Introduction

Attractivity of Centra and Eastern Europe’s (further referred as CEE) is market can be attributed to it’s favourable environment for foreign investment, EU financing and stable economic growth, outpacing all major economies, as well as an increasingly affluent population of more than 100m people. Companies across a wide range of sectors, from consumer goods to financial services, see it as an appealing territory in which to do business. Attractive tax rates and improving infrastructure as well as an increasing appetite to embrace PPP projects appeal to investors for both M&A and greenfield projects. Another big attraction is the availability of a relatively low-cost, well-educated and skilled workforce, which has made parts of the region a magnet for industries including automotive manufacturing, software and technology. The proximity to Western Europe and its affluent markets is another advantage as far as investors across Europe, Asia and the US are concerned.

Mergers and acquisitions (further referred as M&A) represent, at the present time, characteristic by a considerable volatility of economic activity, one of preferred innovation instruments of companies market value growth, corporate changes and options of strengthening of their competitive advantages in a long-time horizon. Also an admissibility of their crossborder implementation incorporated in a community law of the European union has opened a quite new perspectives and options in relation to these operations. In the context of freedom of settlement within the internal market of the Union, can be M&A also perceived as a specific form of a freedom of movement of persons and capital and specific manner of a corporate mobility. M&A also can have a significant impact on the development of the structure of an
industry, and on its capability to innovate. The European Commission and its directorate-general for competition, acknowledges this in theory, at least since the publication of its 2004 guidelines on the assessment of horizontal mergers¹.

The article provides literature review of relevant theories of M&A, which we aim to present on real data via activity highlights of Middle and East-European countries¹ M&A within a defined time-frame, starting point of which we’ve chosen with regard to data availability, from 2012 to 2017. The data is extracted from recognized databases including CMS Legal Services EEIG² and Deloitte³.

**Themes and theoretical approaches to mergers and acquisitions**

In the economic context, M&A dynamically change the increase/decrease of the value and strategic corporate governance. Their realization has the potential to trigger changes at three levels:

- **national** (or international) – mixing cultures, raising living standards;
- **sectoral** – innovation, increased (decreased) product prices, entry barriers to industry, change in market share, gain (loss) of competitive advantage;
- **enterprise** – changes in business structure, in a production process, in distribution routes, in number of employees.

These are tools the implementation of which can quickly and efficiently respond to market opportunities. Their frequent use simultaneously increases the dynamics of market arrangement. Decision-making on mergers or acquisitions is one of the alternatives for achieving the strategic objectives of an enterprise. The acquisition strategy can then be considered a path to the growth of the enterprise value, a restructuring tool, and/or a tool for restructuring the corporate structure as well as a risk diversification tool. This is so mainly for the following reasons:

- the current organization of a business (a holding) does not produce results consistent with market conditions, owners’ ideas, or management;
- some parts of the business do not achieve the required efficiency;
- there are investment opportunities in other businesses that can lead to enterprise value growth;
- some parts of the business are profitable, yet they do not fit into a new vision;
- a different arrangement of the holding will allow better optimization of tax burden and the use of synergy effects⁴.

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² CMS Legal Services EEIG. *Emerging Europe M&A Reports 2012–2018*  
³ http://www2.deloitte.com/sk/sk.html
Many proposals have been laid and various theories and hypotheses were
developed around the motives for M&A (Ansoff5, Gort6, Jensen7, Manne8, Roll9),
and other scholars have conducted relevant empirical studies based on these theories
and hypotheses. A detailed familiarization with them would considerably exceed the
extent of this paper. However, it is possible to summarize that most common argu-
ments by which the companies substantiate their implementation include an obtain-
ing a synergy effects. These effects can occur due to many causes. Ansoff as the first
researcher who related the synergy theory and the motifs for the M&A, stressed that
mergers and acquisitions were conducted on consideration of efficiency improve-
ment and value creation by synergy effects, including operational, financial, and
managerial synergies. Synergy in this case rely on the hypothesis that two companies
combined can produce more benefits than two companies working independently.
This theory was later expanded by Williamson10. The practitioners frequently men-
tion synergy as the reason why they performed merger and acquisition. On the other
hand, we need to remark that it is disputatious to anticipate the given synergies. The
implementation of the integration of two companies (M&A) might not generate it at
all. There is a whole line of companies, where not only they did not generate any syn-
ergy but also paradoxically, their value has decreased.

