved. The new born company announced an internal restructuration with an important cut on the number of people needed in its factories. In all the Italian and French establishments there were strikes and complaints from the labour associations[292].

The Covid-19 had a big impact on the sale of the two enterprises. All their brands experienced a drop of the total revenues of over the 10% if compared to the results reported before the pandemic. It is important to highlight how in this half of year Stellantis is performing better than how did last year, there has been an increase of €4.1 billion compared to the previous year but it is still lower to the results of 2019. Fiat-Chrysler is the party which weight more on the total results achieved but it is Peugeot that is performing better compared to the past, thanks to its increasing in sales (Peugeot

[291] Giuseppe Fonte & Giulio Piovaccari & Giulia Segreti & Jason Neely; Italy, France did not discuss Rome buying Stellantis stake: minister; Reuters; 19th March 2019

[292] Daniele Lipaldo & Alberto Brambilla; Stellantis Considers Restructuring Melfi Plant for Electric Cars; Bloomberg; 15th June 2021

208 and 2008 are the continent's best-selling models), Stellantis has passed Volkswagen as vehicle seller in the European market[293].

From many perspectives "it is a wonderful industrial operation, and a sign of cooperation and willingness of Italy and France to work together", but also a potential threat that has to be properly managed for avoiding any future issue.

3.2.2.2 Vodafone AirTouch-Mannesmann Case (Non-Family Enterprise)

On February 4, 2000, it was done the story. The Britain powerhouse Vodafone AirTouch PLC completed the acquisition of German conglomerate Mannesmann AG. That transaction did not just reshape the mobile telecom marketplace but it still is the largest cross-border M&A done in the history, the total expense was around $198 billion. It created the world's largest mobile telecom provider but also a case in German history, it was the first big unfriendly acquisition never completed in the country.

The landmark transaction reflected the incredible and abnormal growth that there was in the European M&A sector, it was three time faster than the one experienced by the global market at the time[294].

In that period the two companies were among the most important not just in the European but even in the global telecommunication market. They were operating in a rapidly growing and consolidating industry and competing for being one of the top four to five operators in the world.

Once the deal was concluded the Britain Vodafone AirTouch became the global leader of the telecommunication industry, it operated in 25 countries with 42 million equity subscribers.

This case can be divided in two different moments. The first one when the friendly offer was rejected and the second one, several days after, with the hostile acquisition. The hostile acquisition project started officially on December 17,1999, when the Board of Vodafone AirTouch convened

[293] N.g. (Author Unknow); Semi-Annual Report: As of and for the six months ended June 30, 2021; STELLANTIS: Relazioni Finanziare, 2021

[294] N.g. (Author Unknown); Vodafone Acquires Mannesmann in the Largest Acquisition in History; Goldman Sachs (https://www.goldmansachs.com/our-firm/history/moments/2000-vodafone-mannesmann-merger.html); 2019

to review the company's decision to launch a formal hostile bid for German counterpart Mannesmann[295].

The board of directors' laws are different in the two nations. Germany is famous for its focus on the stakeholder value (maximize the total wealth), while England for the shareholder profit. This difference makes harder in stakeholder oriented countries to conclude a hostile takeover.

The hostile takeover bid from the British mobile group led to a broad debate about the future of the German model of capitalism. Mannesmann works councils and German trade unions strongly rejected Vodafone's proposal, they wanted to defend their national culture of corporate governance, it is based on a strong employee involvement and co-determination. Even with this try to calm down the situation the friendly bid was refused and defined as an "inferior offer" which was "extremely unattractive for Mannesmann shareholder". By many Germans, this proposal was perceived as a "brutal behaviour" by Vodafone and, more important, as a treat for the German culture because it is the expression of the "predator capitalism" (Vodafone was interested only on the mobile phone division and sold all the other divisions). According to the management of the target company a merger was not interesting either from the economical and either from the strategical point of view. The companies had very different structures and economic growth prospects (Vodafone AirTouch was focused on the mobile phones sector while Mannesmann was much more diversified, with four main business divisions operating in: engineering, automotive, tubes and telecommunications).

The answer from the Mannesmann works councillors was even stronger with the declaration by their president, Jürgen Ladberg, that the Mannesmann workforce "would do everything to prevent a takeover". Two times during November 1999 Mannesmann workforce reiterated their unhappiness about the potential deal with a 10-minute token strikes in several companies and through a work councillor under the slogan "against hostile takeover". At the end of "against hostile takeover" meeting it was signed the so-called "Declaration of Düsseldorf" where it was expressed the will to boycott every Vodafone's bid.

This perspective was supported by almost all major political parties in Germany. The Chancellor, Gherard Schröder, summarized the most common though came out from the several debates stating that a hostile takeover would "damage the corporate culture" and "underestimates the virtue of co-

---

[295] N.g. (Reuter Staff); CHRONOLOGY-The deals that made mobile giant Vodafone; Reuters; 11th February 2007

determination”. Stronger was the position took by Hans Eichel, German Minister of Finance, that asked an intervention by the European Community for avoiding “a culture clash between Anglo-American capitalism and the consensual German model”.

The British government responded through the words of Tony Blair, the Prime Minister, who remembered how they “live in a European market… where European companies are taking overs other European companies, are taking over British companies, and vice versa”. The last part was a clear reference to the acquisition completed by Mannesmann a few months earlier in England and how it was irrational and illogical by the German government to block the deal[296].

Acquirers reacted to the critics by saying and assuring that they would fully accept the German system of industrial and corporate governance.

Few months later, on February 17, Vodafone AirTouch was able to convince German company to accept the proposal. The final agreement was really profitable for Mannesmann’s shareholder. They would have the 49.5% of the combined company, contributing for just around a third, and the share price paid was €351, almost the double of the friendly bid, it was around €200 (almost all the analysts agreed that €200 was the right evaluation, just one financial institution made an estimation that it was in line with the final price).

All the expert praised Mannesmann CEO Klaus Esser for extracting the maximize value for its company, despite its opposition to the business. “He’s got them 49.5% of the enlarged group, despite its firm contributing only 35% of operating earnings”, this is the comment of James Downie, cellular analyst at ABN Amro in London, who celebrated the result achieved by the CEO of the Germany-based company[297].

