ALTERNATIVE INVESTING

The Impact of Industry Shocks on Takeover and Restructuring Activity

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The large number of corporate takeovers during the 1980s has been characterized as the fourth takeover wave in the U.S. during the past 100 years. This paper assesses the proposition that industry shocks contribute to the extensive takeover and restructuring activity of that decade. Examples of shocks include deregulation, changes in input costs, and innovations in financing that induce or enable alterations in industry structure.

The hypothesis we maintain in our analysis is that corporate takeovers such as tender offers, mergers and leveraged buyouts are often the least-cost means for industry structure to respond to the changes brought about by economic shocks. Our central prediction is that the takeover and restructuring activity in the 1980s clusters in the industries that experience shocks of the greatest magnitude.

We find that the takeover and restructuring activity in a particular industry tends to cluster within a narrow range during the sample period, suggesting that common factors influence the takeovers occurring in an industry. We also document a significant interindustry variation in the rate of takeover and restructuring activity that is directly related to the magnitude of economic shocks borne by industries in the late 1970s and early 1980s. The link is maintained for all surviving firms in an industry, affirming that the relation between industry shocks and takeover activity stems from industry-wide phenomena, rather than being due solely to target firms.

Overall, the empirical results suggest that the takeover wave of the 1980s entails an adaptation of industry structure to a changing economy.

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