



Mergers and acquisitions in Latin America: a literature review

Fusiones y adquisiciones en América Latina: una revisión de la literatura

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ABSTRACT:

The present study aims to understand the particular characteristics of mergers and acquisitions processes in Latin America. The methodology use is that of literature review. Different categories of analysis were built on the review of academic journals in high-impact databases. It was found that there are some similarities and differences with respect to the experiences of industrialized economies.

Keywords: Mergers, acquisitions, Latin America

RESUMEN:

El presente estudio pretende comprender las características particulares de los procesos de fusiones y adquisiciones en América Latina. La metodología empleada es la de revisión de la literatura. Diferentes categorías de análisis fueron construidas sobre la revisión de revistas académicas en bases de datos de alto impacto. Se encontró que existen algunas similitudes y se generan diferencias con respecto a las experiencias de economías industrializadas.

Palabras clave: Fusiones, adquisiciones, América Latina

1. Introduction

The characteristics of the mergers and acquisitions (M&A) processes in emerging countries, and in particular Latin America and the Caribbean, are not well known. Several reasons can be used to understand this particular situation; such as: (i) lack of information, (ii) opacity of operations, (iv) strong control by family groups, (v) as well as changing accounting and financial rules in the region; that has prevented in depth studies from this important business phenomenon.

The present study seeks an approach to the M&A processes in Latin America and the Caribbean. This type of business reorganization can be defined as the process of integration and generation of value through the acquisition of companies taking operational control of a company. Its purposes are varied; however, it aims to unify investments and commercial

criteria of two (2) companies of the same sector or similar objectives. These actions are aimed at solving and / or diversifying the goods and services offered by the organization in order to form strategic plans to maintain the level of competitiveness within the markets, as well as globalization trends. To understand this phenomenon in the Latin America region, a thorough analysis will be carried out in the main databases of high impact academic literature for the period between 2007 and 2018.

A broad enough period of time is taken as a reference, beginning in 2007, the year that marks the pattern in reference to the global financial crisis generated by the real estate sector in the United States, which impacted the M&A processes in Latin America.

In this sense, the present study aims to identify the general characteristics of M&A processes in Latin America for the period 2007 to 2018; in order to be able to contribute to the value creation of companies in the region; through the characterization and better use of this type of procedure of corporate finance. The research will be carried out through consultations in databases of recognized prestige. For this, the investigation is subdivided as follows: This section, entitled introduction, is identified as section I. Section II presents the background in relation to the subject under study, establishing a theoretical confrontation between different authors and generating a reflection in relation to the possible categories of analysis. Section III describes the methodological procedures that allowed establishing the relationship between theory and reality for this case study for the region; while in section IV, the analysis of results is anticipated, based on the interpretation of the information obtained from different sources. In the last section, V, the final comments are presented.

2. Background

Some studies have previously explored the dynamics of M&A processes through reviews of the academic literature; however, most of them have been focused on the experiences of developed countries and related to specific sectors of the economy. For example, DeYoung, Evanoff and Molyneux (2009) analyzed M&A processes in the banking sector in North America at the beginning of the 21st century. They reviewed one hundred and fifty (150) articles on M&A processes in financial institutions. It was found that M&A processes in North American banks are related to an improvement in efficiency, however, there is no conclusive evidence regarding the creation of shareholder value. For its part, in Western European banks, there was an improvement in efficiency in terms of costs and increase in the added value of shareholders. It was also found that there is no significant impact between product diversification through the M&A processes.

On the other hand, Cartwright and Schoenberg (2006) analyzed studies focused on understanding the impact of the M&A processes on the organizational culture of the companies immersed in this type of actions. They find that these corporate finance activities can affect social identity, as well as the sense of continuity of operations in the members of the organization. The lack of organizational compatibility may be one of the main reasons why companies may have a low financial performance after the merger or acquisition. With this study, the importance of M&A processes on cultural dynamics is evident.