The shares of both companies experienced an incredible rise in the value of their stock. Mannesmann’s shares increased of around the 50% since the friendly proposal, while Vodafone of over the 10%. This mean that from the stock exchange market point of view this was a good operation for both parties and that a positive conclusion was hoped.

---

[296] Thorsten Schulten; Vodafone’s hostile takeover bid for Mannesmann highlights debate on the German capitalism model; Eurofound (European Foundation for the Improvement of Living and Working Conditions); 27th November 1999

[297] N.g. (Author Unknown); Vodafone seals deal: Mannesmann board relents, accepts $198B telecom takeover offer; CNN Money; 4th February 2000

In order to receive the approval from the European regulator Vodafone was forced to sell some assets; there was the fear that it may create a monopoly and through the seals the regulator wanted to avoid this potential issue[298].

In the following years Vodafone continued to grow and to be the global leader of the telecommunication sector, position that still hold today.

[298] Simi Kedia; Vodafone AirTouch's Bid for Mannesmann; Harvard Business School; 22nd August 2003; pages 1-20

Conclusions

The objective of this thesis, as read in the introduction, it is not to give a final answer to a theme that did not receive the right spot through the time but which has a major role through the long and difficult process of the cross-border M&As. It can drastically change the future of the companies and of the nations involved, for this reason it is necessary to study it and to have the knowledge to conduct the negotiation in a proper manner for avoiding a loss of time and resources.

All began with two questions: “Do the governments have or not a role in the cross-border M&As?” and “If they have it, do they bring an extra-value to the companies involved? Do not?”. Considering what read previously in the three chapters, the answers for both questions have to be affirmative. The link between the politics and a company can be a fundamental asset because otherwise it would not be accepted and sought by enterprises. This could be perceived as a self-evident truth but until now all the researches were focused just about the potential beneficial effects on domestic M&As. From the cross-border point of view was analysed exclusively about the impact of managerial role filled by someone who had a political experience or is still active in this field.

Just taking into consideration all the information in the first two chapters, it is possible to have a preliminary answer but it was necessary to have the evidences for demonstrate the obvious and in the last one we found them. With an average abnormal return of 1.00% in a 3-day event window and 2.17% in the 5-day event window it is possible to state without any doubt that this link is not just perceived but it is beneficial for the market. Also in the long run this tie help to have better performances than the one experienced by companies that do not have, so it is an asset for an enterprise.

Once it was found the average value, the attention shifted to all the difference typology of companies. The modus operandi remained the same from the generic to the particular. While SOEs are a category by themselves, non-SOEs are the biggest group that can be divided into two subgroups the family and the non-family businesses.

State-Owned Enterprises have to follow the government’s desire but since they start to operate abroad they have more freedom and they need to operate as a private company, so they have an abundancy of resources followed with an organization that will be more in line with the private; this means to have all the pros and minimize the cons. By the way, they are the type of company which achieved the lowest values (0,59% and 1,14%) but it can be explained by the larger number of deals concluded where the seller operated in strategic sectors for national security, so it is necessary to offer a bigger premium, if the price is higher the market it will not be happy about it. In a three-year time period the result achieved by those companies are superior than those of the non-politically connected but inferior to the politically connected non-SOEs, this can be explained because even if they operate as a common company, at higher levels have to follow the government's desire and that could bring to take unprofitable decision, even if less once they start to operate abroad.

Once the estimation of the impact on SOEs was done, it was the moment of non-SOEs. As easily forecastable, the results achieved by those are superior. The cumulative abnormal return experienced on average are more than the double in the short-term (1,18% and 2,62%) while in the long-term the difference is even bigger. In this case the firm has a unique objective that is to increase the wealth of its shareholders. They do not need to maximize the collective benefit and this allow to undertake only the deals that are economically profitable and this difference is even more important in a medium-long time horizon.

There is a last differentiation that was necessary to do. This was the only forecast difficult to do. The family and the non-family owned company have a different structure but with the same objectives. The divergence is on who fill the decisional spots. In family-owned companies those roles owned by the members of the family; while in non-family owned companies the decisions are taken from individuals that do not have any blood relation with the owner. It is the desire to pass from a generation to the following an asset at its best that probably make the difference, the short-term profit is not important because the long-term one is the focus and the centrepiece of every actions, from the daily to the extraordinary. On the other hand, in non-family businesses the managers have to satisfy the shareholders' desires, this may lead to undertake wrong decision for following the needs and ideas of the owners. They are the explanation for a 22% lower result in the 3-day event window and for a 3% lower result in the 5-day event window. In the long-term there is any difference if they have or not a political connection and if they are a family or a non-family company.

The data collected are not enough to state that the values calculated in this thesis are correct, but, at least, they should be close to real ones. The objective of this thesis is to be a good starting point for future researches. The real aim was, since the beginning, to light the shadows that surrounded a really important argument that has been forgotten for a too long time. Once a future research will demonstrate the reliability or less of the values found, the next step should be to study more in detail how the governments can influence the outcomes in emerging and in developed economies.

References

Bibliography and Sitography

BIBLIOGRAPHY

Aguilera R., Dencker J.; The Role of Human Resources Management in Cross-Border Mergers and Acquisitions; The International Journal of Human Resource Management (Volume 15 Issue 8); 21st September 2004; pages 1355-1370

Ahrens N., Zhou Y.; China's Competitiveness: Myth, Reality, and Lessons for the United States and Japan; CSIS (Center for Strategic & International Studies); January 2013

Al-Majaida J.; The press and the social change in the United Arab Emirates (1971-1991); Abu-Dhabi: United Arab Emirates Zayed Centre for Coordination and Follow-up; 2002

Alsaa A.; Promoting UAE-Italy Relations; Akhbar Alsaa; The Emirates Center for Strategic Studies and Research; 22nd November 2012

Amadeo K., Berry-Johnson J.; US Budget Deficit by Year Compared to GDP, Debt Increase, and Events: A Look at Trends and the Deficit-Debt Dynamic; The Balance; 5th March 2021 (last version); online version

Angwin D.; Mergers and Acquisitions Across European Borders: National Perspectives on Pre-Acquisitions Due Diligence and the Use of Professional Advisors; Journal of World Business (Volume 36 Number 1); March 2001; pages 32-57

Angwin D., Mellahi K., Gomes E., Peter E.; How communication approaches impact mergers and acquisitions outcomes; The International Journal of Human Resources Management (Volume 27 Number 20); 3rd December 2014; pages 2370-2397

