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Beyond the shareholders: The impact of M&A on other stakeholders

Finance Working Paper N° 1080/2025
July 2025

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ECGI Working Paper Series in Finance

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I thank the editors for helpful comments and feedback. All errors and omissions are mine.

Abstract

In this chapter, I survey the literature on the impacts of M&A for stakeholders other than shareholders. When M&A deals occur, we typically expect a certain restructuring of activities to follow. It is hard to imagine situations in which rational acquirers can afford to pay a premium over the target's standalone value and then leave everything as-is. Therefore, some reshaping of operations and finances of the combined firm will likely take place – a reshaping that can have real consequences for various parties and entities with which the firm interacts. Included in those parties are constituencies such as consumers, suppliers, creditors, employees, top management, the tax authority (i.e. public finances), the environment, as well as less obvious parties such as charities and politicians. In addition, there are also indirect effects of M&A on the economy through their impact on broader economic outcomes such as innovation, productivity, and investment, as well as the more direct impact on deal advisors and facilitators. Some of these stakeholder groups have received more attention from researchers than others. For instance, the literature on the effects of M&A on consumers is much more developed (also in the broader economics discipline) than studies on the effect of M&A deals on the environment. Collectively, though, this literature has reached a point at which a systematic review is needed.

Keywords: Stakeholders, Mergers and Acquisitions

JEL Classifications:

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Beyond the shareholders: The impact of M&A on other stakeholders*

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July 2025

* This chapter will appear in the *Handbook on the Economics of Mergers and Acquisitions* edited by Ran Duchin and Jarrad Harford, to be published by Edward Elgar. I thank the editors for helpful comments and feedback. All errors and omissions are mine.

Introduction

The financial performance and the shareholder wealth effects of mergers and acquisitions (M&A) have been extensively studied in the academic finance literature.[1] This focus on profitability and shareholder value creation is understandable, considering that shareholders are the so-called residual claimants of the corporation, ultimately bearing the risk of the investment decisions made by the firm's managers. Indeed, most corporate boards have historically viewed their mandate as running the firm for the best benefit of its shareholders. And while not all jurisdictions make shareholder value maximization an explicit legal standard to which corporate directors are held accountable, the fact that board members are elected and removed by shareholders means that, for practical purposes, shareholder interests take primacy in most cases.

In this chapter, I survey the literature on the impacts of M&A for stakeholders *other* than shareholders. When M&A deals occur, we typically expect a certain restructuring of activities to follow. It is hard to imagine situations in which rational acquirers can afford to pay a premium over the target's standalone value and then leave everything as-is.[2] Therefore, some reshaping of operations and finances of the combined firm will likely take place – a reshaping that can have real consequences for various parties and entities with which the firm interacts. Included in those parties are constituencies such as consumers, suppliers, creditors, employees, top management, the tax authority (i.e. public finances), the environment, as well as less obvious parties such as charities and politicians. In addition, there are also indirect effects of M&A on the economy through their impact on broader economic outcomes such as innovation, productivity, and investment, as well as the more direct impact on deal advisors

[1] For surveys of this literature, see Jensen and Ruback (1983), Jarrell, Brickley, and Netter (1988), Andrade, Mitchell, and Stafford (2001), Golubov, Petmezas, and Travlos (2013), and Mulherin, Netter, and Poulsen (2017).

[2] Of course, some acquirers may be acting irrationally or out of self-interest, noted as early as Roll (1986) and Jensen (1986).

and facilitators. Some of these stakeholder groups have received more attention from researchers than others. For instance, the literature on the effects of M&A on consumers is much more developed (also in the broader economics discipline) than studies on the effect of M&A deals on the environment. Collectively, though, this literature has reached a point at which a systematic review is needed.

The motivation for this survey is at least two-fold. First, the impact of M&A on non-shareholder stakeholders is interesting in its own right, as it provides a more holistic view of this prominent business activity. There is growing interest in understanding the impacts of business on society, as evidenced by the rise of phenomena such as impact investing and socially-responsible investing (SRI).[3] Moreover, even traditional investors may have (and often articulate) non-pecuniary interests, and companies are increasingly evaluated not only on their financial performance, but also on their so-called "corporate citizenship", namely their treatment of various constituencies with which they interact and upon which they make a tangible impact.[4] The latter is sometimes referred to as environmental, social, and governance (ESG) or sustainability considerations. Reviewing the evidence on the impacts of M&A on stakeholders should be of particular interest to investors and boards who would like to at least consider potential implications of their actions for those stakeholders.

Second, knowing how M&A affects other stakeholders is highly informative about the sources of gains to shareholders, or synergies. As I argue below, synergies from mergers can come from two non-mutually exclusive broad categories: creating new economic opportunities and redistributing existing rents. There is currently no established view in the

[3] According to World Investment Report by UNCTAD based on data from Morningstar, over the decade ending in 2024 assets under management (AUM) in sustainability-themed funds have grown ten-fold and reached almost US$ 3.2 trillion.

[4] A good example of this trend is the decision in 2020 by The Business Roundtable – a body representing large businesses in the U.S. – to revise its stated view of the corporate objective. Previous wording along the lines of shareholder value maximization was revised for: *"Each of our stakeholders is essential. We commit to deliver value to all of them, for the future success of our companies, our communities and our country."*

M&A literature as to whether shareholder gains from M&A are primarily win-wins or merely represent transfers of wealth from other stakeholders. A systematic review of the evidence on stakeholder impacts is a thus step towards a more comprehensive evaluation of the effect of M&A on our overall economic well-being. Hence, this survey should also be valuable to researchers and policymakers interested in better understanding the nature and the distribution of economic gains from M&A.

This is a fast-growing part of the M&A literature, with the recent growth aided by the newly available data sources allowing us to measure outcomes at a very fine level, e.g., at the individual worker level, product level, or contract level. Given the space limitations, some judgments had to be made about what to include. I hope I was able to keep my own biases to a minimum. I apologize to those authors whose work I may have overlooked. However, one of the obvious biases in my survey is that I focus exclusively on the empirical evidence. A proper treatment of the theoretical contributions – especially those at the interaction with the industrial organization literature – would certainly breach the space constraints given to me. Another bias is geographic: most of the evidence I survey comes from studies of M&A activity in the U.S. On the one hand, this is not a bias in the sense that over half of the world's M&A activity takes place in the U.S.[5] One the other hand, the U.S. institutional environment in which deals take place, with its regulatory and other guardrails, is certainly only one of the many regimes out there. Therefore, some of the findings I review do not necessarily extrapolate seamlessly to other jurisdictions.

Note also that this review specifically excludes studies of private equity buyouts. This is because an excellent survey of the impact of private equity buyouts on broader stakeholders already exists – see Sorensen and Yasuda (2023). I therefore focus exclusively on the studies of corporate-to-corporate M&A deals that involve a combination of two

[5] According to Refinitiv (formerly Thomson Reuters), there was roughly $3 trillion dollars of M&A deals announced globally in 2024, of which roughly $1.6 trillion represent acquisitions of U.S. targets.

businesses.[6] In doing so, I add to the work of Greene et al. (2021), who also survey the role of non-financial stakeholders in takeovers in terms of both affecting deals and being impacted by deals. My focus is almost exclusively on the latter, and I also include creditors and some of the less obvious affected groups as part of stakeholders of interest. As further background reading, I recommend a survey by Mehrotra and Morck (2017) on the role of stakeholders in corporate governance.

Prior to surveying the evidence, Section 1 discusses the theoretical ways in which M&As can affect stakeholders beyond the shareholders. Proceeding to the survey, Section 2 is dedicated to the most developed part of this literature, namely, the evidence on the effect of mergers on consumers. Section 3 reviews the studies of the effect of mergers on suppliers. The survey continues in Section 4 with evidence on the impacts of M&A on creditors. The impact of mergers on employees is reviewed in Section 5, with a further discussion on the effect of business combinations on top management in Section 6. I continue with stakeholders such as the tax authority, the environment, rival firms, and various special groups such as politicians, advisors, and even philanthropic organizations in Section 7. Finally, I review the impact of M&A on broader economic considerations such as productivity, investment, innovation, and even on some societal outcomes in Section 8. My remarks concerning the interpretation of the evidence are offered in Section 9. The chapter is closed with a summary of conclusions and some directions for future research.

1. Theoretical effects of M&A on various stakeholders

Before reviewing the literature on the effects of M&A on the broader set of stakeholders, it is useful to recap what we know about the wealth effects of mergers on the

[6] For the purposes of this chapter, I use the terms “mergers”, “acquisitions”, and “takeovers” interchangeably to mean a transaction that involves a combination of two operating entities into one, with an attendant change of control over the target. The exact legal form of the transaction is of secondary importance here.

shareholders of the merging firms. Doing so will help us frame the effects we could expect on other stakeholders. When it comes to shareholder value creation from M&A, there seems to be broad consensus in the finance literature that mergers, on average, *increase* the value of merging entities when taken as a whole (i.e. the bidder-target portfolio exhibits a positive abnormal return). For instance, the weighted-average abnormal return of the bidder and target firms in U.S. tender offers reported by Bradley, Desai, and Kim (1988) is 7.4%. More recent and larger-sample studies report lower, yet clearly positive combined firm returns, such as 1.8% in Dessaint, Eckbo, and Golubov (2025).[7] These estimates imply that the merged firm is worth more to its shareholders than the two standalone entities – a finding that is generally taken as evidence of positive synergy gains from M&A. It is the source of these synergies that will determine the attendant effects on other stakeholders.

Theoretically, positive gains from M&A for shareholders can come from two non-mutually exclusive broad categories. First, these gains could come from new opportunities that are being enabled by the merger. This can take many forms. First, a combination of talent from the two firms could result in incremental innovation or technological breakthroughs, leading to superior new products and services enjoyed by consumers. In this case, both shareholders and consumers benefit – a Pareto-improving case.[8] Second, consider a case in which a target is unable to develop its growth opportunities due to financial constraints – perhaps because information asymmetry costs of raising capital are high, or if capital markets

[7] Note that there is much less consensus on the distribution of this combined gain between bidders and targets, and, in particular, whether average bidder returns are positive. Here, the answer depends on the type of M&A deals considered. For data availability reasons, earlier studies focused on samples of public-to-public deals, and generally found either modestly positive or zero abnormal bidder returns (Jensen and Ruback (1983) review the early event study evidence). These returns tend to be negative for acquisitions paid for with acquirer stock (e.g., Travlos (1987), Golubov, Petmezas, and Travlos (2016)). In contrast, acquisitions of unlisted targets (standalone private firms or subsidiaries) are typically associated with positive average returns for bidders (Fuller, Netter, and Stegemoller (2002)). Since, acquisitions of unlisted firms are more numerous than acquisitions of public firm, bidder returns averaged across deals in samples including both types of transactions tend to be positive (see, e.g., Moeller, Schlingemann, and Stulz (2004), Dessaint, Eckbo, and Golubov (2025)).