In another order of ideas, Shimizu, Hitt, Vaidyanath and Pisano (2004) in a qualitative literature review study, analyze one hundred and fifteen (115) investigations on mergers and acquisitions processes in industrialized countries. The academic literature is classified into three major groups: (i) actions aimed at guaranteeing access to foreign markets, (ii) as a dynamic learning process to improve organizational positioning, and (iii) as a long-term value creation strategy. It is concluded that the M&A processes are a key strategic initiative that implies important risks from the point of view of the current globalization context. Likewise, it is emphasized that the expected results of these activities have not been up to the popularity of this internationalization strategy.

Similarly, Letaifa (2017), develops a synthesis of the empirical studies that analyze the processes of M&A in the decade from 2007 to 2017 in the industrialized countries. The research was focused on four (4) major areas of study of this type of corporate restructuring; firstly, the reasons that lead to concrete M&A processes, secondly, the characteristics of the companies that are involved in M&A, followed by an analysis of the

economic consequences of M&A operations and, finally, the implications on the market value of corporations that advance M&A events. It is concluded that the academic literature shows positive evidence about these processes; provided there is adequate coordination between the agents involved, as well as the existence of strategic plans for the period after the implementation of the M&A. That is why it is necessary to identify the aspects inherent to the planning of these processes.

In the particular case of Calipha, Tarba and Brock (2010) analyze eighty-five (85) articles on mergers and acquisitions in developed economies. The literature review focuses on three elements of the M&A processes: phases of corporate restructuring, their motivation and success factors. Regarding the first one, it identifies five phases of the M&A processes that go from the planning of the strategy and selection of possible candidates to the merger or acquisition until the last phase that is the integration. Regarding the second element, the motivation of the M&A, is the possible synergy, the diversification of markets and entry into new markets. Among the factors of success is the payment of a price adjusted to reality and cultural affinity. Among the recommendations of the study is to review the issues of post-fusion integration and acquisition.

Similarly, Ferreira, Santos, Ribeiro and Reis (2014), analyze the international academic literature about M&A processes for the period 1980-2010. They examine a sample of three hundred and thirty-four (334) academic articles from sixteen (16) high-impact academic journals. It is found in the study that there has been an important variation in the theme on M&A; since between 1991-1995; the main topics were related to the performance of the organizations and the issues related to integration in the M&A events; until the most recent literature 2006-2010; where the most discussed aspects are related to corporate governance of companies that have undergone M&A processes and corporate teams. For its part, Reddy (2015) reviews the stylized facts in order to understand the current state of research about the phenomenon of M&A. In total, ninety-three (93) academic articles were analyzed, of which 29% were related to emerging countries. It is highlighted that the majority of the case studies were advanced in the developed economies; while this type of analysis was little used in emerging economies; since it is very difficult to find reliable interlocutors and ensure their participation in the research. Studies that make use of interviews or questionnaires are more related to understanding the phenomenon of post-merger or acquisition integration.

Among the studies focused exclusively on the field of emerging countries, Caiazza and Volpe (2015) studied the dynamics of M&A processes of companies from Russia, India and China. These companies have been able to open themselves up, even in developed markets, thanks to substantial resources from investment funds and improvements in the terms of trade of raw materials they own. However, the strict labor regulations and the rigorous handling of laws in industrialized countries require that emerging companies have prior knowledge in order to efficiently manage an acquired company.

Amighini et al (2014) and Ahsa and Musteen (2011), study the phenomenon of multinational companies in emerging economies. In both studies, different specific categories of analysis are identified: advantages at the country and company level; motivations to advance acquisitions abroad and the usual modes of entry to foreign markets. It is concluded that although there may be differences between the behaviors of multinational companies in advanced countries; these distinctions seem to be transitory.

In the same way, Nirmala and Aruna (2013), analyze the processes of M&A for India, focused on the following categories of analysis: determinants of corporate restructuring processes, value generation, financial and operational performance. In total, twenty-five (25) academic studies are reviewed for a broad period of time from 1961 to 2011. Most of the studies focused on understanding the dynamics of bank mergers and their pre and post effects on corporate restructuring.