Arosio P., Masoni D.; ChemChina to buy into Italian tire maker Pirelli in $7.7 billion deal Reuters; 23rd March 2015

Arrows K.; Gifts and Exchanges; Philosophy & Public Affairs (Volume 1 Number 4); Summer 1972; pages 343-262

Auchard E.; IBM, Lenovo Pass US Security Review of PC Deal; Reuters News (Update Version); 09th March 2005

Backer G.; Accounting for Tastes; Harvard University Press, 8th July 1996

Bai C.E., Li D.D., Tao Z., Wang Y.; A Multitask Theory of State Enterprise Reform; Journal of Comparative Economics (Volume 28 Issue 4); December 2000; pages 716-738

Bajarin T.; How a Chinese Company Became a Global PC Powerhouse; Time; 04th April 2005

Baker D.; Chevron completes Unocal deal/ Purchase spells end of 115-year-old oil company; SFGATE; 11th August 2005

Bansal P., Kim S., Lim B.; Special Report: The U.S. and China Start an M&A Cold War; Thomson Reuters; 12th April 2011 (latest version updated)

Baranski Z., West R.; The Cambridge Companion to Modern Italian Culture; Cambridge University Press; December 2001

Baranson J.; Technology Transfer through the International Firm; American Economic Review (Volume 60 Number 2); May 1970; pages 435-440

Barr A., Denomme T., Booth B., Krump J., Sloan K., Slodkowski L., Sterling S.; Department of Defense: Observation of the National Industrial Security Program; Naval Postgraduate School Monterey CA (Approved for public released); 16th April 2008

Baschiera M.; Introduction to the Italian Legal System. The Allocation of Normative Powers: Issues In Law Finding; International Journal of Legal Information: the Official Journal of the International Association of Law Libraries (Volume 34 Issue 2 Article 10); 1st January 2006; pages 278-326

Bertrand O., Betschinger M.A., Settles A.; THE RELEVANCE OF POLITICAL AFFINITY FOR THE INITIAL ACQUISITION PREMIUM IN CROSS-BORDER ACQUISITIONS; Strategic Management Journal (Volume 37 Issue 10); 5th October 2016; pages 2071-2091

Bilodeau P.O.; IBM Offers Concessions on Lenovo sale to Ease Concern – Update Version n.5; Bloomberg, 24th January 2014

Bortolotti B., D’Souza J., Fantini M., Megginson W.; Privatization and the Sources of Performance Improvement in the Global Telecommunications Industry; Telecommunications Policy (Volume 26 Issues 5-6); 21st March 2002; pages 243-268

Bottazzi L., Da Rin M., Hellman T.; The Importance of Trust for Investment: Evidence from Venture Capital; The Review of Financial Studies (Volume 29 Issue 9); 1st September 2016; pages 2283-2318

Bousvine D.; Troika Is Considering Strategic Alliances IPO (updated version 3); Reuters; 20th January 2007

Bova F., Yang L., State-Owned Enterprise, Competition, and Disclosure; Contemporary Accounting Research (Volume 32 Issue 2); 14th March 2018; pages 596-621

Brahma S., Srivastava K.; Communication, executive retention, and employee stress as predictors of acquisition performance: An empirical evidence; ICFAI Journal of Mergers & Acquisitions (Volume 4 Issue 4); 1st December 2007; pages 7-26

Brockman P., Rui O., Zou H.; Institutions and the performance of politically connected M&As; Journal of International Business Studies (Volume 44 Number 8); 29th August 2013; pages 833-852

Brown S., Warner J.; Using daily stock returns: the case of event studies; Journal of Financial Economics (Volume 14 Issue 1); 1985; pages 2-31

Bruton G., Peng M., Ahlstrom D., Ciprian Stan C.; State-owned enterprises around the world as hybrid organizations; Academy of Management Perspectives (Volume 29 Issue 1); 13th May 2015; pages 92-114

Buck T., Hollinger P., Barber T.; Brussels Backs GdF Golden Share Plan; Financial Times; 8th September 2006

Buckley P., Yu P., Liu Q., Munjal S., Tao P.; The Institutional Influence on the Location Strategies of Multinational Enterprises from Emerging Economies: Evidence from China's Cross-Border Mergers and Acquisitions; Management and Organizational Review (Volume 12 Number 3); 16th September 2016; pages 425-448

Budiman A., Ruiz N.; Key facts about Asian Americans, a diverse and growing population; Pew Research Center; 29th April 2021; online version

Burnett V.; A Bitter Battle for Endesa ends; The New York Times; 2nd April 2007

Byrne M.; Protecting National Security and Promoting Foreign Investment: Maintaining the Exon-Florion Balance; Ohio State Law Journal (Volume 67 Number 4); 2006; pages 849-910

Chaney P.K., Faccio M., Parsley D.; The Quality of Accounting Information in Politically Connected Firms; Journal of Accounting and Economics (Volume 51 Issues 1-2); 8th February 2011; pages 58-76

Chatagnier J.T., Kavakli K.C.; From economic competition to military combat: export similarity and international conflict; SAGE; 17th November 2015; pages 1510-1528

Chen C., Li Y., Luo D., Zhang T.; Helping hands or grabbing hands? An analysis of political connections and firm value; Journal of Banking & Finance (Volume 80); 23rd July 2017; pages 71-89

Chen C.J.P., Zengquan Li Z., Su X., Su Z.; Rent-seeking incentives, corporate political connections, and the control structure of private firms: Chinese evidence; Journal of Corporate Finance (Volume 17 Issue 2); 2nd April 2011; pages 229-243

Chen Q., Goldstein I., Jiang W.; Price informativeness and investment sensitivity to stock price; Review of Financial Studies (Volume 20 Issue 3); 6th May 2007; pages 171-181

Cheung Z., Aalto E., Nevalainen P.; Institutional Logics and the Internationalization of a State-Owned Enterprise: Evaluation of International Venture Opportunities by Telecom Finland 1987-1998; Journal of World Business (Volume 55 Issue 6); October 2020; 8th September 2020; pages 1-16

Chua J., Chrismas J., Sharma P.; Defining the Family Business by Behavior; Entrepreneurship Theory and Practice (Volume 23 Issue 4); 1st July 1999; pages 113-130