[8] It is possible, however, that rival firms – left behind by the new technology – would be worse off in this scenario.

are not sufficiently developed. Here, a deep-pocketed bidder could provide the requisite financing and unlock the value of target's growth opportunities, likely leading to increased employment and tax revenues. Here, too, shareholder gains are accompanied by positive effects on other stakeholders. Third, consider the underinvestment problem arising from possible hold-up, e.g., when a mining development project owned by one entity cannot ship its future output without an access railroad to be built by another entity. Common ownership, i.e. a merger, is a known solution to hold-up problems from the limits of contracts (e.g., Grossman and Hart (1986)), in this case manifesting in underinvestment. Merging the entities controlling the prospective mine and the permit for railroad construction aligns their incentives, thereby allowing necessary investments to occur. Such a deal is expected to create value for the shareholders with likely positive effects on suppliers to both firms. Fourth, consider a deal in which the target is run sub-optimally and the acquirer contributes its unique industry expertise and management skill in order to raise the productive efficiency of the target's assets – such that the target's output grows while the inputs do not grow as much. In this case, shareholder gains do not come at the expense of other stakeholders, except perhaps the incumbent managers of the target. Other examples of win-win type of gains are possible.

A second possibility is that shareholder gains in mergers represent a *redistribution* of value enjoyed by other stakeholders. A classic example is economies of scale, whereby fixed costs of production enable the merged firm to cut various overhead expenses (e.g., salaried employees in the accounting department) while maintaining the same level of output. In this case, the profitability of the merged firm increases and shareholders benefit, but some workers lose out – at least in the near term. Another common example – and the motivation for antitrust review of merger activity – is the possibility of shareholder gains at the expense of consumers, whereby the merged firm obtains enough market power to start dictating prices and enjoying monopolistic rents. Whether this possibility materializes depends, among

others, on concentration levels, the level of entry barriers into the market, and whether substitutes for the firm's product exist. Shareholder gains at the expense of suppliers are also theoretically possible, whereby the merged firm becomes dominant enough to dictate prices for its production inputs, i.e. starts earning monopsonistic rents. Redistribution from the tax authority is another possible avenue. Consider a target firm that has tax-loss carry forwards that it cannot utilize in the foreseeable future. An acquisition of this target by a profitable acquirer would lower the combined tax bill of the two firms, resulting in shareholder gains. Wealth transfers between shareholders and creditors/bondholders are also theoretically possible. For example, a merger might benefit bondholders through the co-insurance effect or hurt them by raising default risk – depending on the protections afforded to creditors of the bidder and the target (note that target creditors are almost always protected by a "change of control clause", allowing creditors the option to cash out at par value upon a takeover).

The empirical relevance, the generality, and the relative prominence of these theoretical possibilities will ultimately determine whether the bulk of shareholder value generated by M&A represents the creation of new economic opportunities or mere redistribution of existing value (and if the latter is the case, which stakeholders are the most affected). Of course, these two categories of gains are not mutually exclusive and can be at play simultaneously in a given sample of deals and in a given transaction. Let us know turn to the survey of the evidence.

2. The effect of M&A on customers

Policymakers have long been interested in understanding whether M&A is associated with the creation of market power/dominance in the market for the firm's output. Naturally, this interest has spilled over into academic research. Much of this research is conducted by industrial organization economists and is focused on estimating consumer welfare effects, but

the finance discipline has also made significant contributions to this line of inquiry. For reasons of comparative advantage, in this section I focus mostly on the latter studies, with only a few examples of the former. For surveys of the industrial organization literature on merger analysis see, for example, Kaplow (2021) for horizontal mergers and Slade (2021) for vertical mergers; another useful resource on the topic of mergers and competition is Section 6 in Betton, Eckbo, and Thorburn (2008).

When it comes to the impact of M&A on consumers, most commonly the object of study is horizontal mergers, in which the acquirer and the target are engaged in the same business activity. An obvious result of a merger of two rival firms is that the number of competitors in an industry declines by one (assuming the target was not going to fail in the absence of the acquisition). Whether this results in anticompetitive rents is, however, far less obvious, as per the discussion in the previous section. It is ultimately an empirical question.

Some of the earliest contributions in this domain are the works of Eckbo (1983) and Stillman (1983). These authors note that, if a merger generates anticompetitive rents (at the expense of customers and possibly also suppliers), then these rents should be enjoyed also by the remaining rivals of the merging firms. Eckbo (1983) shows that, for a sample of 259 mergers over the period 1963-1978, the stock prices of rival firms react somewhat positively to announcements of same-industry mergers – as if industry competitors are about to start enjoying some collusive rents. However, at the announcement of regulatory challenge of previously agreed-upon deals, rival stock prices remain unchanged despite the mergers and the attendant market structure effects becoming less likely. He concludes that the evidence on rival stock price reactions is not consistent with market power effects and instead consistent with merger announcements signaling profitable restructuring opportunities for the industry as a whole. Stillman (1983) focuses on 11 horizontal mergers that were challenged by antitrust regulators and also fails to find evidence of collusive rents in the stock price

reactions of rivals. Eckbo and Wier (1985) extend the samples of challenged deals used in Eckbo (1983) and Stillman (1983) to account for potential improvements in the regulators' ability to identify problematic mergers after 1978, but still find evidence that is "uniformly inconsistent with the market power hypothesis" (p. 121). Eckbo (1985) further studies how the abnormal return to rival firms varies with the degree of market concentration and the merger-induced change in concentration. While the market power effect would suggest a positive correlation – higher gains to rivals when concentration is high – his results show the opposite correlation. Moreover, using the same methodology on a sample of 205 mergers in Canada – an environment that was characterized by a much more lenient approach to antitrust regulations and hence a higher likelihood of observing anticompetitive mergers – Eckbo (1992) concludes that "there simply isn't much to deter" (p. 1005).[9]

Later and larger sample studies largely confirm the findings for rival stock price reactions. Those studies have also extended the event study approach to customer firms, offering more direct evidence on the wealth effects for consumers. For instance, Fee and Thomas (2004) study a sample of 554 horizontal mergers of listed U.S. firms over the period 1980-2017 and find positive reactions for rivals at merger announcement and zero-to-positive rival reactions on the announcement of regulatory challenges. The authors also take advantage of the requirement to disclose significant customers (10% of sales or more) to identify both customer and supplier firms of the merging entities.[10] For corporate customers, the abnormal returns are found to be indistinguishable from zero, which is inconsistent with market power effects.

The findings of Fee and Thomas (2004) are largely echoed by those of Shahrur (2005), who also examines wealth effects of horizontal U.S. mergers for the merging firms, rivals,

[9] According to Banerjee and Eckard (1998), a similarly lax antitrust enforcement environment prevailed in the U.S. during the first great merger wave of 1893-1903. Echoing the conclusions of Eckbo (1992), the authors' event study analysis points to efficiency-driven merger gains and shows no evidence of collusive rents for rivals.
[10] A limitation of this analysis is that only *corporate* and only *listed* customers and suppliers can be examined.

and customers – except that customers here are defined at the industry level based on input-output tables rather than actual customer-supplier relationships in Fee and Thomas (2004). Shahrur (2005) focuses on the subsample of takeovers with positive combined wealth effects for the mering firms, in order to answer where the gains are coming from. For this subsample, he actually finds small *positive* gains for firms in the customer industries. For the subsample of deals with negative combined wealth effects for the merging firms, customer firm reactions are also somewhat negative – which he attributes to the unfavorable industry developments motivating those mergers. Overall, he concludes that "efficiency considerations, rather than collusion or buyer power motives, drive the average horizontal takeover in our sample" (p. 95).[11]

In contrast to Fee and Thomas (2004) and Shahrur (2005) who analyze horizontal mergers, Shenoy (2012) studies the effects on rivals and customers in vertical acquisitions. Theoretically, vertical integration could hurt consumers through either i) foreclosing access to critical inputs to nonintegrated rivals, thereby raising their costs, or ii) collusion with rivals facilitated by ownership of a common supplier. In a sample of 225 horizontal deals among U.S. firms between 1981 and 2004, he finds that firms in downstream (customer) industries tend to experience *positive* wealth effects in response to vertical mergers in their supplier industries – especially when the merger appears to be value-creative for the merging firms themselves. He concludes that vertical mergers do not harm consumer firms.

There is also evidence of the consumer impact of diversifying acquisitions – deals where neither horizontal nor obvious vertical relation is observed. Greene, Kini, and Shenoy (2017) analyze a sample of 785 diversifying deals in the U.S. over the period 1984-2010.

[11] Using the same general methodology, Karceski, Ongena, and Smith (2005) conduct an industry-specific examination of customer firm wealth effects in the banking industry in Norway. They find that corporate borrowers of targeted banks exhibit a small negative market reaction, while borrowers of the acquiring bank enjoy small positive announcement effects. The authors interpret these findings as strategic favoring of acquirer's clients in the combined bank.

They document an average announcement effect for firms in the acquirer customer industry of virtually zero, as well as a *decline* in the acquirer industry output prices (charged to consumers) and an *increase* in acquirer industry revenues. Taken together, these findings suggest that, on average, customer firms are not negatively impacted by diversifying mergers in the industries they source from. While not the main focus of their study, Dessaint, Eckbo, and Golubov (2025) also provide some recent estimates of the wealth effects of customers and rivals of merging entities in a large sample of 23,553 deals by U.S. public acquirers over the period 1981-2017. Without distinguishing between horizontal, vertical, or diversifying deals, their estimates of abnormal announcement returns are -0.01% to -0.26% for rival firm portfolios and -0.17% to -0.27% for customer firm portfolios.

In addition to the event study approach, researchers have also examined product/service prices following mergers. This type of evidence is usually industry specific. For example, the airline industry has been a popular setting for such examinations. Kim and Singal (1993) study the effect of airline mergers on airfares in a sample of 14 deals affecting over 2,000 routes during the 1980s. They conclude that the merging firms increase airfares on the affected routes by about 10% on average, and this price increase is met by a similar increase in airfares by rivals. Borenstein (1990) zeroes in on two particular mergers of airlines over the same period and reaches the same conclusion regarding price increases on affected routes. However, Slovin, Sushka, and Hudson (1991) study stock market reaction of rivals of merging airlines and do *not* find evidence of abnormal returns – a finding that they interpret as inconsistent with increased market power. Singal (1996) also finds that rival airline abnormal returns are zero on average, but with significant variation across rivals – both positive and negative impacts are present. He interprets these findings as consistent with both efficiency gains and market power effects.

