ALTERNATIVE INVESTING

New Evidence and Perspectives on Mergers

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Empirical research has revealed a great deal about mergers and acquisitions trends and characteristics over the last century. But on the issue of why mergers occur, research success has been more limited.

Economic theory has provided many possible reasons for why mergers might occur: efficiency-related reasons that often involve economies of scale or other “synergies”; attempts to create market power, perhaps by forming monopolies or oligopolies; market discipline, as in the case of the removal of incompetent target management; self-serving attempts by acquirer management to “overexpand” and other agency costs; and to take advantage of opportunities for diversification, like by exploiting internal capital markets and managing risk for undiversified managers.

In this paper, we provide evidence that merger activity in the 1990s, as in previous decades, strongly clusters by industry. Furthermore, we show that one particular kind of industry shock, deregulation, while important in previous periods, becomes a dominant factor in merger and acquisition activity after the late 1980s and accounts for nearly half of the merger activity since then. We can say without exaggeration or hyperbole that in explaining the causes of mergers and acquisitions, the 1990s were the “decade of deregulation.”

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