DarnisJ.P.; The Political Rollercoaster of Italian-French Relations; Istituto Affari Internazionali; 20th February 2019

De Nisco A., Mainolfi G.; COMPETITIVENESS AND FOREIGN PERCEPTION OF ITALY AND MADE IN ITALY ON THE EMERGING MARKETS; Rivista Italiana di Economia Demografia e Statistica (Volume 70 Number 3); July-September 2016; pages 15-28

De Sia L.; France and Italy: Is it the momentum for a new European path?; THE NATOLIN BLOG (College of Europe); 14th April 2020

Dialer D., Ritcher M.; Lobbying in the European Union Strategies, Dynamics and Trends; Richter & Margarethe editor; 2019

Dinc S., Erel I.; Economic Nationalism in Mergers and Acquisitions; The Journal of Finance (Volume 68 Issue 6); 12th December 2013; pages 2471-2514

Di Giovanni J.; What Drives Capital Flows? The Case of Cross-Border M&A Activity and Financial Deepening; Journal of International Economics (Volume 65 Issue 1); January 2005; pages 127-149

DiMaggio P., Structural analysis of organizational fields: A blockmodel approach; Research in Organizational Bahavior (Volume 8); 1986; pages 335-370

Dinkloh P.; E. ON completes takeover of Endesa assets earl; Reuters; 26th June 2009

Dixon W., Moon B.; Political similarity and American foreign trade patterns; Political Research Quarterly (Volume 46 Number 1); March 1993; pages 4-25

Downling M., Vanwalleghem D.; Gulf Cooperation Council cross-border M&A: Institutional determinants of target nation selection; Research in International Business and Finance (Volume 46), December 2018, pages 471-489

Duffin E.; Nationalism in the U.S. – Statics and Facts; Statista (Economy & Politics Section); 9th September 2020

Durlauf S., Fafchamps M.; North Holland; Social Capital (Handbook of Economic Growth); 9th December 2005; pages 1639-1699

Eisenstein P.; Fiat Chrysler and Peugeot shareholders vote to merge, creating world's fourth-largest car maker; NBC news; 4th January 2021

Elatskov A.B.; Generalized Types of Geopolitical Models; Geography and natural resources Volume 40 part 3; 2nd April 2019; pages 215-220

Enderwick P.; Understanding the rise of global protectionism; Thunderbird International Business Review (Volume 53 Issue 3); 14th April 2011; pages 325-336

Engelberg S., Tolchin M.; Foreigners find new ally in U.S. industry; The New York Times; 2nd November 1993

Eppner S., Ganghof S.; Institutional veto players and cabinet formation: The veto control hypothesis reconsidered; European Journal of Political Research (Volume 56); 2017; pages 169-186

Evenett S.; The US-Sino Currency Dispute: New Insights from Economics, Politics, and Law; VoxEU.org Report; 15th April 2010

Ewing J.; Fiat Chrysler and Peugeot Approve a Merger They Need to Survive; The New York Times (Business Section); 4th January 2021

Fan P.H.J., Wong T.J., Zhang T.; Politically connected CEOs, corporate governance, and Post-IPO performance of China’s newly partially privatized firms; Journal of Financial Economics (Volume 84 Issue 2); 1st May 2007; pages 330-357

Faccio M.; Politically Connected Firms; American Economic Review (Volume 96 Number 1); March 2006; pages 369-386

Faccio M., Masulin R., McConnell J.; Political Connections and Corporate Bailouts; The Journal of Finance (Volume 61 Issue 6); 11th January 2007; pages 2597-2635

Faccio M.; Differences Between Politically Connected and Nonconnected Firms: A Cross-Country Analysis; Financial Management (Volume 39 Issue 3); 16th September 2010; pages 905-928

Fan P.H.J., Wei J., Xu X.; Corporate Finance and Governance in Emerging Markets: a Selective Review and an Agenda for Future Research; Journal of Corporate Finance (Volume 17 Issue 2); 7th April 2011; pages 207-2014

Fan P.H.J., Wong T.J., Zhang T.; Politically Connected CEOs, Corporate Governance, and Post-IPO Performance of China’s Newly Partially Privatized Firms; Journal of Financial Economics (Volume 84 Issue 2); 8th May 2007; pages 330-357

Fickling D.; China’s Giant Crop Takeover Has Failed. Time to Admit IT; Bloomberg Opinion Business; 11th December 2020

Fonte G., Piovaccari G., Segreti G., Neely J.; Italy, France did not discuss Rome buying Stellantis stake: minister; Reuters; 19th March 2019

Freeman A.; Enel Chief Says GDF-Suez Merger is Protectionism; Bloomberg (version updated); February 2006

Gambetta D.; Trust: Making and Breaking Cooperative Relations Oxford: Black-well press; 29th April 1988

Gao W., Huang Z., Yang P.; Political connections, corporate governance and M&A performance: Evidence from Chinese family firms; Research in International Business and Finance (Volume 50 Issue 1); 13th December 2019; pages 38-53

Garcia-Canal E., Guillén M.F.; Risk and the strategy of foreign location choice in regulated industries; Strategic Management Journal (Volume 29 Issue 10); 8th May 2008; pages 1097-1115

Garrison J.; Managing the U.S.-China Foreign Economic Dialogue: Building Greater Coordination and New Habits of Consultation; Asia Policy (National Bureau of Asian Research, Number 4); July 2007; pages 165-186

Gilpin R., Gilpin J.M.; The Political Economy of International Relations; Princeton University press; 21st June 1987

Goldman E., Rocholl J., So J.; Politically Connected Boards of Directors and The Allocation of Procurement Contracts; Review of Finance (Volume 17 Number 5); 11th January 2013; pages 1617-1648

González-Enríquez C.; The Spanish Exception: Unemployment, inequality and immigration, but no right-wing populist parties; Real Instituto Elcano (Royal Institute); 14th February 2017

Gow D.; French market watchdog may investigate Danone; The Guardian (Business Section); 26th July 2005

Graham E., Marchick D.; US National security and Foreign Direct Investment; Peterson Institute for International Economics: Washington DC (PIIE); May 2006

Gu L., Reed W.R.; Do Chinese Acquirers Fail in Overseas M&As?; Economic Research Journal (Volume 46 Issue 7); June 2011; pages 116-129

