

Cross-border Mergers and Acquisitions: A Response to Environmental Transformation

Original Publication by David W. Conklin

In *Journal of World Business* 40 (2005) 29-40

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Over the past two decades, globalization due to technological innovation has expanded and integrated national economies. Simultaneously, the disintegration of commercial borders by free trade initiatives allows electronic media outlets and international retailers to bombard inhabitants of every country with limitless information and goods. Nowhere is the dissolution of these boundaries more evident than in North America. Although large enterprises may fare well in this venture, globalization poses a special challenge to medium and small-size companies.

Due to the creation of the World Trade Organization and its precursor the General Agreement on Tariffs and Trade, North America's three nations enjoy open access to many overseas markets. More importantly, the North American Free Trade Agreement (NAFTA) serves to greatly reduce tariffs between the U.S., Canada, and Mexico and to expedite the flow of goods, services and information across their borders. Throughout the world, moreover, the global economy reigns, enabling large companies with enormous infrastructure and resources to reach customers most effectively. Thus, smaller firms with less international presence suffer a comparative disadvantage, begging the question, how can small or medium-sized corporations thrive in such an atmosphere?

Professor David W. Conklin of the Ivey School of Business at the University of Western Ontario ponders this question and offers an innovative solution. In his article, "Cross-border mergers and acquisitions: a response to environmental transformation," Conklin examines case studies of eight Canadian companies struggling to adapt to the global economy. He ultimately recommends that "a cross-border merger or acquisition may be a financially attractive response to environmental transformation" for companies confronting "globalization and technological advances."

In order to present a realistic cross-section of the Canadian economy, the professor describes the experiences of one firm from each of the following sectors: rental trucking, electronics manufacturing, petroleum refining and selling, pharmaceutical production, office supplies retail, jewelry retail, paper and wood production, and broadband internet access. Each of Conklin's companies faces likely failure in either the short or long-term due to their lack of resources and a strategy to expand and interact effectively with the global economy. However, after merging or being purchased by multinational corporations, all eight Canadian enterprises achieve significant financial growth through cooperation with their new parent conglomerates.

In no instance is the power of a merger to turn a company around more clear than in Conklin's example of *Iniziativa Regaluxe's* acquisition of *Henry Birks and Sons*. *Henry Birks and Sons*, a leading Canadian retailer of jewelry, endured ever increasing competition from other chains, including powerful U.S. companies such as *Tiffany & Co*. *Birks* filed for bankruptcy in 1993 because it failed to compete and gain market share against its adversaries. Fortunately, just before the closure of all *Birks's* stores and dismissal of its workers, an Italian firm, *Iniziativa Regaluxe*, purchased the ailing Canadian jeweler and "transformed *Birks* into an internationally competitive organization." Soon, *Birks* could "contemplate expansion" into the U.S. market, a previously impossible option.

Instances like that of *Birks*, in which the purchased firm expanded to the benefit of both itself and its parent, demonstrate Conklin's contention that mergers and acquisitions performed by multinationals can save smaller national corporations while contributing to the financial growth of both companies. The author's prescription for aiding small companies in peril attests to the unlimited potential for cooperation between firms to achieve mutual benefit.