Further evidence on pricing following mergers comes from the banking industry. Sapienza (2002) studies 138 bank mergers in Italy over the period 1989-1995 and finds differential effects on loan rates depending on the market share of the acquired bank. When the acquired bank is relatively small, loan spreads offered by the merging banks decline – consistent with efficiency gains being passed on to borrowers. When the target bank has a relatively high market share, loan rates increase, which the author interprets as a market power effect. Nevertheless, most acquisitions in her sample are of the former type. Focarelli and Panetta (2003) also use Italy as their setting and study the impact of mergers on the consumers of bank deposit products, especially in the longer-run (one could also view depositors as suppliers). In their sample covering the period 1990-1998, they find modest reductions in deposit rates immediately following mergers – consistent with market power – but these reductions do reverse in subsequent years, resulting in modest *increases* to deposit rates offered to customers.

Erel (2011) also provides evidence on loan spreads following bank mergers, this time using data from the U.S. Her sample includes 350 bank mergers over the period 1990-2000. She finds that loan spreads following mergers decline as the overlap between the acquiring and target banks increases, consistent with efficiencies being passed on to borrowers. However, there is an inflection point in this relationship: mergers of banks with sufficiently large overlaps are associated with increased loan spreads.

The pharmaceutical industry offers some further sector-specific insights. Bonaimé and Wang (2024) look at the effect of mergers of pharmaceutical companies on drug prices in a sample of 202 drug company mergers during 2013-2019. They find that prices of drugs offered by both the acquirer and the target increase by about 2% relative to acquiring firm's drugs that do not overlap with those of the target. The increase is relatively short-lived: it persists for only a couple of years. This average effect is stronger for less competitive

markets, defined as those with fewer players and those without competition from the so-called "generics". Hammoudeh and Nain (2024) provide further nuance on the post-merger pricing in the pharmaceutical industry using 125 mergers over the 2007-2020 period. In particular, they differentiate between highly innovative pharmaceuticals (those offering brand name, first-in-class drugs that are often patented) and less-innovative ("generic") drug companies. The results for the highly-innovative drugs show post-merger increases in prices, consistent with Bonaimé and Wang (2024). In contrast, generic manufacturers exhibit *reductions* in drug prices following mergers – a finding that the authors attribute to efficiency gains.[12]

Becher, Mulherin, and Walkling (2012) provide evidence from mergers in the U.S. utilities industry over the period 1980-2004. The utilities industry is often excluded from the sample in many studies (due to being regulated), which makes it a useful "holdout" sample. The authors find that mergers of utilities are associated with positive wealth gains for the merging firms and their rivals, but rates charged to consumers tend to decline – once again consistent with efficiency gains and inconsistent with market power.

Fathollahi, Harford, and Klasa (2022) perform a large sample examination of the effects of horizontal mergers on industry-level prices and customer industry wealth effects. Their innovation is to consider both industry concentration *and* the degree of inter-firm product similarity. They find that, for mergers occurring in concentrated industries, industry-level producer prices increase – and announcement period abnormal returns to firms in customer industries decline – in the degree of product uniqueness. The authors interpret this finding as evidence of market power effects.

[12] Within the broader healthcare sector, there are also studies investigating the price effect of mergers among hospitals. These studies tend to find that prices (typically paid by insurers) do increase following hospital mergers, see, e.g., Dafny (2009) Dafny, Ho, and Lee (2019).

Also with an eye on identifying market power effects, Kepler, Naiker, and Stewart (2023) analyze merger activity in the U.S. over the period 2001-2019 and find that a disproportionate amount of M&A deals are transacted at values that put them just below the merger notification threshold – especially when deals are horizontal and the industry is already concentrated. They also find that horizontal deals whose values fall just below the threshold are associated with higher abnormal returns to industry rivals than deals falling just above the threshold. Furthermore, they find that industry-average profit margins following just-below-the-threshold horizontal deals are higher than when horizontal deals fall just above the threshold. In a case study of three unnamed transactions – one just below the threshold, one just above, and one far below – they also find increases in prices of goods (of the merging firms *and* their rivals) for the former case and no price changes for the latter two. While acknowledging the limitations of this more anecdotal approach, the authors conclude that the evidence is consistent with shareholder gains at the expense of consumers.

Note that evidence on post-merger prices alone is difficult to interpret, because an increase (decrease) in prices following a merger could be accompanied by an increase (decrease) in product quality, which does not necessarily leave the consumer worse off. Sheen (2014) studies 88 mergers of consumer goods companies over the period 1980-2009 and provides product-line-level evidence on product quality and product prices using data from *Consumer Reports* magazine. His main finding is that product quality of the two merging firms *converges* after the deal, while prices *decline*, on average. Another of his findings is that the number of product models also declines, consistent with certain brand pruning. He concludes that, at least for the sample of deals examined in his study, the consumer does not appear to be worse off.

A rather different perspective on the effects of acquisitions on consumer welfare is provided by Eliason et al. (2020), who study acquisitions in the U.S. dialysis industry. In their

sample of acquisitions involving 1,200 dialysis facilities by larger chains over the period 1998-2010, they find that acquired facilities start behaving in more profit-maximizing ways, such as increasing patients' doses of highly reimbursed drugs, replacing higher-skilled nurses with lower-skilled technicians, and waitlisting fewer patients for kidney transplants. In terms of attendant patient outcomes, they document increases in hospitalization and mortality rates. Eliason et al. (2020) conclude that the deals in their sample resulted in lower quality of patient care and a higher cost to the payer – a certain redistribution of value away from the consumer.

Additional evidence on product/service quality comes from the airline industry, where major airlines often use regional partners to operate some of their flights. While not studying mergers per se, Forbes and Lederman (2010) show that vertically integrated airlines – those that own their regional partner rather than contracting with them – experience fewer delays and cancellations on their own flights out of the same airport on the same day, especially during adverse weather and air traffic congestion. The authors interpret these findings as vertical integration promoting real-time adaptation.

Turning to product variety, Berry and Waldfogel (2001) study it in the context of mergers of radio broadcasters in the U.S. in the wake of deregulation of the mid-1990s. In contrast to brand pruning in consumer goods mergers documented by Sheen (2014), they find that increased concentration from mergers reduces entry of new stations – but controlling for the number of stations, product variety (broadcasting formats) actually increases. Taking the question of product variety following mergers to a large sample of all industries, Hoberg and Phillips (2010) analyze product market descriptions in the firms' annual reports. They find some evidence of growth in product description language following mergers, especially when the acquirer and target product similarity was high and when the target had unique products – evidence they interpret as consistent with new product development after mergers.

Ashenfelter and Hosken (2010) depart from a large sample approach and zero-in on five mergers of consumer goods companies that, according to their ex-ante characteristics, had the highest potential for negative effects on consumers. Using retail scanner data, they find that four of the five deals show some evidence of modest prices increases of between 3 and 7 percent, while the fifth transaction does not show any evidence of merger-induced price changes. The authors stop short of labelling these deals as harmful to the consumer, acknowledging that their analysis does not consider longer-run price effects or any new product creation.

Overall, the conclusions one might reach from the literature on the effects of mergers on consumers are that i) mergers are not *systematically* associated with higher prices and/or lower consumer wealth, and ii) when the degree of overlap between the merging firms and industry concentration levels are high, some evidence of higher prices and/or consumer losses is detectable. The latter set of findings is context-dependent, as the effects vary by industry and the associated peculiarities, such as the regulatory framework, nature of competition, etc. Thus, while context-specific evidence of negative impacts of mergers on consumers exists, the view that shareholder gains from mergers *generally* come at the expense of consumers is not supported by the literature.[13]

3. The effect of M&A on suppliers

While not as extensive as the research on consumer impacts of M&A, a series of studies examine the effect of mergers on supplier firms. Some of the studies consider the two effects jointly. For instance, in addition to documenting customer impacts, Fee and Thomas

[13] At this stage it is worth introducing a potential endogeneity (omitted variable) concern. In particular, mergers could be a response to some underlying business conditions – e.g., demand shocks or rising costs – and it is those conditions that could be ultimately responsible for the observed price increases. This concern applies to the evidence on the impacts of mergers on other stakeholders, too. I elaborate on this further in Section 8.

(2004) and Shahrur (2005) also examine the effect of horizontal mergers on corporate suppliers. Fee and Thomas (2004) identify actual supplier firms using significant customer disclosure. While they do find some negative effects of downstream horizontal mergers on the cash flow margins of suppliers – especially for ultimately terminated suppliers and when the downstream industry is concentrated – there is little evidence of negative abnormal stock returns for supplier firms, on average. The authors surmise that the latter finding can be explained by stock market participants' expectations of countervailing actions, such as future mergers between supplier firms. [14]

Shahrur (2005) examines the market reaction of firms in supplier industries according to input-output tables and finds differential effects according to the sign of the combined firm wealth effect for the merging firms. For the subsample of deals that create value for the merging firms, supplier firm reactions are moderately positive. He also finds that supplier reactions decrease in the degree of supplier industry concentration interacted with the change in concentration of the downstream industry experiencing the merger – consistent with a redistribution of rents previously enjoyed by suppliers through countervailing power of the merged entity. However, when the merger seemingly destroys value for the combined firm's shareholders, stock prices of firms in the supplier industry react negatively. The author interprets the latter finding as merger decisions revealing bad news about the industry's fundamentals, causing a reassessment of prospects for both the merging firms and their suppliers.

Bhattacharyya and Nain (2011) also study horizontal merger activity in the U.S. Consistent with the findings of Fee and Thomas (2004), they find reductions in cash flow margins in the dependent supplier industries following mergers. They also examine the source of this margin reduction and find evidence consistent with actual price declines using

[14] Indeed, Bhattacharyya and Nain (2011) show that merger activity "travels upstream"; see also Ahern and Harford (2014).

industry-level producer price indices – especially when the downstream industry in which mergers occur is concentrated, and when the supplier industry has also seen prior mergers. The authors interpret this finding as horizontal mergers indeed creating buying power.

The possibility of monopsonistic rents – gains at the expense of suppliers – has also been examined in the context of diversifying acquisitions. Greene, Kini, and Shenoy (2017) identify "common supplier" industries as industries that sell to both the acquirer and the target. They report an average announcement return for firms in the supplier industry of virtually zero. In addition, they document that prices in the supplier industry decline with no attendant decline in the supplier industry revenues. The combined shareholder wealth effect for the merging firms is negatively associated with the common supplier industry wealth effect. The authors interpret the totality of their results as being consistent with purchasing efficiencies from pooling, rather than monopsonistic collusion.