Guiso L., Sapienza P., Zingales L.; Does Culture Affect Economic Outcomes?; Journal of Economic Perspectives (Volume 20 Number 2); Spring 2006; pages 23-48

Gupta N., Yu X.; Does money follow the flag?; SSRN Electronic Journal; 7th February 2009; pages 1-33

Hart O.; Firms, Contract, and Financial Structure; Oxford University Press; 1996

Haveman H.A., Jia N., Shi J., Wang Y.; The Dynamics of Political Embeddeness in China; Administrative Science Quarterly (Volume 62 Issue 1); 23rd June 2016; pages 67-104

Heard-Bey F.; The United Arab Emirates: Statehood and National-Building in a Traditional Society; Middle East Journal: Democratization and Civil Society (Volume 59 Number 3); Summer 2005; pages 357-375

Heinemann A.; GOVERNMENT CONTROL OF CROSS-BORDER M&A: LEGITIMATE OR PROTECTIONISM?; Journal of International Economic Law 15 (Version 3); 26th July 2012; pages 843-870

Helleiner E., Pickel A.; Economic Nationalism in a Globalizing World; Cornell University Press; 2005

Hong J., Wang C., Kafouros M.; The Role of the State in Explaining the Internationalization of Emerging Market Enterprises; British Journal Management (Volume 26 Issue 1); January 2015; pages 45-62

Hopkyns S.; The effects of Global English on culture and identity in the UAE: a double-edged sword; Learning and Teaching in Higher Education: Gulf Perspectives (Volume 11 Number 2); 1st August 2014; pages 43-63

Hoti S.; The International Country Risk Guide: An Empirical Evaluation; University of Western Australia (Department of Economics; January 2003

Hur J., Parinduri R.A., Riyanto Y.E.; CROSS-BORDER M&A INFLOWS AND QUALITY OF COUNTRY GOVERNANCE: DEVELOPING VERSUS DEVELOPED COUNTRIES; Pacific Economic Review (Volume 16 Issue 5); 8th December 2011, pages 638-655

Hyun H.J., Kim H.H.; The Determinants of Cross-Border M&As: The Role of Institutions and Financial Development in the Gravity Model; World Economy (Volume 33 Number 2); February 2010; pages 292-310

Jackson J.; The Committee on Foreign Investment in the United States (CFIUS); CRS Report (Prepared for Members and Committees of Congress); 14th February 2020

Jensen M.C.; Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers; The American Economic Review, Papers and Proceedings of the Ninety-Eight Annual Meeting of the American Economic Association (Volume 76 Number 2); May 1986; pages 323-329

Kedia S.; Vodafone AirTouch's Bid for Mannesmann; Harvard Business School; 22nd August 2003; pages 1-20

Keeler T.J.; The United States Rejects Chinese Investment on National Security Grounds; Mayer Brown; 22nd December 2009

Kennedy S.; IBM PC Unit Sale to Lenovo Faces Hurdle, People Say; Bloomberg; 24th January 2005

Khan M.A., Khan M.A., Abdhulahi M.E., Liaqat I.; Institutional Quality and Financial Development: The United States Perspective; Sayyed Sadaquat Hussain Shah; Journal of Multinational Financial Management (Volume 49); March 2019; pages 67-80

Kindleberger C.P.; American business abroad; Thunderbird International Business Review; Spring 1969; pages 11-12

Koska O.A.; Gains from multinational competition for cross-border firm acquisition; Economics Journal; 19th February 2018; pages 376-391

Kroes N.; Structural Reforms to the Energy Market European Affairs Platform (Speech); European Affairs Platform; 27th February 2008

Lebedev S., Peng M., Xie E., Charles Stevens C.; Mergers and Acquisitions in and out of emerging economies; Journal of World Business (Volume 50 Issue 4); October 2015; pages 651-662

Lemon S.; Report: Lenovo-IBM Deal to Face Review IDG News Service, 28th January 2005

Lenihan A.T.; Balancing Power without Weapons: State Intervention Cross-Border Mergers and Acquisitions; Cambridge University Press; 22nd March 2018

Li S., Huang S.; Politics, culture and M&As' transaction completion; Nankai Business Review International (Vol.9 No. 3); 6th August 2018; pages 264-288

Li Y.; Cross-Cultural Communication within American and Chinese Colleagues in Multinational Organizations; Proceedings of the New York State Communication Association (Volume 2010 article 7); 16th April 2012; pages 113-131

Lieber R.J.; The American Era: Power and Strategy for the 21st century; Cambridge Press, 12th September 2005; pages 211- 227

Lifang S.; ChemChina completes acquisition of Syngenta; XINHUANET, Xinhuanet App mobile version; 8th June 2016

Lipaldo D., Brambilla A.; Stellantis Considers Restructuring Melfi Plant for Electric Cars; Bloomberg; 15th June 2021

Liu X., Gao L., Lu J.., Lioliou E; Environmental Risks, Localization and the Overseas Subsidiary Performance of MNEs from an Emerging Economy; Journal of World Business (Volume 51 Issue 3); 3rd April 2016

Liu Q., Luo T., Tian G.G.; How do political connections cause SOEs and non-SOEs to make different M&A decisions/performance? Evidence from China; Accounting and Finance (Volume 59 Issue 4); 13th December 2019; pages 2579-2619

Luo Y., Xue Q., Han B.; How emerging market governments promote outward FDI: Experience from China; Journal of World Business (Volume 45 Issue 1); January 2010; pages 68-79

Mackay E.; Law and Economics for Civil Law Systems; Edward Elgar Publisher; 27th June 2014

Mamadouh V., Dijkink G.; Geopolitics, International Relations and Political Geography: The Politics of Geopolitical Discourse Geopolitics; 2006, pages 349-366

Makin J.H.; Japan's investment in America: is it a threat? Challenge; Taylor & Francis (Challenge Vol. 31 n. 6); November/ December 1988; pages. 8-16

Maqueda A.; Spaniards now wealthier than Italians (but only according to the IMF); El Pais (Economy); 20th April 2018

Markowitz J.N., Fariss J.N; Power, proximity, and democracy: geopolitical competition in the international system Journal of Peace Research Volume 55 No.1; 21st December 2017; pages 78-93

Mazzei G., Baldassare A.; Lobby della Trasparenza: manuale di relazioni istituzionali; Roma: Centro di documentazione Giornalistica; 2017, 187-201