Wang and Moini’s11 study summarizes prior relevant theories of M&A
motives. According to the authors, the oldest rationale captured by the literature of
industrial organization is based on the monopoly theory12. At it’s core lies the utili-
zation of mergers and acquisitions as company’s means to improve market share
and impose entry barriers to the industry’s segment thus fixing prices autonomously
and enhance profits. Vertical and conglomerate M&A especially hinder the potential
entrants, while the horizontal ones can quickly enhance the market share by acquir-
ing company’s competition, if the said company is financially strong enough. The
Monopoly theory was once described as the primary explanation for the first big
wave of mergers in the United States between 1887 and 1904.

134&uid=4&uid=70&uid=2
11 Wang D., Moini H., Motives for Cross-border Mergers and Acquisitions: Some Evidence from Danish. Aalborg:
tions%289a0ff029-301e-4fb9-88e0-541f2e9adbed%29.html
http://www.jstor.org/stable/1818020
The (mis-)valuation theory is trying to explain the merger and acquisition phenomena, due to an asymmetric distribution of information about the target, its market price does not mirror its true value. Core of the theory presumes capital market inefficiency in terms of oblique information, thus the acquirers, who know more about the target, will take this chance to buy this undervalued company before those who do not possess this type of information.

Resource dependence theory and resource-based view can be also adopted to account for the logic behind M&A behaviors. M&A is also an option for an enterprise, to reduce its environmental interdependence and uncertainties while are also means to obtain rare resources. Casciaro and Piskorski decomposed the interdependence concept into two, concept of mutual dependence and concept of power imbalance thus developing further the Resource Dependence Theory.

Confronted with the phenomena that many companies have carried out a series of M&A activities, some scholars employed organizational learning theory to explain and explore it. Research on Organizational Learning Theory suggests that routines stemming from experience guide organizational behavior. Greater experience with a specific routine provides opportunities to refine the routine and increases the probability of the routine being used.

Majority of empirical evidence shows the bidding shareholders' wealth, is being destroyed as a side effect of mergers. Hypotheses, such as agency conflict, and bounded rational behavior, have been proposed in an attempt to explain it. Agency conflict, also called managerialism hypothesis, implies that managers as agents reinstalled by owners, tend to prefer their own interests at the expense of the enterprise shareholders, knowingly striking deals that enhance managerial power and, or wealth to greater extend than in the case of shareholders. One may refer to, for example, the empire-building theory, excessive managerial risk aversion, and to the agency cost of free cash flow.

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Under bounded rational hypothesis, process theory, hubris theory (overconfidence), herding theory (imitation), and escalating confirmation bias have been proposed to account for M&A activities. According to the process theory, mergers and acquisitions are not the result of managers’ rational decisions but rather that of an existing process influenced by the managers’ limited information processing capability and their former experience, organizational routines, and political power. Jemison and Sitlin\(^{20}\) gathered illustrative material on how cognitive simplifications and other process factors can affect a merger. At the same time, Roll\(^{21}\) proposed ‘hubris’ as the reason for explaining the engagement of a business in mergers and acquisitions. Later, Scharfstein and Stein\(^{22}\) developed a model of herding through the study of managers’ decision-making on investment. Moreover, Graham\(^{23}\) stated that managers with a low ability would herd, and managers with a high reputation would also herd to protect their reputation.

