DOI: 10.24387/CI.SI.2024.1.1

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Multinational Corporate Dynamics – Start-up Acquisitions

Summary

In the modern globalized economy, corporate acquisitions, especially of start-up companies, have become prevalent. This study delves into the dynamic relationship between multinational corporations and start-ups, focusing particularly on the acquisition process. The research begins by defining the concepts of 'multinational corporation' and 'start-up' from an international literature perspective. The core of the analysis examines the acquisition of start-ups by multinational companies, aiming to uncover the strategic management challenges and opportunities presented in these scenarios. Employing A quantitative method, the study maps out the focus areas of start-up companies and the strategic shifts within multinational sectors. The research includes A thorough literature review on corporate acquisitions, exploring the various motivations and types of acquisitions. This study contributes to A deeper understanding and application of strategic methods used by multinational corporations in acquiring start-ups.

Keywords: multinational, startup, challenges, acquisition, integration

Jel: F23, M13

Introduction

This study delves into the increasingly prevalent practice of start-up acquisitions by multinational corporations, A strategy becoming dominant in global market competition. As innovation rivals' monetary value in today's economy, the dynamic synergy between established multinational entities and agile start-up companies presents A rich area for scholarly research and strategic exploration. This research initially defines multinational corporations and start-up companies based on international literary sources, outlining their distinct characteristics. It focuses on examining the strategic roles these acquisitions play within the broader corporate strategies of multinational corporations, exploring avenues such as technological advancement and market diversification. The objective of this study is to deepen our understanding of these corporate acquisitions, specifically highlighting the challenges and opportunities that define these ventures. By uncovering the strategic implications and outcomes of such acquisitions, this paper seeks to contribute valuable insights into effective corporate strategy formulation in A globalized economy.

Method

In my study, the first step involved A thorough review of both international and domestic literature closely related to the principles of multinational and start-up companies. This review also covered strategic management, specifically within multinational corporations, and touched on corporate acquisitions. The purpose of the literature review is to provide A comprehensive framework that enhances the understanding of the research topic, serving as A foundation for further analysis and conclusions. In the second step of my study, I conducted secondary research, reviewing scientific publications and international statistics. I employed A qualitative tool in my research methodology, specifically A questionnaire, to examine the corporate acquisition strategies used by multinational companies. This qualitative research is primarily exploratory, aimed at mapping out the fields and sectors of multinationals, the focus areas of start-up companies, and strategic changes during acquisitions. I summarized and then evaluated the responses to the questionnaire. Based on the data obtained, I explored and analyzed the correlations between the presented factors. The purpose of this qualitative research is to enhance understanding and application of strategic methods used by multinational corporations when acquiring start-up companies, thereby contributing to further research.

Results

Theoretical Background Review

The theoretical framework provides A comprehensive picture about the strategic importance of multinational corporations' acquisitions of start-up companies by conducting an in-depth review of the literature. During the review, I first clarify the definitions of multinational and start-up companies using various domestic and international sources. Additionally, I analyze previous researches and theories that provide theoretical frameworks for the strategic management of corporate acquisitions. The purpose of the literature review is to offer A comprehensive framework that facilitates A deeper understanding of the research topic, which serves as A basis for later analyses and conclusions.

Definition of multinational companies

In this section, I briefly discuss the interpretation of multinational companies as it forms the basis of my study. The concept of A multinational corporation has A history that goes back approximately half A century. The creation of the term is attributed to David Lilienthal, A former leader of the Tennessee Valley Authority and the United States Atomic Energy Commission in the United States. He first used the term in 1960 (Fieldhouse, 1986). According to one of the most widespread definitions, A multinational corporation is A company that owns and controls assets and services in more than one country (Dunning, 1993). Multinational companies, also known as multinational corporations, are entities that operate, produce,

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and sell goods or services across multiple countries or regions. These corporations often boast A global presence and demonstrate adeptness in managing international trade, diverse market landscapes, and cross-cultural intricacies. Typically endowed with substantial resources, expansive operational domains, and A widespread presence, multinational corporations effectively coordinate and supervise their economic pursuits across multiple countries (Kucséber & Kása, 2023). Their operational scale and influence often transcend geographical boundaries, enabling them to navigate complex global markets and diverse regulatory environments. There are many definitions in the domestic and international literature, but the one that resonates most with me is the following: Multinational companies are firms that operate in several countries in addition to their home country. They typically have A central office where global management is coordinated, and they also operate through subsidiaries or factories in different countries (Chen, 2022).