McWilliams A., Siegel D.; Event studies in management research: theoretical and empirical issues; Academy of Management Journal (Volume 4 Number 3); 1st June 1997; pages 626-657

Megginson W., Netter J.; From State to Market: A Survey of Empirical Studies on Privatization; Journal of Economic Literature (Volume 39 Number 2); 3rd June 2001; pages 321-389

Meunier S.; A Faustian bargain or just a good bargain? Chinese foreign direct investment and politics in Europe; Asia Eur Journal (Springer); 8th March 2014; pages 143-158

Moeller S., Schlingemann F., Stulz R.; Wealth Destruction on a Massive Scale? A Study of Acquiring-Firm Returns in the Recent Merger Wave; The Journal of Finance (Volume 60 Number 2); 9th April 2005; pages 757-782

Murtha T., Lenway S.A.; Country Capabilities and Strategic State: How National Political Institutions Affect Multinational Corporation’s Strategies; Strategic Management Journal (Volume 15 Special Issue); Summer 1994; pages 113-129

Musacchio A., Lazzarini S.G., Aguilera R.V.; New varieties of state capitalism: Strategic and Governance implications; Academy of Management Perspectives (Volume 29 Number 1); 13th January 2015

Nathan A., Scobell A.; How Chinas Sees America: The Sumof Beijing’s Fears; Council on Foreign Relations (Volume 91 Number 5); September/October 2012; pages 32-47

N.g. (Author Unknown); Peer Review Practices and Federal Science Agencies Vary; Report to Congressional Requesters, March 1999

N.g. (Author Unknown); Vodafone seals deal: Mannesmann board relents, accepts $198B telecom takeover offer; CNN Money; 4th February 2000

N.g (Author Unknown); Lenovo to Acquire IBM Personal Computing Division: Creating New Leading PC Business with Global Market Reach; IBM official site (https://news.lenovo.com/pressroom/press-releases/lenovo-to-acquire-ibm-personal-computing-division/); 07th December 2004

N.g. (Author Unknown); Jacques Cirac se porte à la rescousse de Danone; LeDevoir (economy section), 22nd July 2005

N.g. (Author Unknown); PepsiCo-Danone merger rumoured; DairyFoods (Volume 106 Issue 8); 1st August 2005

N.g. (Author Unknown); Suez-GdF Deal Raises Question of Government Intervention; Forbes; 01st March 2006

N.g (Author Unknown); Forum: OPA Enel?; Boursier.com; 14th March 2006

N.g. (Author Unknown); Commission approves merger of Gaz de France and Suez, subject to conditions; European Commission; Press release, 14th November 2006

N.g (Author Unknown); Unions Win Important Legal Battle in GdF-Suez Merger Saga; I.C.E.M. (International Federation of Chemical, Energy, Mine and General Workers' Union); The New York Times (International Herald Tribune); 27th November 2006

N.g. (Reuter Staff); CHRONOLOGY-The deals that made mobile giant Vodafone; Reuters; 11th February 2007

N.g (Author Unknown); Endesa, Enel merger conditions might break EU laws: EC; McGraw-Hill, Inc.; 5th October 2007

N.g (Author Unknown); 2008 Merger Prospectus; GdF Suez; GdF Suez Environnement; 13th June 2008

N.g (Author Unknown); ENEL COMPLETES ACQUISITION OF 25.01% OF ENDESA; N.G; official announcement of Enel (Enel Explorer Media); 25th June 2009

N.g (Reuters Staff); FACTBOX: Yuan vs Dollar: Who Said What In 2009?; Reuters, 13th November 2009

N.g. (Author Unknown); THE SPANISH BALANCE OF PAYMENTS AND INTERNATIONAL INVESTMENT POSITION; Banco de Espana; Official Report, 2010

N.g (Author Unknown); Lenovo set to Close Acquisition of IBM's x86 Server Business: Acquisition to strengthen Lenovo's position as global, diversified tech leader, accelerates growth of enterprise and cloud strategies; IBM News Room, 29th September 2014

N.g (Author Unknown); Chinese Takeover of Pirelli Met with Resignation in Italy; IndustryWeek (France Press); 23rd March 2015

N.g. (Author Unknown); 2005 REPORT TO CONGRESS of the U.S-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION; U.S Government Printing Office (Washington), 109th Congress First Session; November 2015

N.g. (Author Unknown); ChemChina offers to buy Syngenta for $43 billion; BBC News; 3rd February 2016

N.g. (Author Unknonw); Syngenta Shareholders Accept ChemChina Offer; Syngenta Global Official Web Site; 5th May 2017

N.g. (Author Unknown); Groupe PSA and FCA agree to merge; STELLANTIS official site; 18th December 2019

N.g. (Author Unknown); Vodafone Acquires Mannesmann in the Largest Acquisition in History; Goldman Sachs; 2019

N.g. (Reuters Staff); SCHEDA – Fusione Fiat Chrysler-Peugeot: come funziona; Reuters; 26th October 2020

N.g. (Author Unknown); Fca e Psa a nozze: i numeri del nuovo colosso europero dell'auto da oltre 8 milioni di veicoli all'anno; La Repubblica Economia; 4th January 2021

N.g (Author Unknown); United States External Debt: % of GDP; CEIC Data; 2021

N.g. (Author Unknow); Semi-Annual Report: As of and for the six months ended June 30, 2021; STELLANTIS: Relazioni Finanziare, 2021

N.g (Author Unknown); The Establishment of Sino-U.S. Diplomatic Relations and Vice Premier Deng Xiaoping's visit to the United States; Ministry of Foreign Affairs of the People's Republic of China

N.g (Author Unknown); Bilateral Relationship; United Arab Emirates Ministry of Foreign Affairs & International Cooperation

Ning L., Kuo J.M., Strange R., Wang B.; International Investors' Reactions to Cross-Border Acquisition by Emerging Market Multinationals; International Business Review (Volume 23 Issue 4); 28th August 2014; pages 811-823

Noh G., Shin D.; The different influences of the government and politicians on the international expansion of Chinese firms; Asian Business & Management (Volume 17 Issue 2); 20th August 2018; pages 366-396

North D.C.; Economic Performance Through Time; The American Economic Review (Volume 84 Number 3); June 1994; pages 359-368

Ook S., Wainwright J., Glassman J.; Geopolitical Economy and the production of the territory: The Case of the US-China. Geopolitical-Economic competition in Asia, SAGE Journals; 4th April 2017; pages 416-436