By Wang and Moini\(^{24}\), an external environment may also affect M&A activities. Over the last century, there are two recurring phenomena: firstly, mergers tend to occur in waves; and secondly mergers have strong tendency to cluster by industry within such a wave. Gort\(^{25}\) proposed disturbance theory and argued that the discrepancies in expectations held by current shareholders and non-shareholders led to a large number of shares changing hands. Specifically, when economic turbulence occurs, the insiders of the companies (potential targets) will turn pessimistic about their future whereas the outsiders (the potential acquirers) turn out to be more optimistic, and then mergers and acquisitions will take place. The result then is a merger wave. Mitchell and Mulherin\(^{26}\) suggest that unexpected shocks, for example, technological, economic, or regulatory shocks to the industries, brought about mergers clustering within industries. Recently, Rossi and Volpin\(^{27}\) have found that better investor protection is correlated with a more active market for mergers and acquisitions.

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Based on the literature review provided, can be concluded that studies are relatively commonly based on hypotheses of efficiency or rather inefficiency of capital markets and rationality or rather irrationality of investors decision-making. Furthermore, mergers and acquisitions tend to serve either as enterprise strategic development tool, or passive responses to external environment disturbances or as irrational behaviors.

Results and Discussion

Figure 1 summarizes a trend of number and total amount of M&A transactions carried out from 2012 to 2017 in Middle and East-European countries. Despite the relatively short period, it is possible to state, that the trend of number of carried out transactions was considerably fluctuating (a year-to-year comparison of 2013 and 2014 shows decrease of 15%, almost the same number of transactions in 2014 (at the level of 2,100) and decrease of 9% for 2015 and 2016 year-to-year comparison). A similar fluctuating development was also in total values of transactions, namely, a year-to-year decrease of 19% in 2012 and 2013, significant decrease of 45% for 2013 and 2014 year-to-year comparison, a year-to-year rise of 38% in 2015 and 2016 and decrease of 17% in 2017 from 2016. The median size of deals, based on EMIS data on 1,308 transactions with disclosed or estimated values, has surprisingly remained unchanged at exactly EUR 11.2m.

![Figure 1. M&A deals by value and volume in Middle and East-European countries (2012–2017)](image)

Source: own elaboration based on data.

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Real estate and construction topped the league table by number of deals in 2017 (Figure 2), and accounting for four of the largest 20 deals across the region. The Czech Republic, Poland and Hungary have been hot spots as investors have turned to CEE for higher returns and the prospect of solid rental growth in an increasingly sophisticated market.

Mining, including oil and gas, was the dominant sector by value in 2017, as it was in 2016, though there were fewer megadeals and the total value was lower. The year was dominated by a clutch of large deals in Russia, including the purchase of a stake in Rosneft for EUR 7.5bn by China’s CEFC and the just over EUR 1.7bn purchase of a stake in the Yzhno-Russkoye oil and gas field by Austria’s OMV group.

Economic buoyancy across CEE has resulted in falling unemployment and rising wages, providing a boost for sectors reliant on consumer demand. Telecoms and IT overtook manufacturing in terms of numbers of transactions, followed by wholesale and retail and finance and insurance. Energy and utilities remain critically important and we see continued interest in energy infrastructure projects as well as energy-from-waste projects as countries seek to balance their fuel needs against environmental commitments.

Wholesale and retail saw a 48% rise in deal values. The sector contributed to one of the year’s megadeals through the purchase of convenience store chain Zabka Polska in Poland by private equity heavyweight CVC for an estimated EUR 1bn.

Across the region, state governments and local authorities remain keen to encourage greenfield investments to bring jobs and prosperity. Work progressed on the new EUR 1.4bn Jaguar Land Rover plant in Slovakia, which has also encouraged developments for related suppliers and logistics companies. As an attractive location for greenfield investors, the challenge still remains of finding suitable large sites earmarked as industrial zones, with good access to transport links and a ready supply of labour29.