According to the article developed by Xie, Reddy and Liang (2017), where two hundred and fifty (250) studies are consolidated, the specific determinants of cross-border mergers and acquisitions in the world are examined for developed countries, resulting in the financial crisis of 2007-2008 leveraged the development of mergers and acquisitions. The review

provides valuable insights into the determinants of international transactions of this type of corporate action, such as the market environment where macroeconomic and financial processes were developed, political environments, levels of corruption, cultural, geographic, institutional and regulatory valuation guidelines within the specific area of the companies analyzed, showing how the flows and perceptions of the host countries of investments framed by the economic size of the target country. The synchronization of the previously described events shows how the unvalued incidence of the determinants analyzed directly influences the decisions that must be made prior to the M&A processes.

In the same way, Jaramillo, Núñez and Pereira, (2017) study the main objectives for a fair understanding between the corporate governments and the M&A processes in the Latin American environment regarding cross-border investments, to investigate these processes, they analyzed seven (7) countries (Argentina, Brazil, Chile, Colombia, Ecuador, Mexico and Peru). For the period 2005 and 2015. A description of some processes referring to the regulatory framework of each country analyzed is shown, empirically characterizing the effects of the M&A, thus observing the impact on the practices developed to create value within the organizations. The authors measured the quality factors of corporate governance using the benchmarking standardizing methodology, allowing a comparison and identifying factors for continuous improvement.

3. Methodology

In this section, the steps that guide the present investigation are developed. In this sense, a systematic review of the literature on M&A processes in Latin American is being carried out. For Jesson, Matheson and Lacey (2011) this type of study is a methodology in itself, since the researcher describes and appreciates what is known about a specific topic; starting from secondary information sources. Others, such as Torgerson (2003), classify literature reviews as a qualitative research method, where a critical review is made on a topic, expressed in a written narrative presentation.

Regardless of the methodological position held in relation to systematic reviews of academic literature, if there is a broad consensus regarding the stages that this type of approach must meet. In the first place, we identify the key words that will be used in the study, which are: mergers and acquisitions in Latin America and the Caribbean and, on the other hand, mergers, acquisitions, Latin America. The search is then carried out in the databases, which are the ones described below: EBSCO, Emerald Insight, ScienceDirect, Scopus and Redalyc. From this first selection, we proceed to eliminate duplicate documents and validate that the selected articles correspond to the theme. From there, we proceed to make a qualitative analysis of the contents in order to describe the highlights. Subsequently, the results are presented in written form.

4. Results

The results of the literature review are discussed in a broad way in this section. Based on the steps described in the methodology. In total, seven (7) categories of analysis are identified that are described below:

4.1. Performance of the action and hostile takes

In the work developed by Romero and Fajardo (2017), a study is shown on mergers and acquisitions processes in Latin America for the period in which the global financial crisis of 2007-2008 occurred. Specifically, they analyzed whether the performance of the share price affects the frequency of mergers and acquisitions. In conclusion, it is observed that the greater number of merger and acquisition events of the sample occurred more frequently in the lowest decile, as occurs in developed markets.

In the study by Sannajust and Arouri (2015), the impact that the levels of cash and the return on assets of the companies have on the number of hostile acquisitions in Latin America is reviewed. Due to the high concentration of capital in companies in the Latin American region, there are significant information asymmetries among those involved in the

corporate restructuring market. In cases where a high concentration of cash is identified, a hostile take is likely to take place, leading to significant cost reductions, such as restructuring at the employee plant. This behavior is in line with the academic literature in industrialized countries.

The announcements of the acquisitions can have a differentiated financial impact depending on the market in which they are developed. According to Chalencon and Mayrhofer (2018), the reaction of the financial markets before the announcement of acquisition is moderately positive for the M&A in industrialized economies, but negative for the countries of emerging economies; however, the post-announcement reaction is clearly positive for M&A in mature markets and moderately positive for emerging markets.