Osborn A.; Russia Threatens to Cut Off Gas to Belarus; The Independent; 29th December 2006

Paul T.V.; Soft Balancing in the Age of U.S. Primacy; The MIT Press (International Security, Volume 30); Summer 2005; pages 46-71

Peng M., Health P.S.; The Growth of the Firm in Planned Economies in Transitions: Institutions, Organizations, and Strategic Choice; The Academy of Management Review (Volume 21 Number 2); 1st April 1996; pages 492-528

Peng M.; Towards an Institution-Based View of Business Strategy; Asia Pacific Journal of Management (Volume 19 Issue 2); August 2002; pages 251-267

Peng M., Li Sun S., & Brian Pinkham, Chen H.; The Institution-Based View as a Third Leg for a Strategy Tripod; Academy of Management Perspectives (Volume 23 Number 3); August 2009; pages 63-81

Perotti E.; Credible Privatization; The American Economic Review (Volume 85 Number 4); September 1995; pages 847-859

Petracca M.P.; The politics of Interests: Interest group transformed; Taylor and Francis, 2018; pages 132-140

Piacentino D., Fazio G.; A Spatial Multilevel Analysis of Italian SMEs' Productivity; Spatial Economic Analysis (Volume 5 Number 3); September 2010; pages 299-316

Prince T.; Baer J; JP Morgan Held Talks to Buy Troika Dialog, People Say (update version 2); Bloomberg; 28th August 2008

Ramamurti R.; The obsolescing "bargaining model"? MNE-host developing country relations revisited; Journal of International Business Studies (Volume 32 Issue 1); 1st March 2001; pages 23-40

Roberts J.; From Yoghurt to Steel: French Economic Nationalism in Defensive Mode; Economic and Political Weekly (Volume 41 Number 25), 24th-29th June 2006, pages 2531-2533

Roden D.; Suez-Gaz de France. European Research; European Merger Report; Lehman Brothers; 12th June 2006

Rossi S., Volpin P.; Cross-Country Determinants of Mergers and Acquisitions; Journal of Financial Economics (Volume 74 Issue 2); November 2004; pages 277-304

Rutenberg J.; Kramer A.E.; As Tension Rise, US and Moscow Falter on Trade; The New York Times; 16th July 2006

Saha S.; CFIUS Now Made in China: Dueling National Security Review Frameworks as a Countermeasure to Economic Espionage in the Age of Globalization; Northwestern Journal Law & Business Volume 33 Issue 1; Fall 2012, pages 199-235

Salin P.; Competition and Free Trade; Routledge; December 2019, pages 13-15 web version

Scott M.; An Uncertain Future for Europe's Utilities; Bloomberg; 26th February 2008

Schulten T.; Vodafone's hostile takeover bid for Mannesmann highlights debate on the German capitalism model; Eurofound (European Foundation for the Improvement of Living and Working Conditions); 27th November 1999

Sherman L.; Mayhoola: Inside the Secretive Qatari Luxury Empire; BOF (Business of Fashion); 11th February 2018

Shields M.; ChemChina clinches landmark $43 billion takeover of Syngenta; Reuters; 5th May 2017

Shimizu K., Hitt M., Vaidyanath D., Pisano V.; Theoretical Foundations of Cross-Border Mergers and Acquisitions: a Review of Current Research and Recommendations for the Future; Journal of International Management (Volume 10 Issue 3); 12th December 2004; pages 307-353

Shleifer A., Vishny R.W; Corruption; Quarterly Journal of Economics (Volume 108 Number 3); August 1993; pages 599-617

Shleifer A., Vishny R.W.; Politicians and Firms; The Quarterly Journal of Economics (Volume 109 Number 4); November 1994; pages 995-1025

Shleifer A.; Government in Transition; European Economic Review (Volume 41 Issues 3-5); 5th April 1997; pages 385-410

Sojli E., Tham W.W.; Foreign Political Connections; Journal of International Business Studies (Volume 48 Issue 2); 31st January 2017; pages 244-266

Sparke M.; Neoliberal regime changes the remaking of global health: from rollback disinvestment to rollout reinvestment and reterritorialization; Review of the International Political Economy Volume 27, 2nd July 2019; pages 48-74

Stalenheim P., Fruchart D., Omitoogun W., Perdomo C.; SIPRI; 2006 (Chapter 8 Military Expenditure); 2006; pages 295-325

Stoian C., Mohr A.; Outward foreign direct investment from emerging economies: escaping home country regulative voids; International Business Review (volume 25 Issue 5); October 2016; pages 1124-1135

Sullivan M.C.; The End of an Era; Newsweek; 03rd December 2004

Sullivan M.C.; Mining for Meaning: Assessing CFIUS's Rejection of the Firstgold Acquisition; 4Publicist, 15th December 2010

Swain M.D., Tellis A.J.; Interpreting China's Grand Strategy: Past, Present, and Future; Rand Corporation; 2000

Syedain H.; Leadership Lessons: Russia's Global Banker. Interview with Ruben Vardanian, President Troika Dialog.; Management Today; 1st April 2007

Sylvers E.; Balked near home, Enel looks outside EU; The New York Times (International Herald Tribune-Business section); 16th August 2006

Theil S.; Close the Door; Newsweek (https://www.newsweek.com/close-door-115475), 11th June 2005

Thomas M.; Lenovo's successful acquisition of the IBM PC Division; Emerald Group Strategic (Direction Volume 32 Issue 9); 12th September 2016; pages 32-35

Timmons H.; China Oil Giant Expected to Vote Wednesday on Unocal Bid; The New York Times; 22nd June 2005

Tsuruoka D.; IBM PC Division Sale to Lenovo Expected to Get Regulator's OK; Investor's Business Daily; 09th February 2005

Vaara E., Tienari J.; On the Narrative Construction of Multinational Corporation: An Antenarrative Analysis of Legitimation and Resistance in a Cross-Border Merger; Organizational Science (Volume 22 Number 2); March-April 2011; pages 370-390

Vaisse M., Sebag C.; France and NATO: an History; Politique Étrangère, May 2009, pages 139-150

Vecchione G., Nifo A.; Measuring Institutional Quality in Italy; Rivista Economica del Mezzogiorno (Volume 1 Issue 2); 2015; pages 157-181