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Figure 2. Value of M&A deals by sector (2017)

Figure 3 and Figure 4 summarize most active countries by number of deals and value of deals in 2017. As usual, as the largest economy, Russia saw the most M&A activity in 2017. Deal volumes in Russia were steady compared with 2016, spread across a broad range of sectors as its economy enjoyed a recovery. Despite EU and US sanctions, growth was fuelled by domestic demand, growing international trade and a recovery in the price of oil. There were fewer megadeals than in the previous year, and a 17% drop in overall deal value – although deal value remained well above 2014 and 2015 levels.

In Ukraine, despite tensions in the east of the country continuing to drag on the economy, there were welcome signs of revival which were reflected in a 67% increase in M&A activity, though values were down against 2016. Of the top ten largest deals in Hungary in 2017, six were above EUR 200m which helped more than double the value of deals to over EUR 2.7bn compared to the previous year.

Romania was also a star performer, both in terms of GDP growth and M&A, with a strong rise in deal numbers (up by 13%) and values (up by an impressive 64%), with major deals in energy and utilities, wholesale and retail, finance and manufacturing.

Turkey has been through a traumatic period, including the failed coup of 2016, but its economy showed signs of a sharp bounce back towards the end of the
year. M&A activity levels recovered to some extent, with an uptick of 12% in deal volume and 46% in deal value, although there is still some way to go before Turkey returns to the levels of M&A activity we saw in 2012 and 2013.

Robust economic growth in Poland, driven by domestic demand and higher public spending, helped offset some of the nervousness of investors concerned about government policy and ensured an active transactions market. Poland enjoyed the highest number of transactions in the region after Russia, though values were down on 2016 when the top two deals alone were worth a combined EUR 2bn.

The Czech Republic’s economy has continued to perform strongly, with unemployment among the lowest in Europe, but deal activity dropped back from the record levels of 2016. In Slovakia, the automotive sector continued to be the engine of economic growth. Overall deal numbers were down, but values were up by 6%. Hungary recorded the largest increase of value of deals (126%) to over EUR 2.7bn in 2017 compared to 2016.

It was a more muted year for Croatia after a record number of deals in 2016 and although the economy grew steadily, investor sentiment was impacted by the problems at food and retail group Agrokor, the biggest employer in the Balkans. Slovenia was one of the top performing economies in the Eurozone, but saw a drop in M&A deal numbers and values against 2016 when a EUR 572m Japanese deal boosted the total.

Serbia enjoyed a sharp rise in transaction numbers, though they tended to be smaller than in the previous year. Deal values in Bulgaria showed a healthy increase, despite subdued volumes, as its economy moved up a gear. Among the smaller countries, Montenegro was a bright spot with deal volumes up 50% and values up 37%, as was Bosnia and Herzegovina, but Albania reported only a handful of deals30.

![Figure 3. Top six countries activity by number of deals (2017)](https://cms.law/en/CZE/Publication/Emerging-Europe-M&A-Report-2017-18)

**Figure 3. Top six countries activity by number of deals (2017)**


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In what may be a sign of things to come, China became the largest foreign investor in the region, increasing the value of its investments by 78% to EUR 7.7bn, after a 96% rise in 2016 (Figure 5). The figures were skewed by the CEFC China Energy-Rosneft deal, but there is no doubt that CEE is firmly on the radar of Chinese investors and will play an important role in its Belt and Road initiative to improve infrastructure within key trading partners. Elsewhere in Asia, investors from Japan, Singapore and India remained active.

The US was the second-largest international investor by value, with a 95% rise to EUR 2.95bn and it retained its long-standing position as the busiest by number of deals, with 92 transactions.

There were big increases in the value of investments from Austria, Switzerland, Netherlands and France, while investments from the UK dropped. Deal numbers were generally lower, but Switzerland and Sweden bucked the trend and were responsible for more transactions. The UK was the second largest by number of deals, down 11%, while UK deal values fell by 58% to EUR 2.19bn which may be a reflection of the weak pound and a sign that investors have become more cautious following the Brexit vote.

It was recorded also a wave of investment by South African funds into real estate and other sectors, particularly in Romania, Croatia and Bulgaria, as well as interest in Hungary and Poland.