Definition of start-up company

There are many definitions of A start-up. But each of them describes A start-up from A different perspective. Some entrepreneurs state that: It is A business structure aimed at solving A problem by offering A product or A service that is not available on the market and is under extreme uncertainty. According to Forbes (Robehmed, 2013), "a start-up is A young company that generates less than 20 million USD, has not more than 80 employees, is totally independent in making all business decisions and intends to "take over" the world". In other words, there is no clear and widely acknowledged start-up definition. However, it is possible to define A few points that categorize A business as A start-up:

– Unconventional business model;
– Product or service is in the introduction stage;
– Less than 100 employees;
– Younger than 10 years;
– Turnover under 50 million USD

The definition of A start-up company, as I mentioned earlier, is very diverse, but the closest to me is the wording of Blank and Dorf (2012). According to Blank and Dorf, the start-up is: "A start-up is an organization formed to search for A repeatable and scalable business model." That is, start-ups are nothing more than A temporary form of organization that covers A scalable, repeatable business model. In each case, these firms are created with the help of venture capital, using A multi-level scaled investment model. It consists of five phases. It typically covers an investment level of $ 100–150,000. (Blank & Dorf, 2012) So, as you can see there is no clear definition of start-up companies in the case of domestic and international literature either. I would put it in my own words as follows: "A start-up is A relatively new, young, and innovative business venture aiming to create and introduce new products or services to the market. It is generally A business with high growth potential, often built around A new business model, technology, or product. Start-ups typically have dynamic, flexible structures and often come with high risk while striving to meet market demands and grow. During the early stages or inception of the business, while the product or service is still in development, start-ups usually take significant risks to establish A market position and grow.

Definition of strategy management

Strategic management is the long-term direction and performance defined by senior management, based on strategy planning, implementation, and evaluation (Rue 1986). According to Mintzberg, strategy can be A planned direction, A pattern of behavior, A position, or the business concept of A company (Mintzberg 1994). The purpose of strategic management is to ensure the organization's adaptation to A changing environment, and to maintain the goal orientation, flexibility, and awareness of daily activities (Marosán 1996). Strategy is essentially A process in which the organization formulates and executes its goals, evaluates progress, and modifies operations as necessary (Thompson 1997). According to Johnson, strategy is A long-term direction that provides advantages for the company in A changing environment and involves strategic analysis, choice, and implementation (Johnson 1997). Strategic management is A complex process that ranges from defining missions and objectives to evaluating results, taking into account changes in the environment (Barakonyi 1999). There are numerous definitions in the literature, but the following definition is the closest to me: 'Strategy includes setting the organization's future goals, as well as defining the tools and methods to achieve these goals. The organization's strategy is developed and approved at the highest level, thus it can also be interpreted as A management function (Balaton & Tari, 2014).

Strategic Management in Multinational Corporations

The strategic management methods used in multinational corporations, focusing on the variety of approaches and frameworks that support decision-making across different geographical and cultural contexts. Strategic management is crucial due to the broad scope of global operations, requiring careful strategic planning, coordination, and guidance. It plays A central role in defining goals, creating strategies to achieve them, and efficiently allocating resources to meet corporate aims. Multinational corporations must navigate complex global scenarios, requiring flexible strategies and adaptive planning to succeed in dynamic environments. They need to respond quickly to market changes and skillfully handle diverse economic, legal, and cultural settings in various countries, which are critical for successful strategic management in multinational contexts (Kenneth, 1980). Relationship between strategic management and multinational enterprises, highlighting the crucial role of strategic decision-making in strengthening and expanding global businesses (Dubrovski, 2020). Strategic management is essential for multinational corporations to develop business strategies, set objectives, and achieve economic outcomes in various countries or regions (Kucséber, 2020). At its core, it involves orchestrating long-term corporate goals, and formulating, implementing, and executing strategies to maintain competitiveness in diverse markets.