Vo X.V.; Do firms with state ownership in transitional economies take more risk? Evidence from Vietnam; Research in International Business and Finance (Issue 48 Number 1); 21st February 2018; pages 251-256

Walt S.M.; The Origins of Alliances; Cornell University Press (Cornell Studies in Security Affairs); 1987

Wan K.M., Wong K.F.; Economic Impact of Political Barriers to Cross-Border Acquisitions: An Empirical Study of CNOOC's unsuccessful takeover of Unocal; Journal of Corporate Finance (Volume 15 Issue 4); September 2009; pages 447-468

Warburton K.; ITALY: Italian Business Communication Styles; World Business Culture: Delivering Global Communication

Warburton K.; UNITED ARAB EMIRATES: UAE Communication Stiles; World Business Culture: Delivering Global Communication

Watkin T.G.; The Italian Legal Tradition; Routledge; 1997

Williamson O.; The Economic Institutions of Capitalism: Firms, Markets, Relational Contracting; Free Press; 1985

Wingfield B., Lococo E.; A Lenovo Bid for IBM Unit Seen Sparking Security Review; Bloomberg; 23rd January 2014

Xu N., Yuan Q., Jiang X.; Founder's political connections, second generation involvement, and family firm performance: Evidence from China; Journal of Corporate Finance (Volume 33 Issue 2); August 2015; pages 243-259

Yang L., & Zhang J.; Political Connections, Government Intervention and Acquirer Performance in Cross-border Mergers and Acquisitions: an Empirical Analysis Based on Chinese Acquirers; The World Economy (Volume 38 Issue 10); 26th April 2014; pages 1505-1525

Yang L.; Comparison between Chinese and American Cultures from the Perspective of Consumption View; International Conference on Education, Language, Art and Intercultural Communication (Atlantis Press); 31st May 2014; pages 661-664

Yang L.; Comparison of Chinese and Westers' Communication Pattern; International Conference on Education, Language, Art and Intercultural Communication (ICELAIC 2014); 31st May 2014; pages 665-668

Zargani L.; Valentino Fashion Group Sold to Mayhoola for $858M: Trough the acquisition, the Qatar investment group will acquire 100 percent of Valentino Spa and the M Missoni license business; WWD; 12th July 2012

Zargani L.; Valentino's New Owners, Mayhoola for Investments: In July, the investment backed by a private investor group from Qatar agreed to acquire the fashion house; WWD; 15th October 2012

Zhao X., Ma H., Hao T.; Acquirer size, political connections and mergers and acquisitions performance; Studies in Economics and Finance (Volume 36 Number 2); June 2019; pages 311-332

Zhou B., Guo J., Hua J., Doukas A.J.; Does State Ownership Drive M&A Performance? Evidence from China; European Financial Management (Volume 21 Number 1); September 2015; pages 79-105

Zhou C., Witteloostuijn A.V.; Institutional constraints and ecological process: Evolution of foreign-invested enterprises in the Chinese multinational construction industry, 1993-2006; Journal of International Business Studies, Asia and Global Business (Volume 41 Number 3); April 2010; pages 539-556

Zhu H., Chung C.N.; Portfolios of Political ties and Business Group Strategy in Emerging Economies: Evidence from Taiwan; Administrative Science Quarterly (Volume 59 Issue 4); 28th July 2014; pages 599-638

SITOGRAPHY

https://www.statista.com/statistics/955594/worldwide-number-of-cross-border-merger-and-acquisition-deals/

https://www.globalfirepower.com/

http://unctadstat.unctad.org/wds/TableViewer/downloadPrompt.aspx

http://unctadstat.unctad.org/wds/TableViewer/downloadPrompt.aspx

http://www.worldvaluessurvey.org/WVSOnline.jsp

https://worldcompetitiveness.imd.org/eshop

https://www.sipri.org/databases/milex

https://www.pewresearch.org/global/database/indicator/1/country/fr

https://europeanvaluesstudy.eu/

https://www.newsweek.com/close-door-115475

https://datatopics.worldbank.org/world-development-indicators/

https://www.macrotrends.net/countries/USA/united-states/gdp-growth-rate

https://www.macrotrends.net/countries/CHN/china/gdp-growth-rate

https://www.census.gov/

https://www.investors.com/gdpragreement/?back_url=https%3A%2F%2Fwww.investors.com%2Fnews%2F

https://www.newsweek.com/

https://datatopics.worldbank.org/world-development-indicators/

https://news.lenovo.com/pressroom/press-releases/lenovo-to-acquire-ibm-personal-computing-division/

https://www.sipri.org/sites/default/files/Data%20for%20all%20countries%20from%201988%E2%80%932019%20in%20local%20currency.pdf

https://www.endesa.com/en/about-endesa/who-we-are/our-history https://www.boursier.com/forum/blog/doge-di-venezia/opa-enel-i28787-2.html#89557

https://worldcompetitiveness.imd.org/

https://www.ssrn.com/index.cfm/en/

https://www.pewresearch.org/fact-tank/2021/04/29/key-facts-about-asian-americans/

https://dataverse.harvard.edu/dataset.xhtml?persistentId=doi:10.7910/DVN/4YHTPU

https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=US

https://www.ceicdata.com/en

https://www.globalintegrity.org/

https://dataverse.harvard.edu/dataset.xhtml?persistentId=doi:10.7910/DVN/4YHTPU

https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=IT

https://www.istat.it/en/

https://www.worldbusinessculture.com/country-profiles/italy/business-communication-styles/

https://www.worldbusinessculture.com/country-profiles/the-uae/business-communication-style/

https://www.globalintegrity.org/wp-content/uploads/2019/08/GIRScorecard2010_Italy_comments.pdf

https://www.tuttitalia.it/statistiche/cittadini-stranieri-2012/#:~:text=Gli%20stranieri%20residenti%20in%20Italia,Marocco%20(10%2C1%25)

https://www.syngenta.com/en/company/media/syngenta-news/year/2017/syngenta-shareholders-accept-chemchina-offer

http://www.xinhuanet.com/english/2017-06/08/c_136350606.htm

https://www.swissinfo.ch/eng/takeover_chemchina-buys-syngenta-in-record-chinese-deal/41936208

https://www.goldmansachs.com/our-firm/history/moments/2000-vodafone-mannesmann-merger.html