![Figure 4. Top six countries activity by value of deals (2017)](source)

Figure 4. Top six countries activity by value of deals (2017)

![Figure 5. Most active foreign investors by value of deals (2017)](source)

Figure 5. Most active foreign investors by value of deals (2017)
The importance of domestic buyers should not be overlooked (Figure 6); Russia was the largest player with EUR 22.5bn of deals and 603 transactions, broadly in line with 2016. Between them, Turkey, Poland and the Czech Republic were responsible for more than EUR 10bn of deals, with Turkey and Poland increasing the overall value of their investment into the region by 15% and 12% respectively31.

Figure 6. Most active investors from within the region by value of deals (2017)

Table 1 summarizes top ten deals in the region of Middle and East-Europe from 2012 to 2017. It is obvious from the graph that Russian M&A market dominates the ranking for given period. The largest deal in observed period of 2012–2017 was Rosneft’s acquisition of Anglo-Russian oil firm TNK-BP (2012), which it bought from BP and a consortium of Russian investors for around EUR 43 bn.

Table 1. Top ten deals by deal value in Middle and East-European countries (2012–2017)

<table>
<thead>
<tr>
<th>Target Company</th>
<th>Sector</th>
<th>Deal Type</th>
<th>Country of Target</th>
<th>Country of Buyer</th>
<th>Deal Value (EUR m)</th>
<th>Year of transaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>TNK-BP</td>
<td>Mining (incl. oil &amp; gas)</td>
<td>Minority Stake Purchase (50%)</td>
<td>Russia</td>
<td>Russia</td>
<td>21,538</td>
<td>2012</td>
</tr>
<tr>
<td>TNK-BP</td>
<td>Mining (incl. oil &amp; gas)</td>
<td>Minority Stake Purchase (50%)</td>
<td>Russia</td>
<td>Russia</td>
<td>21,354</td>
<td>2012</td>
</tr>
<tr>
<td>Rosneft</td>
<td>Mining (incl. oil &amp; gas)</td>
<td>Privatisation (19.5%)</td>
<td>Russia</td>
<td>Switzerland, Qatar</td>
<td>10,200</td>
<td>2016</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Company</th>
<th>Sectors</th>
<th>Transaction Type</th>
<th>Acquired Country</th>
<th>Acquired Country</th>
<th>Value</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rosneft</td>
<td>Mining (incl. oil &amp; gas)</td>
<td>Minority Stake Purchase (14.2%)</td>
<td>Russia</td>
<td>China</td>
<td>7,520</td>
<td>2017</td>
</tr>
<tr>
<td>Anheuser-Busch InBrev businesses in Central and Eastern Europe</td>
<td>Mining (incl. oil &amp; gas)</td>
<td>Acquisition (100%)</td>
<td>Czech republic, Hungary, Poland, Romania, Slovakia</td>
<td>Japan</td>
<td>7,300</td>
<td>2016</td>
</tr>
<tr>
<td>Bashneft</td>
<td>Mining (incl. oil &amp; gas)</td>
<td>Privatisation (50.1%)</td>
<td>Russia</td>
<td>Russia</td>
<td>4,726</td>
<td>2016</td>
</tr>
<tr>
<td>Rosneft</td>
<td>Other Manufacturing</td>
<td>Privatisation (5.7%)</td>
<td>Russia</td>
<td>United Kingdom</td>
<td>3,721</td>
<td>2012</td>
</tr>
<tr>
<td>Stroygaz-consulting</td>
<td>Construction</td>
<td>Minority Stake Purchase (30%)</td>
<td>Russia</td>
<td>Russia</td>
<td>3,504</td>
<td>2013</td>
</tr>
<tr>
<td>RN Holding</td>
<td>Mining (incl. oil &amp; gas)</td>
<td>Minority Stake Purchase (15.1%)</td>
<td>Russia</td>
<td>Russia</td>
<td>3,174</td>
<td>2014</td>
</tr>
<tr>
<td>Energeticky a Prumyslovy Holding a.s.</td>
<td>Energy &amp; Utilities</td>
<td>Acquisition (62.8%)</td>
<td>Czech Republic</td>
<td>Czech Republic</td>
<td>3,142</td>
<td>2016</td>
</tr>
</tbody>
</table>