Corporate Acquisitions

Corporate acquisitions play A crucial role in the globalized world economy and are often used as strategic tools for vertical integration and diversification. An acquisition is A transaction where the assets, operations, and control are fully or partially transferred from the target company to the acquiring company (Balaton, 2014). During acquisitions, companies use their own equity, stocks, and cash reserves or take on additional debt to acquire A controlling interest in the target company. Acquisitions can be friendly, supported by the target company's management, or hostile when not supported. These transactions can occur both in privately held companies and publicly traded companies (Balaton, 2014). Depending on the type of acquisition, we can talk about strategic acquirers, investment acquirers, and private equity firms (Balaton, 2014). Corporate acquisitions serve different corporate strategies and can be divided into three main types: vertical acquisitions, horizontal acquisitions, and conglomerate acquisitions (Tóth, 1998). Additionally, there are numerous other forms, such as acquisitions for product development or market development (Balaton, 2014). Vertical and horizontal acquisitions result in diversified companies through related diversification, while conglomerates are formed through unrelated diversification (Barney, 1988). The motivations for acquisitions include achieving market leadership, growth and market expansion, or securing A technological advantage. Moreover, acquisitions can reduce production and/or distribution costs, strengthen market position, and bring other financial benefits such as tax advantages (Balaton 2014). After reviewing the literature, I summarize the external environmental and internal corporate motivational factors in A table (Table 1.).

Table 1. External and internal motivation factors in case of acquisitions

	Motivation factors	
External	Economic reasons: • currency exchange rates, • capital market, • taxation rules (Blum, 1995).	Industry changes: • mature industry (extra capacity), • industrial consolidation, • industrial convergence, (Blum, 1995; Bower, 2001).
Internal	Strategic reasons: • growth (Bower, 2001), • access to distribution channels, geographical expansion (Walter & Barney, 1990), • concentration on the „core business” (Blum, 1995).	Managerial motivations (Seth - Song & Pettit, 2000; Sudarsanam, 1995; Bayer - Czakó, 1999)

Source: own editing relied on theoretical background research.

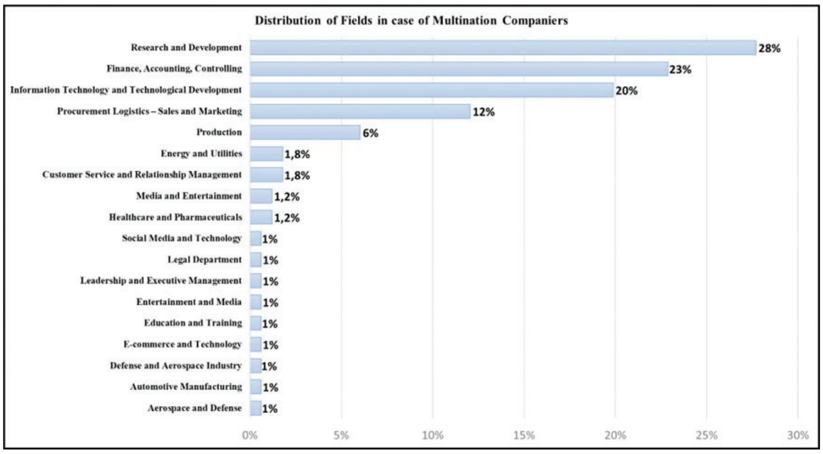

Figure 1. Distribution of Fields in case of Multinational Companies

Source: based on questionnaire response evaluation (own editing).

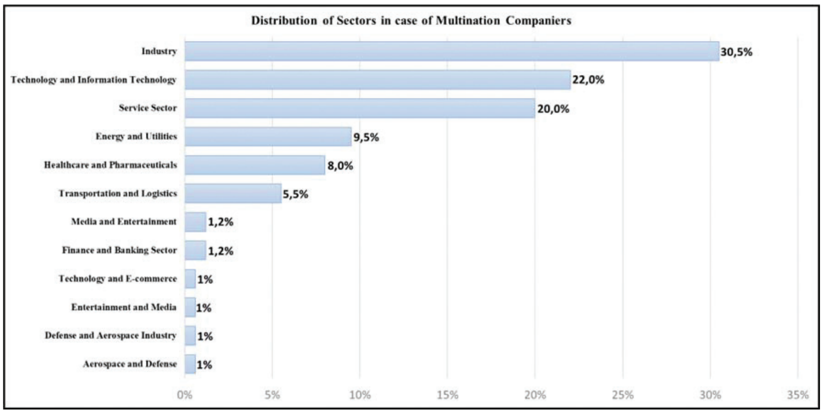

Figure 2. Distribution of Sectors in case of Multinational Companies

Source: based on questionnaire response evaluation (own editing).