Further, while not the main focus of their study of U.S. public acquirers over the period 1981-2017, Dessaint, Eckbo, and Golubov (2025) provide a recent estimate of the announcement wealth effects for supplier firms to merging entities, which is between 0.03% and 0.14%, on average (not statistically different from zero). This average effect is across horizontal, vertical, and diversifying deals.

Shen (2019) provides granular evidence on the type of efficiency gains in purchasing suggested by the large sample studies reviewed above. He uses horizontal mergers of electric utility holding companies supplied by coal producers as his setting. Following such mergers, input prices of coal decline by 3-4%, mostly for the target firm plants. The extent of these savings is positively correlated with the shareholder wealth effects for the merging firms, reinforcing the conclusion that synergy gains are related to changes in procurement. The author also examines actual supply contracts and finds evidence of re-jigging of the supply chain, including shortening of the shipping distances and active search for new suppliers.

Fee, Hadlock, and Pierce (2012) document the impact of M&A on one particular type of supplier, namely, providers of advertising services. In their sample of 289 ownership changes affecting 448 distinct brands, they find that advertising spending of the merged firm on the combined brand portfolio tends to shift downward upon acquisition of overlapping brands. Importantly, the combined shareholder return of the buyer and seller in these control transactions is higher in deals characterized by post-acquisition cuts in advertising, suggesting that rationalization of advertising spending is a source of shareholder gains. Nevertheless, the value impact on the advertising firms (and especially on the advertising industry as a whole) is not obvious, as it is possible that the remaining competitors will increase their advertising expenses to counteract the merged firm.

Overall, the conclusion one might glean from the empirical evidence reviewed above is that merging firms create shareholder value by improving efficiency in their supply chain. There is evidence that suppliers have to make do with lower prices, although evidence from the stock market suggests that, *on average*, suppliers are not necessarily worse off – perhaps because the stock market participants expect suppliers to take action to countervail the newly obtained buyer power (if any) of their downstream clients.

4. The effect of M&A on creditors

The predicted effect of M&A deals on the value of creditors' claims is not *a priori* clear, because theoretically it depends on a range of conditions. In the simplest case – assuming away any operating synergies, changes in leverage from deal financing, as well as existence of protective covenants in credit agreements – creditors' claims in the combined firm benefit from the so-called "co-insurance" effect, whereby less than perfectly correlated cashflows of the acquirer and the target reduce the overall risk of the combined firm and thereby increase the value of the creditor's claims (e.g., Levy and Sarnat (1970), Lewellen

(1971), Higgins and Schall (1975)). However, if the individual risks of the two merging firms differ due to either differences in operating risks or differences in leverage, creditors of the riskier firm are expected to benefit at the expense of the less risky one. Moreover, as the term co-insurance suggests, a merger removes the ability of shareholders of the two individual firms to walk away from liabilities in case of distress (Scott (1977), Sarig (1985)), implying a loss in any equity value deriving from the put option afforded by limited liability (Galai and Masulis (1976)). For firms close to default, an increase in asset values due to synergies can also increase the value of creditors' claims.

Furthermore, leverage of the merged firm could be different from the combined debts of the acquirer and the target due to deal financing through newly issued equity or debt, further changing credit risk of the combined firm. Finally, creditors often protect themselves from abrupt changes in operating and financial risk profiles of their borrowers by means of covenants that restrict acquisition activity on the acquirer side (e.g., Becher, Griffin, and Nini (2022)) and give target creditors the option to either get paid immediately or adjust the terms of their claims through change-of-control clauses (e.g., Lehn and Poulsen (1991), Billett, Jiang, and Lie (2010), Eisenthal-Berkovitz, Feldhütter, and Vig (2020)). Therefore, creditor wealth effects for acquirers and targets in practice will depend upon factors such as the relative risks of the two firms, their cashflow correlation, the size of operating synergies, deal-related financing choices, and the extent to which protective creditor covenants are present.[15] For instance, Furfine and Rosen (2011) show that acquirers' default risk tends to *increase* post-acquisition.

A major complication in studying creditor wealth effects is the fact that most debt is privately held, meaning that its market value and deal-related changes to that value are not observed. Even for firms with public bonds, their trading tends to be infrequent, while

[15] For theoretical analyses of financial synergies, see, e.g., Fluck and Lynch (1999) and Leland (2007).

multiple bond issues per firm and their constantly changing maturity make bond return event studies methodologically challenging. Early studies of the wealth effect of M&A deals on acquirer and target bondholders include Kim and McConnell (1977), Asquith and Kim (1982), Eger (1983), and Dennis and McConnell (1986). These studies examined rather small samples – less than one hundred bonds on the acquirer or target side. For the target bondholders, these studies are unanimous in finding insignificant bondholder wealth effects. However, the findings for acquirer bondholders differ by study: Kim and McConnell (1977) and Asquith and Kim (1982) find no significant wealth effects, Dennis and McConnell (1986) find marginally negative wealth effects, and Eger (1983) finds positive wealth effects for stock-paid mergers.[16] Later studies benefit from somewhat larger samples. For instance, Maquieira, Megginson, and Nail (1998) examine 260 stock-for-stock mergers and find positive wealth effects for acquirer bondholders and insignificant wealth effects of target bondholders.

Billett, King, and Mauer (2004) study an even larger sample of 940 U.S. deals during the period 1979-1997 affecting 818 bonds on the target side and 3,083 bonds on the acquirer side (note that a given firm may have multiple bond issues outstanding). They find that target bonds experience a positive abnormal return of 1.09% in the two months surrounding deal announcement, which is driven largely by a positive 4.3% abnormal return for non-investment grade bonds. Acquirers, however, experience a marginally negative abnormal bond return of –0.17%. The authors interpret these results as consistent with a co-insurance effect. They also report that, in response to an M&A deal announcement, the value of the target firm's *total* capital (shareholder wealth plus creditor wealth) increases by about 14% on average, while the total enterprise value of the acquirer is flat. The average increase in the

[16] As part of his analysis of bidding firm shareholders' returns in cash versus stock mergers, Travlos (1987) also examines bond returns and finds no significant wealth effects for cash deals and marginally negative wealth effects for stock deals; he attributes the latter to information revelation effects.

total value of the combined firm is 4.4%. Importantly, from the point of view of the source of takeover gains, the authors also examine the correlation between bondholder and shareholder returns. For targets, they report a positive correlation of 0.19, driven entirely by non-investment grade issuers; the pattern is the same for acquirers. The authors conclude that there is no evidence of wealth transfers between shareholders and bondholders of the merging firms.

Bessembinder et al. (2009) undertake a methodological inquiry into bond return event studies, including an application to acquirer bondholder returns in M&A deals. In their relatively small but more recent sample (U.S. deals between 2002 and 2006) and under their preferred methodological approach using daily abnormal bond returns, the authors find that acquirer bondholders experience a mean (median) three-day announcement period abnormal return of –0.2% (–0.1%), and that the fraction of negative abnormal returns is two-thirds. Finally, Renneboog, Szilagyi, and Vansteenkiste (2017) study a large sample of cross-border M&A deals involving firms issuing Eurobonds, with virtually all bond issuers being on the acquirer side of the deal. In line with the findings of Billett, King, and Mauer (2004) and Bessembinder et al. (2009), they document that the average bondholder abnormal return in the 11 days surrounding the announcement is modestly negative, with an average of –0.05%.[17]

Some indirect evidence on the effects of M&A on target firm bondholders can be gleaned from responses to regulations that partially insulate firms from the takeover market, i.e. anti-takeover laws. Such evidence is mixed. Consistent with positive effects of takeovers

[17] A sub-literature examines bondholder wealth effects in mergers of banks, where implicit government guarantees (the too-big-too-fail effect) is an additional theoretical consideration. Penas and Unal (2004) study domestic mergers of U.S. banks and document positive bondholder wealth effects for acquiring and target banks in the months following the announcement. Ongena and Penas (2009) study mergers of European banks and document positive bondholder abnormal returns in domestic deals but negative in cross-border deals. Choi, Francis, and Hasan (2010) also find higher acquirer bond yields following cross-border deals.

on target creditor wealth, Qiu and Yu (2009) show that the passage of state-level anti-takeover laws across U.S. states was associated with a long-run increase in bond yields (i.e. lower bond holder wealth). However, focusing on the exact announcements of anti-takeover law passage, Francis et al. (2010) report *positive* bondholder wealth effects from limiting takeover exposure.

Finally, Ismailescu and Col (2022) and Yilmaz (2023) take advantage of movements in credit default swap (CDS) spreads as a window into changes in credit risks and creditor wealth around cross-border acquisitions. Higher CDS spreads imply higher default risk, so increases in CDS spreads can be interpreted a lowering of the value of creditor's claims. Ismailescu and Col (2022) focus on acquirers and show modest increases in CDS spreads for acquirers around announcements of acquisitions in emerging markets, but no significant effects around announcements of acquisitions in developed markets. Yilmaz (2023) focuses on U.S. targets of acquisitions by foreign buyers and finds moderate increases in target firm CDS spreads post-acquisition; this contrasts with no such changes around domestic acquisitions.

Overall, the body of knowledge on creditor wealth effects of M&A could be summarized as follows. First, the evidence is limited due to the private nature of most debt, raising potential concerns regarding selection bias from studies of publicly traded bonds or CDS contracts. Second, the evidence that we do have points to marginal declines in the value of acquirer creditors' claims, and zero-to-positive changes in the value of target creditors' claims. These relatively modest effects are likely due to the widespread use of covenants that protect lenders from major changes to the risk profiles of their borrowers. The bottom line is that there is little evidence of wealth transfers from creditors as a source of shareholder gains in mergers and acquisitions.

5. The effect of M&A on employees

As discussed above, the expected impact of M&A deals on employees (below the senior management ranks) depends on the nature of synergy gains behind deals. Deals in which synergies are predicated on unlocking growth opportunities through combining complementary technologies of the bidder and the target or through better financing of the target's expansion options should have a neutral or even positive impact on the existing workforce. In contrast, deals aiming to capitalize on redundancies in overlapping roles and functions (e.g. administrative positions), as well as deals focused on eliminating excess capacity through asset recombination, would be expected to have a negative effect on employees via layoffs. In addition, if certain deals are allowed to create monopsonistic power in local labor markets, workers might see reduced wages. At least anecdotally, workers often resist takeovers, suggesting that employees perceive deals as detrimental to their fortunes.