**Conclusions**

Based on theories provided and factual information on the development of count and financial volume of deals summarized in this article we can conclude that M&A are unique in their nature and the motives. Since the start of the global financial crisis in 2007 M&A landscape has not only been transformed, it continues to evolve apace. Turmoil in financial markets, recession and the more recent emergence of concern about sovereign indebtedness have caused a great deal of economic uncertainty, which has inevitably affected the M&A environment.

The results confirm that Middle and East-Europe is stable region, despite fluctuations observed in trend lanes, for both number of deals and their financial volume, of our monitored period. The year to year change in number of deals was a drop of 96 on average, and regarding the financial volume the average decrease was 66,1m. The median size of deals, based on EMIS data on 1,308 transactions with disclosed or estimated values, remained unchanged at exactly EUR 11.2m.
In terms of sectoral analysis, mining including oil and gas was prevalent in this period thanks to large deals closed in Russia. These include China’s CEFC stake investment in Rosneft for EUR 7.5bn and the just over EUR 1.7bn purchase of a stake in the Yzhno-Russkoye oil and gas field by Austria’s OMV group.

The Russian Federation holds the dominant position in terms of M&A as from the point of view of number of closed deals as well as share of their financial value from both of the positions as a buyer as well as the target in 2017. This result is predictable due to the market size advantage of the country. The second most successful country is Poland which lags behind Russia by approximately 50% in number of deals respectively approximately 70% in financial volumes. We consider worth to note that Romania and Hungary recorded steep increases, mainly concerning financial volumes where increase in Hungary’s side was of 126% and Romania 64% in 2016 vs 2017 year-to-year comparison.

China became the largest foreign investor in the region, increasing the value of its investments by 78% to EUR 7.7bn, after a 96% rise in 2016. The figures were skewed by the CEFC China Energy-Rosneft deal, but there is no doubt that CEE is very attractive region to Chinese investors. Second to China is USA with 95% value increase and investment values from Austria, Switzerland, Netherlands and France were also on the rise, while investments from the UK dropped.

To summarize, the region of Middle and East-Europe can be considered as a stable region with steady economic growth and attractive investment environment which saw overall M&A increase in recent years. Specific characteristics presented by the graphical apparatus of this contribution hints that market size and close proximity or membership in European union are indeed valid factors. Major players are Russia as native, China and USA in a role as investors foreign to the region.

Summary

As the markets of Middle and East-European countries, after transformation emerge more and more, mergers and acquisitions are becoming increasingly common form of business restructuring and strategic alliance. Increasing frequency of this type of deals pose as a pressure on business people and government officials at all levels to have a basic understanding of reasoning behind such actions and their mechanics. The following article provides a review of relevant sources containing theories of mergers and acquisitions. Its aim is to present highlights of merger and acquisition activity in context of these aforementioned theories on data concerning Middle and East-European countries, in a defined time-frame starting form 2012 to 2017.

**Keywords:** merger, acquisition, Middle and East-European countries.
Streszczenie

W miarę jak rynki krajów Europy Środkowej i Wschodniej umacniają się po procesie transformacji, fusje i przejęcia stają się coraz powszechniejszą formą restrukturyzacji biznesu i alianсу strategicznego. Rosnąca ilość tego typu transakcji stanowi presję na biznesmenów i rządzących, aby mieli podstawową wiedzę na temat rozumienia takich działań i ich mechanizmów. Poniższy artykuł zawiera przegląd źródeł zawierających podstawowe teorie fusji i przejęć oraz podkreśla aktywność fusji i przejęć w krajach Europy Środkowej i Wschodniej w latach 2012–2017.

Słowa kluczowe: fusja, przejęcie, kraje Europy Środkowej i Wschodniej.

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