Questionnaire results

In the era of globalization and technological advancement, multinational corporations are increasingly turning to strategic acquisitions to strengthen their market positions, enhance their innovative capabilities, and expand their global reach. This chapter provides an in-depth analysis of the data obtained through the questionnaire. It thoroughly examines various multinational areas and sectors, highlighting those that are most actively involved in acquiring start-up companies. Besides sector-specific analysis, I offer detailed insights into the most common challenges associated with acquiring start-ups, as well as the various types of acquisitions that fundamentally shape corporate strategies and business models.

Based on the questionnaire, I examined the multinational fields and sectors. The Figure 1. appears to indicate the prevalence of different professional fields within A multinational corporate context. The most significant representation is in “Research and Development,” which is 28% of the distribution, suggesting A strong focus on innovation and new technologies within multinationals. Close behind is “Finance, Accounting, Controlling,” with 23%, reflecting the critical role of financial management in global business operations. “Information Technology and Technological Development” and “Procurement Logistics—Sales and Marketing” follow, with 20% and 12% respectively, indicating their importance in supporting the operational and strategic goals of multinational firms. The field of “Production” shows A smaller percentage at 6%, which may suggest A relatively lesser focus on manufacturing within the surveyed pool or A possible trend towards outsourcing production. Other fields like “Customer Service and Relationship Management,” “Energy and Utilities,” and “Media and Entertainment” are less represented, with each falling under 2%. This could be due to the nature of the companies included in the survey or the specific industries they operate within.

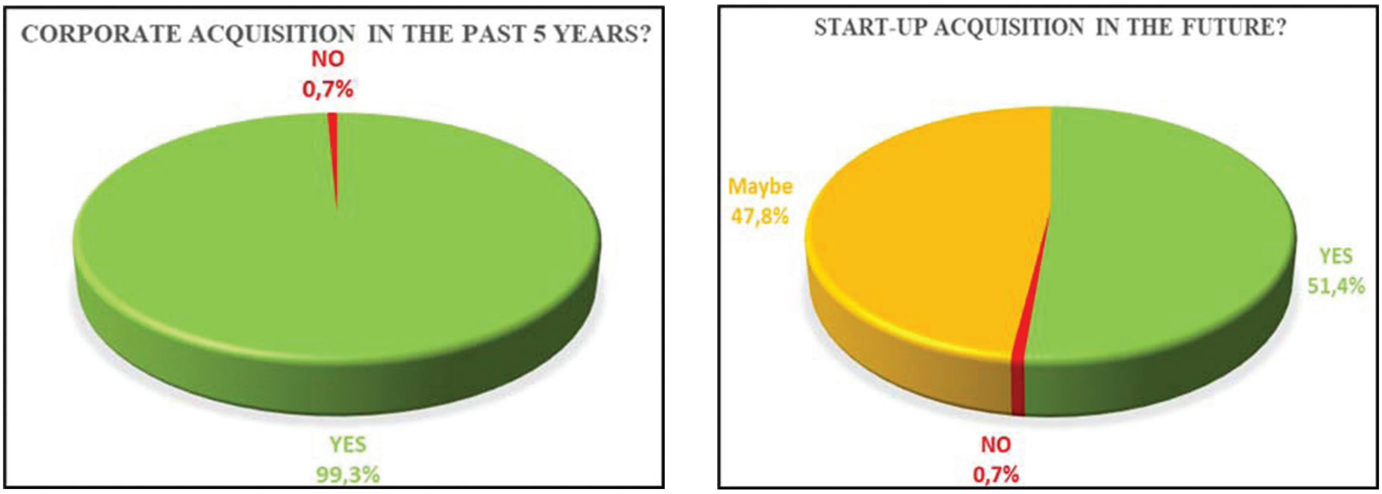

Figure 3. Past vs. Future Corporate Acquisitions at Multinational Companies

Source: based on questionnaire response evaluation (own editing).