4.2. Corporate governance

In this section, Vasco, Cortés, Gaitána and Durán (2014) by means of a gravitational model, explain the phenomenon of mergers and acquisitions and find that the higher the standards of corporate governance in the country of origin and in the country of destination, the greater the activity of mergers and acquisitions carried out. The study was carried out during the period from 1996 to 2010. It is concluded that the activity of transnational M&A is encouraged in economies that guarantee favorable trading environments for investors.

Likewise, Águila, Núñez and Pereira (2017) and Cárdenas (2014), highlight that the corporate governance structure of Latin American countries is concentrated in a small number of shareholders. Those companies that have been the subject of M&A events have had a significant improvement in the diversity of owners. This contrasts with the existing evidence in the developed economies; where there tends to be less control of the property. Likewise, the M&A can serve so that the organizations of the region have access to internal knowledge and forms of organization that allow the development of an intangible capital applicable to the management of the organizations (Knoerich, 2017).

4.3. Economic deregulation and privatization

In relation to this category of analysis, Goddard, Molyneux & Zhou (2012), analyze how, during the period 1998 and 2009, bank mergers and acquisitions in the Latin American and Caribbean region were motivated by factors of financial restructuring, privatization and the deregulation given in emerging markets. In their study, through a case study methodology, they analyzed the movements of the stock price which created and / or generated moderately value. This effect is mainly due to the fact that the stylized facts generated in the M&A processes are not known. The authors emphasize that the processes advanced by firms with experience in merger processes were more successful, creating value based on public and private sector acquisitions. . These results are consistent with the empirical evidence from the United States and Europe (Williams and Liao, 2008).

Likewise, Pérez (2013) focused on the mergers and acquisitions of large companies in Mexico, as a result of the privatization of public companies. It is found that these processes favored transnational corporations; thanks to the elimination of restrictions on foreign capital. In particular, the banking sector came under the control of foreign economic power, which controls more than 80% of the country's main financial institutions. For Finchelstein (2017), Stal and Cuervo-Cazurra (2011) and Goldstein and Pusterla (2010), governments have promoted the development of mergers in order to collaborate in the construction of mega-companies. For example, in Brazil, the competition agency allowed the merger between Antarctica and Brahma, an organization that maintained more than 70% of the market (Hennart, Shengb y Carrera, 2017 and Aguilera, Ciravegnac, Cuervo-Cazurra and Gonzalez-Perez , 2017). In other countries, according to Finchelstein (2013), such as Chile and Argentina, there has not been a state policy for the development of large companies. On the other hand, the deregulation of the market has brought with it the need for companies in the region to implement initiatives to deal with the influx of external competition through restructuring processes (Brenes, Haar and Requena, 2009).

Furthermore, Alimov (2015), studies the way in which labor regulations affect the volume of

M&A in a selection of countries; among them, Mexico. The period under study was comprised between 1991-2009. It is found that those nations with stricter employment policies increased the number of M&A. Although the result seems to be contrary to what was argued Groh and Wich (2012), the explanation for this phenomenon, is that the processes of corporate restructuring were concentrated in sectors with high productivity industries and skilled labor. The evidence is statistically robust for both industrialized and emerging economies.

4.4. Pendulum effect

Based on the article developed by Cortés, Agudelo and Mongrut (2017), the existence of waves or pendulum effect in the activity of mergers and acquisitions in Latin America is analyzed. In total, the experiences of Argentina, Brazil, Chile, Colombia, Mexico and Peru for the period 1995-2010 were analyzed. It is found that the economic environment plays an important role in the M&A processes in the region. There is evidence of the existence of waves of mergers in the region as has been shown for other studies with a global approach by Marshall and Park (2017), Alexandridis, Mavrovitis and Travlos (2012) and Gugler, Mueller and Weichselbaumer (2012) and for the particular case of the United Kingdom and the United States (Gärtner and Halbheer 2009). The base presented as background shows the range and variety of the processes that promoted and stimulated different sectors in the period which is intended to analyze and the variety of strategies which were taken into consideration to achieve the objectives of M&A. These examples demonstrate the focus of the present degree work since it reflects the panorama and the common denominator of reaching the processes through strategic planning aimed at demonstrating the versatility and relevance in emerging countries such as the Latin American and Caribbean region.