Early studies of the links between merger activity and labor examined relatively small samples. Brown and Medoff (1988) study acquisitions of firms in Michigan. In deals that can be classified as mergers (rather than pure changes of control that do not involve a combination of two entities), they observe an average reduction in wages of 4% and an increase in employment of 2% relative to non-merging firms. Bhagat, Shleifer, and Vishny (1990) focus on hostile takeovers during the 1980s and find that 21 out of 62 targets (i.e. 34%) experienced some layoffs after the deal, with an average workforce cut of 5.7%. Hinting at a causal effect, these layoff rates are significantly higher than what is observed pre-takeover, and they are also higher than what is experienced by industry-size-matched control firms. The authors' analysis of the present value of labor cost savings suggests that workforce reductions can explain at most 10 to 20 percent of acquisition premiums. Taking advantage of data on union contract settlements, Rosett (1990) studies a sample of 258 deals and argues that union member wealth losses (in the form of somewhat lower wage growth at

targeted firms) can explain only 1-2% of the shareholder gains. Turning to pension benefits, Pontiff, Shleifer, and Weisbach (1990) study 413 acquisitions and observe pension plan asset reversions following 10.7% of the deals, and that the magnitude of these reversions conditional on observing one can explain about 11% of the variation in takeover premiums.

More recent studies benefit from larger samples and more granular data sources. Using plant-level data from the U.S. Census Bureau, Li (2013) studies, among others, employment and wage effects of U.S. mergers involving listed targets. Comparing targeted plants to matched non-targeted plants, he finds that employment at targeted plants is lower by 2.1% and wages are marginally lower by 0.5% following acquisitions. The employment result is driven largely by nonproduction workers, where the headcount is lower by 5.9% relative to matched non-targets.[18] Note, however, that these findings do not necessarily imply that the firm's workers are worse off as a result of the merger. First, the timing of acquisitions could be endogenous – firms could be merging in anticipation of difficult times for their businesses (in a way that matching might not be able to address). Second, putting endogeneity concerns aside, lower employment at the combined firm could be due to reduced hiring rather than layoffs (i.e. lower employment growth), leaving existing workers unaffected.

Dessaint, Golubov, and Volpin (2017) provide international evidence that takeover gains are related to post-merger workforce restructuring. In a large sample of takeovers valued at $50 million or more drawn from across 21 developed economies, their headline finding is that M&A activity and stock-market-based synergy expectations decline in response to regulations that make workforce restructuring costlier. This suggests that merger gains may indeed come at the expense of workers. In an auxiliary test, they further show that

[18] McGuckin and Nguyen (2001) also study the employment and wage effects using plant-level data and find that an average ownership change is associated with moderate *increases* in employment and wages. The authors do not distinguish between ownership changes due to mergers and other change of control transactions such as pure buyouts (the latter do not involve a combination of two businesses).

employment at the merged firms is 5.8% lower following the merger, as compared to the contemporaneous evolution of employment at non-merging firms. The same caveats as above apply (i.e. possibly endogenous merger timing and the possibility of lower employment growth through natural attrition rather than layoffs).

Tian and Wang (2021) study the impact of unionization on takeover likelihood in a sample of U.S. firms. They find that firms at which unionization votes are narrowly passed have a lower likelihood of subsequent takeover than firms at which unionization votes are narrowly defeated. The same effect is observed for takeover premiums. Since unionization makes it more difficult to restructure the workforce, the attendant reduction in takeover likelihood and deal premiums is consistent with workforce rationalization being part of what bidders are paying for. Interestingly, they also find that unionization does not lower the overall expected synergies, suggesting a shift towards buyers that have the ability to deal with unions (and a decline in the target's bargaining power over merger gains).

Further studies of the relation between firing frictions in the U.S. and the takeover market are provided by John, Knyazeva, and Knyazeva (2015) and Chatt, Gustafson, and Welker (2021). John, Knyazeva, and Knyazeva (2015) show that deals by acquirers from weak employee rights states (those that have passed the right-to-work laws limiting union power) exhibit higher acquirer returns and expected deal synergies. They also find that acquirers from weak employee rights states are more likely to experience a large workforce cut (of 5% or more) in the year following the deal than acquirers from strong employee rights states.[19] Chatt, Gustafson, and Welker (2021) show that the introduction of wrongful discharge laws across U.S. states – which raise the incidence and the success rates of

[19] Note, however, that reductions in employment counts at the firm level can also be due to post-merger divestments of divisions (e.g., to satisfy the competition authority's requirements) as opposed to layoffs. The former do not necessarily hurt workers.

wrongful termination lawsuits – is associated with large reductions in M&A volumes and an increase in deal withdrawals.

Cicero, Shen, and Shenoy (2025) consider the possibility of monopsony power effects of mergers on workers using a sample of 2,644 mergers in the U.S. over the period 1991-2016. While they find that the merger-induced change in local labor market concentration is positively associated with synergy gains expected by investors, this effect is more pronounced when labor market frictions are *lower*, such as when non-compete agreements are less enforceable and when workers' skills are more re-deployable, which is inconsistent with monopsony power effects. In addition, changes in labor market concentration are negatively associated with the returns to merging firms' rivals and positively associated with the returns of customer and supplier firms. Taken together, the authors attribute the positive relation between changes in labor market concentration and merger gains to labor-related efficiencies. Note, however, that such efficiencies may still have negative repercussions for displaced workers.[20]

Turning to non-U.S. evidence, Lagaras (2024) studies the effect of acquisitions on workers at the individual employee level using M&A deals in Brazil over the 2004-2012 period. His main findings are that i) existing target firm employees are more likely to separate from the target following acquisition, ii) existing target firm employees *as a whole* experience a decline in earnings of about 5% following, iii) the decline in earnings is driven entirely by the workers leaving the target involuntarily. He further shows that the decline in earnings for laid-off workers is concentrated among lower-skill workers, managers, and older

[20] In contrast, Prager and Schmitt (2021) study mergers of hospitals and do find merger-related monopsony power effects on worker wages, but only when the merger-induced change in labor market concentration is large *and* workers' skills are industry-specific. In particular, they estimate that wage growth of nurses, pharmacy workers, and skilled non-health hospital workers is 1 percentage point per year lower in commuting zones that have experienced large merger-induced changes in concentration than in commuting zones in the control group. Further evidence consistent with monopsony power effects of plant ownership changes on labor markets in terms of both lower wages and employment is provided by Arnold (2021).

workers. He attributes the decline in earnings to factors such loss of firm-specific wage premiums and inefficient labor market matching. Thus, in the particular context of M&A deals in Brazil, one may conclude that mergers are indeed costly to some workers. Further international evidence on the effect of mergers on employment at the firm and/or plant level is provided by Conyon et al. (2002) for the U.K., Lehto and Böckerman (2008) for Finland, and Geurts and Van Biesebroeck (2019) for Belgium. These studies generally conclude that mergers tend to have a negative effect on employment at the merging firms and that the effect varies substantially across deal types.

Finally, Ouimet and Zarutskie (2020), Chen, Gao, and Ma (2021), and Chen, Hshieh, and Zhang (2024) provide evidence consistent with firms using acquisitions as a means of gaining access to labor, especially to skilled workers. To the extent that these so-called "acquihires" are driven by the underlying demand for labor, one can presume that such deals strengthen employment opportunities for at least some of the target firm employees, thereby impacting them positively. In fact, Ouimet and Zarutskie (2020) show that acquisitions of targets whose 10-K filings mention the word "skilled" more often are associated with more positive changes in employment, and that high-wage employees of such targets are more likely to be retained and receive higher wage increases. Hence, the overall picture that emerges from this survey is that the effect of M&A on employees is varied – both positive and negative – depending on the type of deals and the type of workers considered.

6. The effect of M&A on top management

It is worth considering top management of the merging firms as another stakeholder, distinct from the employees more broadly. While top management represents only a handful of individuals, these managers exhibit outsized influence on the firm and tend to enjoy large

remuneration. Hence, impacts on these stakeholders can be both consequential and economically meaningful.

Martin and McConnell (1991) examine the turnover of target firm CEOs following tender offers in the U.S. between 1958 and 1984. They find that 42% of target CEOs are replaced within 12 months of completion of the deal – as compared to turnover rates of 9-10% in the years prior to takeover. Similarly, Kini, Kracaw, and Mian (2004) examine 279 tender offers between 1979 and 1998 in the U.S. and show similar statistics: 51% of target CEOs are turned over in the 3 years post deal, versus 30% in the 3 years preceding the offer.[21]

Agrawal and Walkling (1994) do not restrict their sample to tender offers and study 182 target firms during the period 1980-1986. In their sample, 55% of the CEOs are dismissed within one year of the bid. They also show that a large fraction of target CEOs – between 40% and 60% depending on the type of the deal – do not find employment in senior executive position at other public firms one year after the bid, which is significantly higher than 30% of CEOs of non-target (control) firms. Coupled with the fact that target CEOs enjoy significant compensation – on average, close to $1 million in 1987 prices – losing those positions arguably leads to lower utility for the dismissed CEOs (at least when not accounting for the utility of leisure time). In a more recent sample of 311 mergers in the late 1990s, Hartzell, Ofek, and Yermack (2004) find that 66% of target CEOs leave within one year, and a third of those remaining with the merged firm leave in the second post-merger year. Moreover, they show that the majority of departing target CEOs do not obtain subsequent employment. Consistent with large direct and indirect benefits of control, the authors also show that CEOs obtain an additional $5 million in cash payments (in price levels circa year

[21] Focusing on mergers of U.S. banks, Hadlock, Houston, and Ryngaert (1999) provide very similar rates of CEO departure for targeted banks – 53.6% within 2.5 years from the deal. However, in a smaller sample of 23 bank mergers, Cornett and Tehranian (1992) find that top managers of all of the targeted banks remained in place (the authors do not specify over which period).

2000) when they do not obtain executive positions in the merged firm.[22] Given these payouts, it is therefore unclear whether target firm CEOs are necessarily worse off as a result of takeover-related dismissal, especially considering that target CEOs are often close to retirement age anyway (Jenter and Lewellen (2015)).

Broadening the analysis to the wider group of senior managers, a recent study of one thousand merger deals in the U.S. during the period 2000-2017 by Guo et al. (2024) shows that as many as 88.6% of target firm managers leave the target upon acquisition. They also show that it takes an average of 1.38 years for the dismissed executives to find their next job, and that the next job position is, on average, almost one full rank lower in seniority.