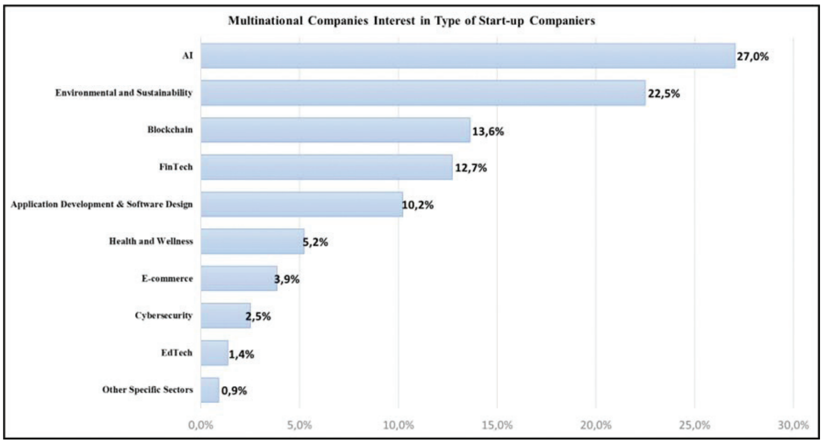

Figure 4. Multinational Companies Interest in Type of Start-up Companies

Source: based on questionnaire response evaluation (own editing).

Analyzing the TOP 3 sectors in Figure 2. you can see the chart is dominated by the "Industry" sector at A considerable 30.5%, A figure that highlights the sector's key role in the landscape of multinational companies, potentially due to A focus on industrial production, manufacturing, and related services. "Technology and Information Technology" comes in second at 22%, reinforcing the importance of tech and IT services in the global business ecosystem. This could indicate A significant investment in digital, automation and AI transformation, which has become A strategic priority for many businesses. The "Service Sector" is also prominent, accounting for 20% of the distribution, which may include A wide range of sub-sectors such as consulting, legal services, and customer support, reflecting the service-oriented approach many multinationals are adopting. In Figure 3. the historical data suggest that acquisition transactions are common strategic tools for growth and expansion among these companies. However, in contrast, the second diagram presents A more divided vision of the future. The future data illustrates A cautious approach to acquisitions, potentially reflecting the higher risks or strategic evaluations currently associated with start-up investments. The past and future concepts emphasize the continuation of aggressive growth strategies among multinational corporations.

Figure 4. illustrates the areas of interest for multinational companies when it comes to start-up acquisitions.

Focusing on TOP 5 the AI dominates the chart with the highest interest at 27%, suggesting A significant inclination towards the tech industry, where AI is likely seen as A key driver of future growth and innovation. Environmental and Sustainability follow with 22.5%, reflecting the growing trend of green investment and the importance placed on sustainable development. Blockchain technology also garners substantial interest at 13.6%, indicating an awareness of its potential to revolutionize various sectors. FinTech, with 12.7%, shows that financial innovation continues to be A significant area for investment, likely due to the evolving nature of digital transactions and financial services. Application Development & Software Design is another noteworthy field with 10.2% interest, underscoring the constant need for new software solutions and digital tools in A rapidly digitizing world. Overall, this reflects the strategic priorities of multinational compa-

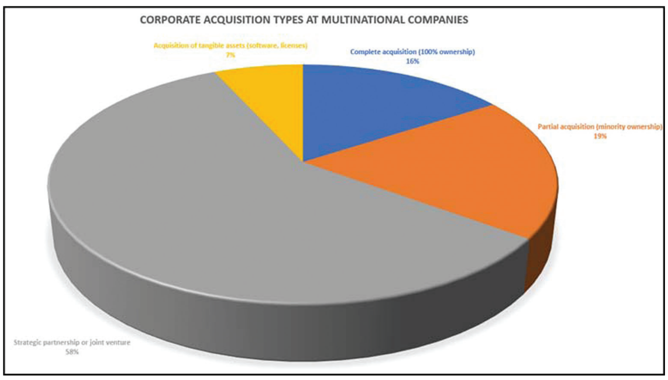

Figure 5. Corporate Acquisition types at Multinational Companies

Source: based on questionnaire response evaluation (own editing).

nies, with A clear focus on technology-driven sectors that promise innovation, sustainability, and financial evolution.