4.5. Determinants of M&As between countries in the region

In relation to the characteristics of acquisitions among emerging countries and the result of these events in terms of value creation, Bhagat, Malhotra and Zhu (2011), state that, although the amounts of transactions are low, in relation to the experiences of the industrialized economies; the effects of this type of action are positive from the point of view of the share price. In the sample of emerging countries only Brazil and Mexico are included. For Brazil, the industries in which the acquisitions of their companies were focused were in the area of metallic products, oil and gas, as well as in mining and food. The countries of the target companies were mainly Argentina, the United States and Peru. In the case of Mexico, the industrial sector focused on telecommunications, cement and food; while the countries receiving these acquisitions were located in Brazil, Argentina and Colombia.

On the contrary, Kinateder, Fabich and Wagner (2017), focus on understanding the M&A processes between companies in Brazil, Russia, India, China and South Africa (BRICS) for the period from 2006 to 2015. In total, Fifty (50) M&A announcements are posted. The results in relation to the abnormal returns obtained by the acquiring companies are consistent with the academic literature of experiences of developed economies. In the same way, the positive returns of the acquiring companies are also tied to the positive growth rate of the Gross Domestic Product (GDP). This result is also mentioned by Lebedeva, Penga, Xieb and Stevens (2015), Yilmaz and Tanyeri (2016), and Pablo (2013), although in a smaller proportion and for a larger number of emerging economies. On the other hand, Amal, Raboch and Thiago (2009), perform an econometric study to evaluate the determinants of M&A in three countries of the region: Mexico, Brazil and Chile. The period of the investigation was comprised between the years 1995-2007. It is found that the GDP, the exchange rate, the economic opening and the levels of education affect the outflows of capital between the countries and their consequent acquisition of foreign companies.

4.6. Corporate restructuring and economic efficiency

M&A events are often associated with significant improvements in corporate productivity. In the banking sector of Chile, Loyola and Portilla (2016), they study the effect of mergers and

acquisitions of the southern country for the period 1987-2007 and through the benefit frontier methodology; they conclude that there has been a reduction in inefficiencies in this sector for the years under analysis. Likewise, Kolaric and Schiereck (2013), also for the banking sector, concludes that there are positive reactions from the stock market for those involved in M&A. These results may indicate that unlike empirical evidence in less dynamic markets, Latin America remains a region of attractive conditions for investment.

However, due to the sensitive liberalization of the Latin American commercial market (Acero, Fajardo and Romero, 2018 and Schosser and Wittmer, 2015), conditions were also generated for an increase in M & A processes in this sector. According to Cortés, García and Agudelo (2015), who analyzed this dynamic for Latin America in the period 1996-2013, they find that there are extraordinary benefits once the announcement of the M&A in the sector is made; however, if the merger was not strategic, negative returns were found. For their part, Merkert and Morrell (2012), highlight how the M&A have become an "agent of change" in the commercial market; particularly in Asia and Latin America; given the unusual number of agreements. In the agriculture sector, Brenes, Montoya and Ciravegna (2014), mention how the scope of this sector leads to considerable vertical integration; in addition to the need to expand the countries of action. Acquisitions can be key to achieving these objectives.

Another sector that experienced a significant increase in M&A processes following the economic opening of the late twentieth century in Latin America was telecommunications. According to Mariscal (2009), the result of these processes, generated the creation of large national conglomerates and the internationalization of it to other countries in the region.

4.7. Historical ties and cultural affinity

In relation to historical relations, Chowdhury and Maung (2018), study how historical ties between countries influence to favor M&A. They find that these links (between colonized country and colonizing country, for example) have a positive effect on the total number of mergers and acquisitions between companies in the respective countries. The explanation for this situation is that there is a reduction in government controls by the receiving authorities in case of historical fraternal ties between nations. The most obvious case is the one presented by Sánchez, Galaso, and García (2016) who, through the analysis of networks, highlight the centrality of Spain as a source and recipient of mergers and acquisitions events with the countries of the region.