On the acquirer side, Grinstein and Hribar (2004) examine 327 large (deal value of $1 billion or more) mergers in the U.S. over the period 1993-1999 and find that 38% of those deals are associated with merger-related bonuses paid to acquiring firm CEOs. The mean (median) value of those bonuses is $5.5 million ($4.0 million) when the deal is cited as the sole reason for the bonus, and $2.2 million ($1.5 million) when the deal is cited among other reasons for the bonus. Bliss and Rosen (2001) focus on bank mergers in particular, and also find that mergers are associated with growth in acquiring firm CEO's compensation. Of course, CEOs working on M&A deals expend additional time and effort, so the exact amount of M&A-specific rents (if any) captured by those CEOs remains unclear.

Harford and Li (2007) further examine how acquirer CEOs fare following relatively large acquisitions in a sample of 370 mergers over the period 1993-2000. First, they show that, unlike target firm CEOs, acquirer CEOs do not exhibit abnormally high turnover rates. Second, and perhaps more unexpectedly, their headline finding is that "bidding firm CEOs are richly rewarded for growth through acquisitions with substantial new stock and option

[22] Fich, Rice, and Tran (2016) report that 26% of target CEOs receive a special merger-related bonus, averaging $1.36 million (median of $1.00 million) in a sample of 949 merger deals over the period 1999-2009. In a similar sample, Fich, Cai, and Tran (2011) report that 13% of target CEOs also receive unscheduled option grants with the mean realized profit based on the bid price of $3.5 million (median is $0.5 million).

grants" (p. 919). In fact, the value of this additional flow of compensation more than offsets any negative impacts of poor merged-firm performance on CEO wealth though pre-existing portfolios of stock and options. Finally, they also find that large capital expenditures are *not* associated with the same incremental compensation as mergers. The authors conclude that acquirer CEOs are financially better off following acquisitions – not just on average, but as often as three quarters of the time.

Bakke et al. (2024) also study CEO pay in the context of acquisitions, with a particular focus on growth-promoting bonuses. Since acquisitions have the effect of growing the size of the firm, M&A deals can be used as a means of meeting sales bonus thresholds and thereby triggering payouts to CEOs. The authors argue that one-third of CEOs in the U.S. have pay incentives explicitly linked their firm's size. They find that CEOs subject to such growth-promoting bonuses are more likely to undertake acquisitions, especially of the scale needed to reach the bonus target. They also find that growth-promoting bonuses are sufficiently large so as to leave the acquiring firm CEOs financially better off despite any negative wealth effects from poor acquirer stock returns in such deals.

Overall, the evidence suggests that i) target firm CEOs tend to lose their jobs as a result of acquisitions; ii) target firm CEOs tend to receive substantial takeover-related payouts, which at least partially offset (and possibly *more* than offset) lost future compensation; iii) senior managers of the target beyond the CEO lose jobs at a very high rate and settle for less senior positions in their future jobs; and iv) acquiring firm CEOs appear to benefit financially from acquisitions via implicit and explicit links of their pay packages to firm size.

7. The effect of M&A on public finances, the environment, special interest groups, and other stakeholders

Tax revenues

On the one hand, if a merger makes the combined firm more profitable or increases its output, then it is expected to pay more in taxes. On the other hand, appropriation of underutilized tax-loss carry forwards and various tax credits could reduce the amount of taxes paid by the combined firm relative to two standalone firms. A further impact on the post-merger tax bill can come from capital structure changes effected by the merger, i.e. greater use of interest tax shields (either because the deal effects a capital structure change and/or because the combined firm has higher debt capacity). Note, however, that sheltering income from taxation via increased interest expenses is not tantamount to lower tax revenues for the government, because interest payments represent taxable income for creditors. Moreover, the tax authority *directly* benefits from M&A activity by taxing capital gains of the selling shareholders, effectively taking a cut of the merger gains appropriated by the target through the bid premium. These gains are usually taxable immediately in cash deals, and upon eventual disposition in stock deals (Ayers, Lefanowicz, and Robinson (2003)).

Hayn (1989) studies 640 acquisition deals over the period 1970-1985 and finds that acquirer and target abnormal returns are related to tax characteristics of the target. Specifically, shareholder returns are positively related to the amount of net operating loss carry forwards, expiring tax credits, and possible asset value step-up (for depreciation charges). The conclusion one might draw from this evidence is that tax-related synergies do exist – at least in the sample analyzed by Hayn (1989). Subsequent to her analysis, various changes to U.S. tax rules relevant for tax synergies were implemented, and Scholes and Wolfson (1990) argue that those changes have altered the volumes and types of M&A activity – once again consistent with tax optimization as a source of shareholder gains from

mergers. Devos, Kadapakkam, and Krishnamurthy (2009) study cash flow forecasts around large mergers and find that tax savings account for only a small portion of the overall capitalized value of incremental cash flows. In particular, they estimate that less than 17% of the overall synergy gain is due to increased interest tax shields.

In addition to tax loss carry forwards, tax credits, and interest tax shields, the tax system can generate incentives for acquisitions due to differences in the taxation of dividends and capital gains. When capital gains are taxed at lower rates than dividends, the ability to realize the value of the firm's assets through a sale rather than through future dividend distributions generates a certain tax "discount" on the sale of the firm for the selling shareholders. So long as the acquirer can benefit from some of that discount, there is an incentive to acquire. Ohrn and Seegert (2019) provide theoretical support and empirical evidence of this effect in the context of U.S. M&A activity around the 2003 tax reform that equalized the rates of taxes on dividends and capital gains.

Overall, the conclusion one might reach regarding the impacts of M&A on public coffers is that tax-related gains are rarely the primary motive for acquisition – although firms do attempt to capitalize on arbitrage opportunities occasionally offered by the tax code. Evidence on the magnitude of tax synergies in acquisitions is scant, and more research is needed. To be comprehensive, any analysis of tax savings from mergers needs to take into account offsetting effects from i) tax revenues from the receivers of (increased) interest payments, ii) tax revenues from capital gains taxation of takeover premiums, and iii) long-run changes in taxable profits of the merged firm due to incremental revenues and cost savings from operational synergies.

The environment

The effect of M&A on environmental pollution is theoretically ambiguous. On the one hand, if acquisitions relieve financing constraints of target firms and allow them to expand, an increase in output could be accompanied by an increase in pollution. However, if financing constraints were preventing investments in abatement technology, or if the latter requires a certain degree of scale, then mergers could lead to lower emissions. More broadly, there is evidence that mergers tend to be associated with increased productivity, defined as output per unit of input (see Section 8 below for citations). For pollutive industries, higher productivity potentially translates into reductions in the amount of toxic inputs and the associated emissions.

Duchin, Gao, and Xu (2025) study, among others, the impact of sales of polluting assets on pollution emissions and abatement efforts across a range of industries. In their sample of 888 divestitures of pollutive assets in the U.S. over the period 2000-2020 (which are acquisitions from the buyers' point of view) they find no evidence that pollution levels or abatement efforts are changed upon those asset transfers. While the authors point out a certain "greenwashing" impression from their results – the findings of divesting firms enjoying improvements in ESG ratings, reductions in environmental enforcement actions and positive shareholder returns – from the point of view of impacts on the environment there is no evidence of these asset transfers resulting in increased pollution.

Demirer and Karaduman (2024) focus on mergers and acquisitions of electricity generating plants and study the associated productive efficiency effects. Without explicitly distinguishing between the type of buyer (corporate buyers vs. financial buyers), they document that direct acquisitions of power plants (as opposed to parent company ownership changes) are associated with an average 5% improvement in their efficiency measure. Considering that productive efficiency in the context of power generation is the amount of

fuel burnt per unit of electricity produced, an improvement in productive efficiency implies a lowering of emissions. In particular, the authors estimate that this effect translates to a cumulative reduction of 360 million tons of CO_2 over the period 2000-2023, which is equivalent to replacing 800 TWh of gas-fired power generation with non-emitting renewable sources of electricity.

Considering the dearth of studies on the environmental impacts of M&A – especially relative to the importance of the subject – more research is needed on this particular aspect of M&A activity.

Special interest groups: charities and politicians

M&A appears to have an impact on special interest groups, too. Vansteenkiste (2025) shows that acquirers increase charitable giving prior to acquiring a target, likely as a way to gain support for the deal from local stakeholders and to facilitate subsequent integration. Since incremental charitable donations are made in relation to merger deals in the pipeline, these payments can be seen as an indirect positive impact of M&A activity on those charities' beneficiaries. Findings of similar flavor are presented in Holburn and Vanden Bergh (2014) who study political contributions prior to merger deals. They focus on mergers of electric utilities in the U.S. between 1998 and 2006 and find that merging firms increase their political contributions in the year prior to announcing a merger. Once again, even though the incremental contributions take place prior to the event, the authors interpret the extra political activity as part of a merger strategy. They conclude that firms use "political strategies to protect economic rents created by mergers." Reaching a similar conclusion, Cowgill, Prat, and Valetti (2024) document that merging firms increase their lobbying expenditures upon a merger relative to the combined lobbying of the merging firms prior to the deal. Note that, in contrast to charitable contributions that benefit a broad set of individuals, the additional

political giving benefits select politicians and their parties.[23] And to the extent that such political giving is meant to appease deal gatekeeps (e.g., for the regulator "to look the other way"), these gains of theirs could come at the expense of other stakeholders impacted by the deal.[24]

Deal-related advisory and service providers

M&A activity confers a direct economic impact on deal-related advisors and service providers. Most prominently, investment banks and corporate finance advisory firms generate fees from the merging firms in exchange for advice on deal origination, deal structuring, running the logistics of the bidding and negotiation process, and expert opinion (e.g., fairness opinions). These advisory fees are largely contingent on deal completion (e.g., McLaughlin (1990)), and so the economic impact on investment bank advisors can be seen as incremental to merger deals taking place. McLaughlin (1990) reports an average fee of 1.29% of transaction value in U.S. tender offers in the 1970s and 1980s. In broader and more recent samples of U.S. deals, Golubov, Petmezas, and Travlos (2012) report an average advisory fee of 0.65% of transaction value, while Derrien and Dessaint (2018) document a mean fee of 0.87% of deal value. The percentage fee declines with the size of the deal.

According to data from Refinitiv (formerly Thomson Reuters), investment banks globally have generated an estimated US$ 33.4 billion in M&A advisory fees in the year 2024, when the value of announced deals was approximately US$ 3 trillion. Obviously, the provision of M&A advisory services is costly, but anecdotal evidence suggests that this is a lucrative business. Kolasinski and Kothari (2008) report that M&A advisory fees are at least

[23] While the actual dollar amounts of political contributions and lobbying expenditures are economically modest to be seen as a meaningful impact of M&A on politicians, these corporate-level donations likely represent only part of the political giving strategies of the merging firms and their owners and managers.

