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# Domestic versus cross-border acquisitions: which impact on the target firms' performance?

Olivier Bertrand & Habib Zitouna

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Abstract

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operations. The achievement in the European economic integration certainly explains the absence of difference between European and domestic acquisitions. Finally, our results cast some doubt on the frequent discrimination attitude towards foreign takeovers and the fears of their impact on firms' performance and the host country's welfare.

## Acknowledgements

We are very grateful to A-C. Disdier, B. Smarzynska Javorcik, T. Mayer, P-J. Norbäck and L. Persson. We also thank the participants at the IUI seminar (2005, Stockholm), the Journées de Microéconomie Appliquée (2005, Hammamet), the Empirical Investigations in International Economics conference (2005, Ljubjana), the European Economic Association congress (2005, Amsterdam), the International Economic Association meeting (2005, Marrakech), the CEPR conference 'Competition Policy for International Development, Growth and Trade' (2005, Brussels), the GREMAQ lunch seminar (2005, Toulouse) as well as the INRA seminar (2006, Paris) for very fruitful comments and suggestions. The version presented at these conferences was entitled 'M&A and target firms' performance: are cross-border M&A different? Some Evidence from French firm-level data'. This work is part of the research program of the Paris Lodron University of Salzburg, Austria, and the activities of the 'Economic and Social Research Center' (research program 'Economic and Social Research Center' - University of Paris1).

## Notes

<sup>1</sup> An  (researchers' wealth using even [\(2003\)\)](#). It converges to the firms. However, even. In contrast, accounting data.

<sup>2</sup> See Ca



<sup>3</sup> The productivity indicator can be measured for each single input or for all inputs simultaneously. Although the TFP is the best way of estimating efficiency performance, labour productivity is frequently examined because of data constraint.

<sup>4</sup> Some studies analysed the effects of M&A on companies' market shares. Mueller (1985) or Baldwin and Gorecki (1990) found declines in market shares. Goldberg (1973), McDougall and Round (1986), Jenny and Weber (1980) or Cable et al. (1980) came to no significant variation in market shares.

<sup>5</sup> Healy et al. ([1992](#)) or for example Cosh et al. ([1980](#)) also got the result of a positive impact respectively in the US and the UK market. Empirical evidence for other countries arrives to mixed conclusions too. For instance, merging firms' profits increased in Canada (Baldwin, [1995](#)) and Japan (Ikeda and Doi, [1983](#)), but decreased in Holland (Peer, [1980](#)) and Sweden (Ryden and Edberg, [1980](#)).

<sup>6</sup> A Greenfield Investment is defined as the establishment of a new production facility in contrast to a cross-border M&A where a firm purchases shares of an existing foreign firm.

<sup>7</sup> For instance, in the UK market, Davies and Lyons ([1991](#)), Driffield ([1977](#)), Girma et al. ([2000](#)) or Griffith and Simpson ([2001](#)) confirmed the productivity superiority of foreign-owned firms. The MNE's profit is more seldom examined. For France, Houdebine and Topiol-Bé

<sup>8</sup> Citation being not published in pharmacology

<sup>9</sup> In a related prospect food survival electronics and

10 Event s and  
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- <sup>11</sup> The first four M&A wave were mainly confined to the United States and Great Britain. The fifth and last M&A wave encompassed all major industrial countries.
- <sup>12</sup> We define inward cross-border M&A as the sales of domestic firms to foreign investors. In the opposite, outward cross-border M&A correspond to the purchases of foreign firms by domestic firms.
- <sup>13</sup> This list includes ten French industries, varying from biotechnologies, secure information systems, casinos to the production of vaccines.
- <sup>14</sup> In the past, two major waves of M&A took place in France, the first one happening in the 1960s and the 1970s, the second one in the middle of the 1980s (Derhy, [1999](#)).
- <sup>15</sup> Horizontal M&A are defined as operations between firms within the same industry.
- <sup>16</sup> The spatial economics literature examines the relationship between M&A, market power and local competition (Levy and Reitzes, [1992](#), [1995](#)).
- <sup>17</sup> A firm fearing retaliation in one market (i.e. a price war) is incited to moderate its pricing behaviour in another market (Bernheim and Whinston, [1990](#)).
- <sup>18</sup> Empirical works are more ambiguous (Conyon et al., [2002](#)).

- <sup>19</sup> Since the economic context shapes the firms' innovation capabilities, the heteroge
- <sup>20</sup> Capro the buyer or the targ
- <sup>21</sup> These unced M&A. They co construct this data ons, trade publ
- <sup>22</sup> Cross- 0s (UNCTAD ost of them, specially ss than 5% in value
- <sup>23</sup> It colle individual firms. This dataset includes all French manufacturing firms or more than 20 employees.



See [Table A1](#) in Appendix A2 for more descriptive statistics.

<sup>24</sup> See Van Biesebroeck ([2003](#)) for a discussion of the different ways to estimate productivity.

<sup>25</sup> As explained later, a newly acquired firm  $i$  is associated with a nontarget firm within the same year  $t$ .

<sup>26</sup> The matching method is a nonparametric method. No particular specification is assumed.

<sup>27</sup> We use the ‘caliper’ matching method to select the control firm.

<sup>28</sup> The matching is performed in Stata Version 8 implementing the software provided by Sianesi ([2001](#)).

<sup>29</sup> We use the French industry classification NAF16.

<sup>30</sup> We checked that there is neither a too high statistic correlation, nor multi-collinearity among selected variables.

<sup>31</sup> For each independent variable, the difference between target and control firms is checked, employing T-test on the differences within bands of the propensity score.

<sup>32</sup> The bias is calculated and nontreated variance sample

<sup>33</sup> This new profits could be more ses more quickly i e: it is precisely growth.

<sup>34</sup> However ([1989](#)) or Jensen (1990) select managing performing firms in the sample.

<sup>35</sup> Conyours account changes



<sup>36</sup> Our results partly differ, for instance, from Conyon et al. ([2002](#)). They did not find any significant increase in productivity for domestic M&A.

<sup>37</sup> The difference between domestic and European M&A is not significant even at a threshold of 10%.

<sup>38</sup> The inclusion of firm dummies makes the interactive variable not significant for domestic operations. However, the consequences of foreign operations still remain positive and significant, confirming a higher efficiency for cross-border M&A, especially nonEuropean M&A.

<sup>39</sup> The interactive variable could be significant in 3, but not in 2, 4 or 5. This change is then not really conclusive, all the more as the significance is not robust to a modification in estimations. More generally, we have to interpret it with caution since our sample is reduced with a narrower timing window.

<sup>40</sup> Theoretically, three main parameters determine the extent to which efficiency gains reduce consumers' prices: the intensity of competition after merging, the characteristics of the demand function and the production cost.

<sup>41</sup> See Caves ([1996](#)) for an overview on this question.

<sup>42</sup> They could modify the prices assigned to internal transactions, by under-pricing exports

<sup>43</sup> All ind ([1995](#)).

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