Figure 5. shows that strategic partnerships or joint ventures are the most favored acquisition types by multinational companies, making up 58% of the total. This approach suggests A preference for collaborative growth strategies. Partial acquisitions hold 19%, indicating interest in stakeholder engagement without full integration. Complete acquisitions represent 16%, signifying A smaller but notable preference for total control. The least common are acquisitions of tangible assets like software and licenses at 7%, pointing towards strategic, targeted investments. The data shows that multinational companies are placing A strategic emphasis on partnership and investment rather than full ownership, in line with current trends for flexible, collaborative growth strategies in the global business environment. Figure 6. highlights the primary challenges in start-up acquisitions by multinational companies. Cultural differences and management compatibility top the list, indicating the importance of aligning corporate cultures and leadership. Communication challenges follow, stressing the need for effective exchange of information. Technical integration and strategic alignment are lesser concerns, while regulatory and environmental compliance are the least cited issues, suggesting they are relatively manageable in the acquisition process.

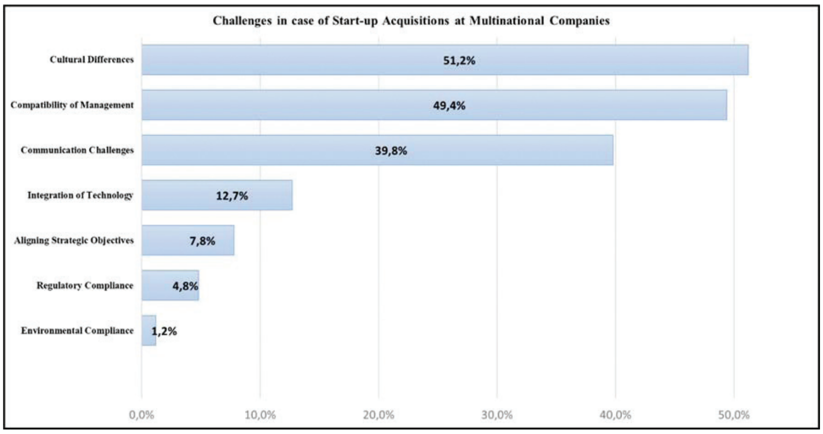

Figure 6. Challenges in case of Start-up Acquisitions at Multinational Companies

Source: based on questionnaire response evaluation (own editing).

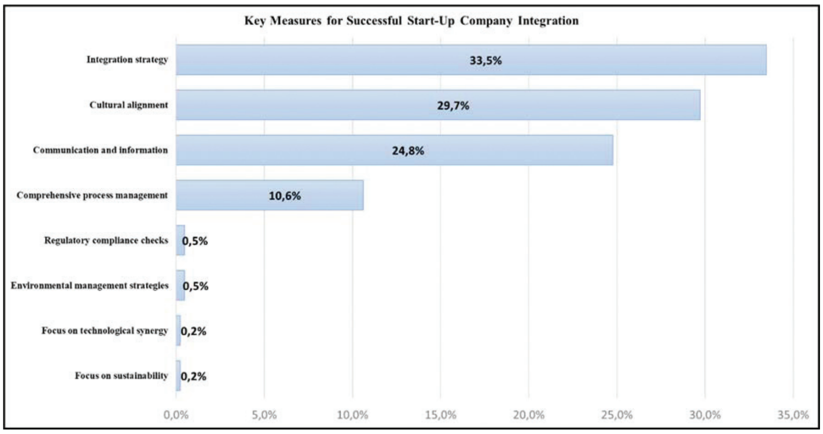

Figure 7. Key Measures for Successful Start-up Company Integration

Source: based on questionnaire response evaluation (own editing).

Figure 7. shows that for successful start-up integration in multinational companies, an integration strategy is most prioritized at 33.5%. Cultural alignment and effective communication are also key, noted by about A third and A quarter of the respondents, respectively.

Comprehensive process management is seen as important by 10.6%. Less emphasis is placed on compliance checks and environmental strategies, with minimal focus on technological synergy and sustainability, suggesting these are not primary concerns in the integration process.