[24] Indeed, there is evidence that politicians affect deals and their outcomes. See, for example, Dinc and Erel (2013), Ferris, Houston, and Javakhadze (2016), Croci et al. (2017), Fidrmuc, Roosenboom, and Zhang (2018), Mehta, Srinivasan, and Zhao (2020).

as important as fees derived from equity capital market services (equity underwriting) and in some years are substantially higher.

Other advisors, such as law firms and due diligence accountants, also benefit from M&A-related fee income. In addition, the broader transaction ecosystem benefiting from deal activity includes service firms such as virtual data room providers and public relations consultants. Overall, M&A activity generates business for a number of ancillary services providers, which is an often overlooked (positive) impact of mergers on economic activity.

Effects on competitors

While even stakeholder-minded boards of directors are not losing sleep over whether the firm's actions hurt its competitors (the goal is usually to outsmart your competition), the impacts of M&A on rivals are still of interest from the point of view of total wealth creation/redistribution in the economy. For instance, an investor in merging firms who holds a broadly diversified market portfolio would be concerned with the effect of the merger on the value of competitor firms in that portfolio. Here again, the expected impact depends on the nature of merger gains. In deals where synergies are predicated on creating new opportunities, such as developing new products or services or financing the target's growth options, the impact on rival firms should be neutral. In contrast, horizontal or vertical deals that generate production efficiencies make the merged firm more competitive, allowing it to start eating away at the market share of its rivals, thereby affecting them negatively. Finally, if the merger facilitates collusive practices, competitors are expected to participate in such benefits.

As reviewed above in the section on consumers, the evidence on rival wealth effects (e.g., Eckbo (1983), Stillman (1983), Eckbo (1985), Eckbo (1992), Fee and Thomas (2004), Shahrur (2005), Shenoy (2012), Greene, Kini, and Shenoy (2017)) tends to show modest

positive returns to competitors of merging firms. However, these positive returns are typically interpreted through the lens of information effects – merger decisions signaling the availability of valuable restructuring opportunities for rivals – rather than evidence of collusive rents.[25] In fact, Song and Walkling (2000) show that target's rival reactions are positively related to the incidence of becoming a future target. Cai, Song, and Walkling (2011) extend this logic and argue that stock market reactions of rivals at the beginning of a merger cycle incorporate expected value creation from rival's own future acquisitions. An additional interpretation is provided by Servaes and Tamayo (2014), who document positive reactions to rivals of targets of hostile takeovers – they attribute this positive change in rivals' values to the disciplining effects of the market for corporate control.

Bernile and Lyandres (2019) focus on the correlation between rivals' reactions to M&A deals and projected operating efficiencies in those deals. While the average rival reaction they document depends on how rival reactions are aggregated (straddles zero when equal-weighting rivals' reactions, but positive when rival reactions are value-weighted), their main finding is that rivals' reactions are negatively associated with expected merger efficiencies. Thus, in the cross-section of rival wealth effects there is evidence of mergers putting pressure on competitors.

Antón et al. (2022) provide one of the most recent estimates of rival reactions in horizontal deals. In their sample of 1,800 horizontal merger deals in the U.S. between 1988 and 2016, they report an average positive rival reaction of 0.14–0.28% depending on industry definition. A somewhat different picture of rival wealth effects is provided by Derrien et al. (2023). Consistent with earlier evidence, they show that rival reactions to acquisitions of *public* targets are positive, but they are negative – between –0.1% and –0.3% – when the

[25] This interpretation is typically due to the fact that rival reactions do not correlate positively with measures of change in product market concentration. One exception is Fathollahi, Harford, and Klasa (2022), who take advantage of data on product similarity and do find evidence consistent with rivals benefitting due to reduced competition when products in question are unique.

targets are private. Once again, they argue that these rival reactions are due to information revelation about current public firm valuations, as opposed to real impacts of mergers. This differential effect according to target listing status appears to be confirmed by the recent descriptive statistics in Dessaint, Eckbo, and Golubov (2025): with privately held targets representing a majority of deals in their sample, they report an average rival abnormal return of zero for an equal-weighted portfolio of acquirer rivals (same 4-digit SIC firms) and –0.26% when rival portfolios are value-weighted. The latter estimate is negative and statistically significant. Finally, Yilmaz (2024) shows that acquisitions of U.S. targets by foreign bidders are also associated with negative rival wealth effects, with magnitudes ranging from –0.2% to –0.9% depending on the length of the event window and the level of aggregation.

Overall, the evidence on rival wealth effects points to varied impacts depending on targets listing status (positive for public targets, negative for private targets) and the identity of the buyer (positive for domestic deals, negative for foreign buyers). Positive wealth effects are typically linked to increased expectations of rivals' involvement in future M&A deals both as targets and acquirers, as opposed to real value changes brought about by industry consolidation (with the exception of disciplining effects from hostile takeovers). Negative rival effects are typically linked to either increased competitive pressures from the merged firm or pure revelations about standalone values of competitors.

8. The effects of M&A on broader economic and social indicators

Effects on productivity

Productivity – output per unit of input – is of particular interest to economists, because it reflects the efficiency with which we utilize scarce resources (e.g., natural resources, human resources, etc.). Since mergers reallocate control over those resources, it is natural to

ask whether such transfers of control move resources to more productive uses. Event study evidence of positive expected synergy gains from M&A activity (see Section 1) would suggest that efficiency is improved (unless, of course, those shareholder gains stem from monopolistic or monopsonistic power). For instance, given the fixed upfront cost, an investment in some productivity enhancing technology (e.g., automation) may be uneconomical for two standalone firms on their own – but becomes worthwhile for a combined firm with increased scale.

Li (2013) studies 1,430 merger deals in the U.S. during the 1981-2002 period from the point of view production efficiencies. He finds that capital expenditures, wages, and employment at acquired plants are, on average, reduced after the merger. However, total output is unchanged, implying that productivity is increased. As Li (2013) puts it, "the acquired plants are able to produce the same amount of output using less input" (p. 251). Earlier evidence on productivity gains from M&A comes also from Maksimovic and Phillips (2001) and McGuckin and Nguyen (1995).

Guadalupe, Kuzmina, and Thomas (2012) take advantage of detailed survey data on manufacturing firms in Spain to answer *how* acquisitions enhance productivity, albeit they study acquisitions by foreign buyers only. Their headline finding is that targets of foreign acquisitions ramp up investments in process improvements, such as purchasing new machines and adopting new methods of organizing production. Transfer of superior management practices appears to be another channel for merger-induced productivity enhancements, as argued by Bai, Jin, and Serfling (2022). They study acquisitions of U.S. manufacturing establishments and show that i) firms with more structured management practices tend to acquire firms with less structured management practices, ii) acquired establishments adopt more structured management practices following acquisition, and iii) changes in target management practices are correlated with improvements in target establishment productivity.

To the extent that members of society benefit from productivity gains in the long run, a positive effect of M&A on productivity can be seen as a positive impact of M&A activity on a broader set of economic stakeholders. For instance, using a structural modelling approach, David (2021) estimates that M&A activity has beneficial impacts on aggregate outcomes, notably a 4% increase in consumption, largely through reallocation of assets to more productive uses. Overall, the effect of M&A on productivity according to the literature appears to be positive.

Effects on innovation

Another economic indicator of broader importance to society is innovation activity. Innovation is one of the primary pathways to improved productivity, and it is also the process by which new products and services are created – products and services that ultimately make our lives better (e.g., new medical treatments, new consumer technologies, etc.). Theoretically, the effect of mergers on innovation is ambiguous. While horizontal mergers may be expected to reduce competition in a given market, the effect of competition on innovation is subject to theoretical debate. On the one hand, firms in perfectly competitive markets have little incentive to innovate when the fruits of their innovation become available to rivals. On the other hand, firms enjoying significant market power do not need innovation to stay ahead of competition. Several empirical studies have examined the impact of M&A on corporate innovation, and the findings are indeed mixed and context-dependent.

Zhao (2009) studies patenting activity following acquisitions. In her sample of roughly 1,000 U.S. deals over the period 1984-1997, successful bidders are found to match the patenting activity of their non-bidding peers, whereas failed bidders appear to lag behind their peers. This is consistent with successful deals staving off declines in innovation, though it is not clear whether this is due to a mere appropriation of target firm innovation or due to

incremental innovation activity by the merged firm. The latter question is answered in Bena and Li (2014), who find that completing a deal is associated with greater *combined* patent output so long as there is some pre-deal technological overlap between the bidder and the target – a finding that is consistent with the existence of innovation synergies. Valentini (2012) provides further evidence on patent output following mergers in a focused sample of 159 deals in the U.S. medical device and photographic equipment industry during 1988-1996. Interestingly, his results show that the quantity of patents increases post-acquisition, while their quality – measured by impact, generality, and originality – tends to decrease.

Li and Wang (2023) shed further light on *how* innovation-type synergies occur. In their study of 942 merger deals between U.S. public firms taking place over the period 1981-2012, they document two major findings. First, acquirer and target inventors are more likely to start collaborating on projects (as proxied by patent co-authorship) upon a merger than a similar pair of non-merging firms. Second, patents authored by inventor teams comprising both acquirer and target inventors upon a merger – as opposed to acquirer-only or target-only inventor teams – are more likely to be radical, impactful, and valuable according to metrics such as citations and market value. The authors conclude that M&A deals benefit the innovation process through inventor team re-combinations.

Nevertheless, positive effects of M&A on innovation are not universal across deal type or context. Seru (2014) examines the innovation output of targets in conglomerate acquisitions and finds that patenting *declines* following acquisitions by highly diversified firms. He attributes this finding to inefficient capital allocation within conglomerates. Haucap, Rasch, and Stiebale (2019) study horizontal mergers of pharmaceutical companies in Europe and also find post-merger declines in patenting and R&D investments. In an influential paper, Cunningham, Ederer, and Ma (2021) show that some acquisitions may be motivated by the acquirer's desire to protect its business by acquiring and shutting down

fledgling innovative projects that threaten the acquirer's turf. In the context of pharmaceutical acquisitions, they show that acquired drug projects are less likely to be developed when they overlap with the acquirer's drugs, especially when the acquirer likely enjoys some market power (i.e. when competition is low and when patent expiration is further away in time). However, the authors estimate that only about 5-7% of pharmaceutical project acquisitions in their sample are motivated by such incentives. Overall, M&A appear to positively affect innovation activity, but can occasionally have a negative impact in markets where incumbents have significant rents to protect.

