Mergers and acquisitions (M&As) are a common way for companies to position themselves in the Single Market. M&As are particularly important for companies seeking greater economies of scale. They also allow EC companies to gain the size and diversity that will enable them to compete both at home and abroad with their larger Japanese and American competitors.

Yet M&As in the EC need to be understood within a proper context. Firms in continental Europe tend to be smaller than in North America. They are more often closely-run, family-held affairs. They also have a long history of cooperating to take on larger projects. This means that they are predisposed to cooperative ventures but they tend to view hostile or foreign takeovers more negatively than do North American companies. Successful M&As in the EC tend to take place between firms that know each other long enough to trust and respect each other. For example, in the 1980s, the rate of domestic M&As among the largest 1000 EC firms was about twice the rate of their cross border M&A activity.

By the same token, strategic alliances between European firms from the same country tend to include equity arrangements more often than partnerships between firms from different Member States. An even smaller proportion of strategic alliances between EC and non-EC firms involve equity.

U.K. companies are not as suspicious of takeovers as are their continental cousins. Because their corporate culture, share structures and accounting practices are similar to those of North America, M&As are easier in Britain than on the continent. For similar reasons, British firms interested in expansion have tended to look to North America.

Domestic and Cross-border Take Overs: Different Motivations

	Domestic	Cross Border
Entry to new markets	10	35
Horizontal expansion	20	25
Economies of scale	20	10
"Good buy"	20	10
Product diversification	13	10
Vertical expansion	7	5
Other	10	4

Source: Centre for Business Study, London Business School, 1990.

If you want to acquire an EC firm, especially a continental one, it makes sense to develop a cooperative business relationship with it first. This gives both companies a chance to develop trust and respect for each other and to assess the real advantages and disadvantages of a merger or acquisition.

There are a number of other factors that make acquisitions in the EC more difficult than in North America. Because of unique share structures, stock swaps are impractical, and so acquisitions usually require cash. Accounting practices also vary, the necessary information is often hard to get, and valuations often require extensive investigation. Public companies in the U.K., France, Germany, and Italy are well documented, but most Member States do not have information sources such as Standard & Poor's directories, Dun & Bradstreet reports, or the American 10-K forms. On the other hand, banking institutions take a more aggressive position both in supplying information and in assisting M&A activity than they do in North America.

Less Distance, More M&As: EC Mergers and Acquisitions, 1987/88

Sector	National		Community		International		Total	
	M	A	M	A	M	A	M	A
Industry	214	115	112	37	57	29	383	181
Distribution	40	13	8	4	9	5	57	22
Banking	53	38	12	15	13	28	78	81
Insurance	14	8	14	4	12	7	40	19
Total	321	174	146	60	91	69	558	303

Source: Commission of the European Communities, 1989.