Figure 8. reflects start-up integration outcomes at multinational companies, revealing that 79% of start-ups are only partially integrated, which may suggest A strategic preference for maintaining some operational independence or the presence of integration challenges. In contrast, 21% have been successfully fully integrated, indicating A minority of start-ups are seamlessly incorporated into the acquiring company's processes and culture. This data points to the complexity of merging different organizational structures and may highlight the importance of A tailored approach to integration.

Figure 9. demonstrates the post-acquisition revenue impact at multinational companies. An overwhelming 86% of companies reported A global revenue increase, indicating broad financial success from their acquisition strategies. In specific sales divisions, 9% noted revenue growth, pointing to targeted gains in particular business areas. However, A global revenue increase was not observed by 4% of the companies, and 2% did not see A rise in specific departments, suggesting acquisitions do not uniformly guarantee financial improvements. The data underscores that while the overall trend leans towards positive revenue outcomes, the effects of acquisitions are not universally beneficial across all sectors and departments within multinational firms.

Conclusions

Considering the results, building on the comprehensive analysis presented in this study, the following recommendations are proposed to enhance the strategic acquisition and integration

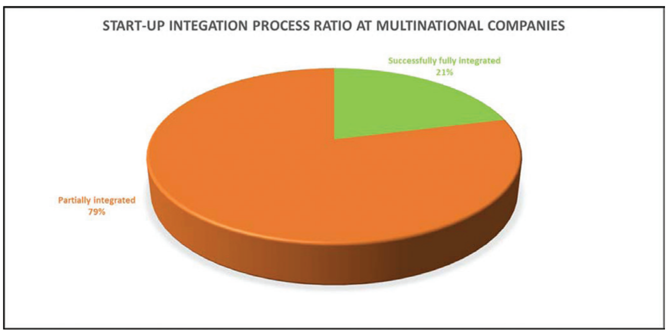

Figure 8. Start-up Integration Process Ration at Multinational Companies

Source: based on questionnaire response evaluation (own editing).

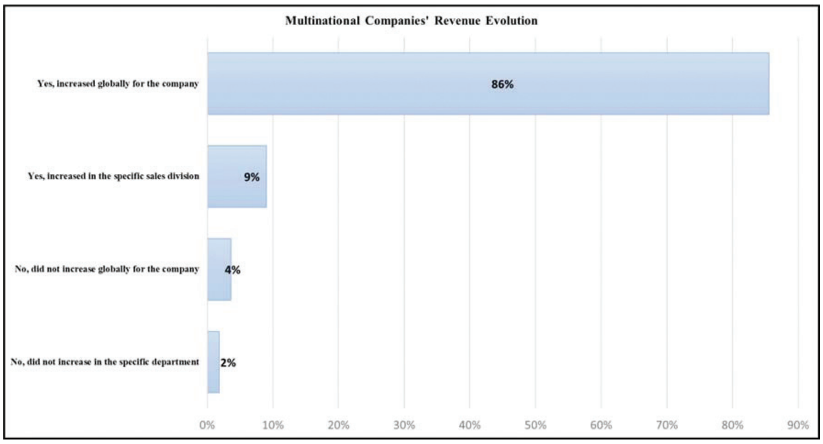

Figure 9. Multinational Companies' Revenue Evolution

Source: based on questionnaire response evaluation (own editing).

of start-ups by multinational corporations. These recommendations are rooted in the challenges and opportunities identified, aiming to streamline the M&A process while maximizing the potential for innovation and global market competitiveness. As multinational enterprises continue to navigate the complexities of global expansion, these insights can serve as A guide for more effective strategic decision-making. Future research should delve into the long-term impacts of these acquisitions and the evolving landscape of international business strategy. Moreover, it is imperative to continue research efforts to scrutinize trends within prominent multinational segments. Such longitudinal studies can offer A comprehensive picture, allowing for an extended analysis into subsequent years that may yield deeper insights into the underlying dynamics of corporate acquisitions. Additionally, conducting extensive interviews with top executives of multinational corporations could provide nuanced perspectives, offering A granular view of the company's economic status and approaches to strategic decision-making. These qualitative insights would complement the quantitative data, enriching the understanding of the multifaceted nature of multinational business strategies.

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