Effects on investment

While an acquisition represents an investment decision from the point of view of the acquirer, it does not represent new investment from the point of view of the economy – the acquirer expends resources to purchase productive assets that have already been created. However, an M&A deal can alter the type of investment the target undertakes, and it can also enable investment that was not previously possible. To the extent that managers are prone to empire-building and to the extent that acquisitions act as a governance tool of last resort (e.g., Jensen (1986)), a takeover could curb some of the overinvestment at the target. This type of effect is likely to be seen in acquisitions of (mature) public targets. For instance, Mitchell and Lehn (1990) show that firms that engage in value-destroying acquisitions are more likely to become targets themselves. Further, Devos, Kadapakkam, and Krishnamurthy (2009) show that mergers are associated with cutbacks in investment expenditures – although the latter could be explained by both a disciplining effect and by economies of scale from shared infrastructure.

Mergers and acquisitions also create internal capital markets. One possible effect of access to internal capital is that targets that were previously unable to fund their projects due

to frictions in raising capital are now able to proceed with their projects. For example, focusing on acquisitions of mostly private firms in Europe, Erel, Jang, and Weisbach (2015) find that target firm investment increases following acquisitions, while the sensitivity of investment to cashflow declines – both findings are consistent with reductions in target firm financing constraints.

Overall, there is evidence that M&A activity shapes the type of greenfield investment that occurs in the corporate sector, with the likely overall effect being a shift towards better resource allocation.

Some societal outcomes

Through its impacts on various economic agents, M&A activity can indirectly affect various societal outcomes. An example of these kinds of indirect effects is provided by Garmaise and Moskowitz (2006), who find a link between bank mergers and crime. In particular, they study the effect of large bank mergers on local commercial real estate lending and find that mergers in their sample appear to have caused an increase in loan rates and reduced loan amounts lasting for about three years – presumably due lower competition following bank mergers in the short-run. They then link this tightening of credit conditions to lower levels of commercial real estate development, lower construction activity, and lower local real estate prices. In terms of socioeconomic effects, they also find that merger-induced tightening of commercial real estate lending is associated with a higher unemployment rate, lower household incomes, higher income inequality, and an influx of poorer households. As a final link of the chain, they show an increase in burglaries and property crime more broadly. Of course, not all mergers are expected to have such far reaching societal consequences. Underscoring the special role of commercial banks in the economy, the authors show that

mergers of other financial institutions, such as brokerage firms and insurance companies, do not have such effects.

Another interesting societal impact of M&A deals, though this time positive, is documented by Blundell, Devadoss, and Luckstead (2024). They study the effect of mergers on product recalls in the agri-food industry and find that mergers are associated with fewer quality-related recalls. Considering that the reasons for recalls include diseases and extraneous material, there seems to be an important implication of this merger-induced increase in quality for public health. In general, the socioeconomic impacts of M&A are understudied and represent an interesting avenue for future research.

9. A note on interpreting the evidence

Before jumping to conclusions based on the evidence reviewed so far – let alone making policy recommendations – it is important to consider both internal and external validity of the studies.

Regarding internal validity, we should keep in mind that research on the consequences of M&A deals is one of the most challenging in terms of our ability to make causal inferences. While the golden standard of causal inference is random assignment, we surely hope that managers do not undertake M&A deals randomly. Strategic business decisions, such as M&A transactions, are undertaken under the influence of a variety of underlying business conditions affecting the business at that time, as well as in anticipation of those conditions in the future. And while we do not need complete randomness for identification – conditional exogeneity with respect to the outcome variable of interest (e.g., future product prices or future employment) would suffice – the researcher's task is still daunting. For instance, a common view of M&A is that managers undertake deals as corrective action when their firms' existing business is facing profound challenges – often when status quo is no

longer an option. In other words, some changes to the business are inevitable. For example, when competition is intensifying, two firms in an industry could try to gain a competitive advantage through economies of scale by means of merging – or they could go out of business. Along those lines, in the model of Akdoğu (2011) acquirers rationally proceed with overpaying for an acquisition when the alternative is even costlier – such as losing the target to a competitor and being hurt by the competitor's strengthened position. In this example, employment at the merging firms would be affected in either case – merger or no merger. And since the counterfactual employment path is not a zero-change one, attributing the employment effects to the merger could be wrong. Somewhat similarly, Jovanovic and Braguinsky (2004) argue that firms that endogenously become acquirers are those firms whose asset quality is low. While asset quality is static in their model, one can imagine it to be time-varying. Such evolution of business fundamentals would affect both the acquisition decision and the counterfactual evolution of employment at the acquirer, prices of its products, and orders to its suppliers.

Few studies are able to overcome this thorny identification issue. Certain studies take advantage of cancelled merger deals to glean at the counterfactual performance of merging firms, e.g. Savor and Lu (2009), Seru (2014), Bena and Li (2014), and Malmendier, Moretti, and Peters (2018) – but with the exception of Seru (2014) and Bena and Li (2014) (and perhaps a few others), the focus has been on shareholder wealth effects, not on impacts on other stakeholders. Moreover, this admittedly clever approach is not without limitations, as only a small fraction of deals are ever withdrawn, and these deals could themselves be special (i.e. they could fail for a reason that is endogenous to future outcomes of interest).

As it comes to external validity, caution is also warranted. For instance, as noted above, the effects of mergers on consumers depend on the levels of concentration, entry barriers, and the availability of close substitutes. These characteristics differ by industry and by geography.

The deals we observe – from which we estimate the effects – are also conditional on what antitrust authorities have allowed to happen. This, too, can differ by geography, and even within the same geography over time. Therefore, making generalizations based on studies conducted in one context can be treacherous. The extent to which various stakeholders are protected by laws and regulations in different jurisdictions is also different. For instance, large firms in Germany are required to have labor representation on the board, which may affect the type of acquisitions that such firms undertake and their impact on the firm's workers. On the bright side, these internal and external validity concerns mean that there is scope for establishing more evidence – from different contexts and jurisdictions.

Conclusion

In this chapter, I have set out to review the body of evidence on the effects of M&A deals on company stakeholders beyond the shareholders. Taking stock of such evidence was timely given increasing interest in the effects of business on society. A systematic review was due also because the evidence on the impact of mergers on various constituencies has grown from a few select studies to an entire literature. In fact, perhaps the first important revelation from this survey is that, despite the heavy focus on shareholder gains in most M&A studies, the body of evidence on the effects of M&A on non-shareholder stakeholders is substantial – and certainly so when putting various stakeholder groups together.

Theoretically, mergers can impact various stakeholders both positively and negatively depending on the type of the deal and the nature of merger synergies. Mergers of large and mature close competitors are quite distinct from scope-increasing acquisitions of growing new ventures in terms of the underlying economic rationales and expected effects on customers, employees, suppliers, and other constituencies. The review of the empirical evidence in this chapter confirms that the effects are indeed varied, sometimes even within a

certain stakeholder group. Therefore, another important takeaway from this survey is that M&A is not a homogenous activity. Researchers and policy makers are advised to pay attention to differences in sample composition across studies and effect heterogeneity within studies, so as not to paint everything with a broad brush.

With the above caveat in mind, the following general picture emerged from this review. Perhaps the most frequently researched stakeholder is the consumer. Theoretically, mergers can increase market power and lower consumer welfare, but they can also bring about lower prices through efficiencies that are passed on to the consumer. Focusing on corporate clients, event study evidence tends to reject the market power effect for the average client. Cross-sectional variation in customer firm wealth effects as well as variation in product prices following mergers more broadly reveals evidence consistent with both efficiency gains and market power. Overall, it seems fair to say that, according to the available evidence, merger synergies do not *systematically* come at the expense of consumers.

When it comes to creditors, the evidence is quite limited due to the private nature of most credit agreements. Based on merging firms with publicly traded bonds, the documented effects on bondholders are generally modest, with somewhat positive bondholder returns for target firms and marginally negative bondholder wealth effects for the acquiring firms. These modest effects are consistent with the widespread use of contractual clauses and covenants in credit agreements that protect the value of creditors' claims from abrupt changes in corporate control transactions. Thus, it seems fair to say that shareholder gains in M&A do not systematically come at the expense of creditors, either.

Turning to suppliers, the evidence generally points to reduced prices and profit margins for supplier firms following downstream mergers. This is consistent with mergers aiming to capitalize on purchasing efficiencies that eat into suppliers' rents. And while the event study evidence on the stock prices of corporate suppliers is mixed, there is evidence of suppliers

attempting to countervail the merged-induced buyer power in the downstream industries by consolidation of their own. The latter is consistent with M&A deals imparting some negative effects on suppliers – at least in the short run.

Labor is another crucial production input. Personnel-related efficiencies could mean job losses (and potentially earnings declines) for the merging firms' employees, and anecdotal evidence of merger-related layoffs is abound. However, mergers can also unlock employment opportunities, as in the case of the so-called "acquihires" and acquisitions of financially constrained targets. The empirical evidence points to links between the ease of labor force restructuring and the activity of the M&A market and merger synergies. Generally, studies show reduced employment growth at the merged firm following the deal, although such lower growth could be due to reduced hiring rather than increased firing. Nevertheless, at the individual employee level, there is some emerging evidence of increased likelihood of job separation and some negative impacts on earnings of departing workers. In terms of future research, it would be interesting to know whether any such wage income losses are duly replaced by other income sources, such as those from government support payments, self-employment, and entrepreneurship.

As a distinct class of employees, the literature also points to significant impacts of M&A deals on senior managers of the merging firms. On the target side, we see substantially increased rates of CEO departures – but they also tend to be accompanied by significant payouts, such that the net effect on the welfare of target executives is ambiguous. On the acquirer side, the evidence is clearer in that acquirer CEOs appear to be financially better off following acquisitions. Hence, rather than M&A creating shareholder value at the expense of executives, M&A deals appear to confer financial benefits on executives, likely at the expense of shareholders.

The evidence on the effect of M&A deals on competitors suggests close-to-zero effects, on average. Importantly, evidence of rivals benefitting from collusion-type rents is scant. Perhaps the largest effect that takeovers have on rival firms is an indirect one – an active market for corporate control is believed to act as a disciplining tool that keeps managers on their toes and encourages effort. Relatively little is known about the impact of M&A on public finances via taxes. But the limited evidence that we do have suggests that a reduced tax bill is not the primary source of shareholder gains from mergers, if at all. Finally, mergers confer economic benefits on a wide range of constituencies, from deal advisors to local charities and politicians. Besides, mergers have further indirect impacts on economic participants by shaping productivity, investment, and innovation – typically in a positive way. Finally, research on the effects of M&A activity on corporate externalities, such as environmental pollution and socioeconomic wellbeing of local communities, is in its infancy, making it a potentially fruitful avenue for future research.

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