Regarding cultural affinity, Ahern, Daminelli and Fracassi (2015), highlight that culture has a significant effect on the volume of M&A generated between companies in the countries under study (fifty-two countries were analyzed, among countries of Latin America and the Caribbean are mentioned: Mexico, Guatemala, El Salvador, Argentina, Chile, Venezuela, Dominican Republic, Brazil and Uruguay). It is found that as long as there is a greater difference between the values of trust, hierarchy and individualism; the lower the number of M&A. Similarly, it is found that the lower the cultural distance, the greater the returns of the M&A processes, because these differences can generate friction between organizations. These results are validated by Paul and Benito (2018) for a wide group of countries and in the particular case of companies from the United Kingdom that acquire companies in emerging economies by Barbopoulos, Marshall, MacInnes and McColgan (2014). According to Piedrahita and Gaitán (2014) and Firstbrook (2007) if it were necessary to synthesize the characteristics that affect the management of human talent within the normal behavior of the organization during M&A processes, the speculations at the beginning of a merger stand out, during the officialization of this and finally in the orientation of the merger after a prudent period has elapsed.

In the particular case of Brazil, Tanure, Cançado, González, Fernandes (2009), analyze eight (8) cases of studies in different stages of the M&A process. It is found that in line with the academic literature on this characteristic, if corporate restructuring is more related to the acquisition of a new technology, it is likely that a cultural plurality will be generated in the organization; whereas if assimilation is due to a commercial or market expansion, an organization with similar organizational and cultural characteristics should be identified. Similarly, Vouga and Mendes (2014) and Nielsen, Geisler and Dohmann (2017) highlight

that companies that are positioned in other countries with marked cultural differences (for example, levels of risk aversion or positions mostly individualist versus collectivist of the population) usually start their insertion process by means of limited capital investment. In case of greater cultural empathy, we proceed to enter new markets through an acquisition. For its part, Quesada (2018), mentions the existence of networks for the control of business organizations that have been acquired by companies in industrialized countries. For example, the corporations of Spain, usually establish subsidiaries that become the bridge between the head office or central office and the assets acquired; while other organizational cultures from Germany, the United States and Sweden prefer the establishment of strategic centers as a link.

5. Conclusions

The present study contributes to the academic literature of mergers and acquisitions events for the Latin American region. First, research is analyzed to characterize acquisitions within the region, as well as experiences with countries from other continents. In the same way, the findings are contrasted with previous results of the cases of the industrialized economies. The characterization of the M&A processes focused on: performance of corporate actions and hostile takeovers, impact on corporate governance, effects of economic deregulation and privatization in the region, the possibility of the existence of a pendulum effect or waves, as well as the determinants of M&As between countries in the region and the effects on economic efficiency in different economic sectors.

In line with the academic literature focused on the experiences of industrialized economies, there seems to be a positive effect on the creation of value in those companies that carry out acquisitions, as well as the existence of waves in M&A events and the impact of protection policies to employment they have on the volume of the M&A. Unlike the academic literature focused on the experiences of developed economies, the evidence seems to indicate that property tends to be more concentrated in the emerging economies of the region. In the same way, the way of approaching the intra-region and extra-region acquisition processes are clearly differentiated.

On the other hand, there seems to be a bias towards the main economies of the Latin American and Caribbean region: Brazil, Mexico and Argentina. This may be due to the greater business opportunities of foreign companies that wish to enter these economies. Likewise, there is a concentration of the mergers and acquisitions processes towards the primary sectors of the economy: mining, gas, oil and metals; as well as the tertiary sector: banks and transport services. Among the recommendations, the need to identify the type of study being carried out (case studies, event methodology, literature review, econometric studies, among others) on the mergers and acquisitions process in the region is highlighted. In the same way, more in-depth research can be carried out in smaller economies in Latin America.

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