Post-merger layoffs moderated, corporate takeovers cut when labour protections strengthened

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Credit: Rotman School

Post-merger layoffs moderated, corporate takeovers cut when labour protections strengthened, Rotman research finds.

Toronto - An examination of takeover activity in OECD countries has found that increased job protections have a major impact on corporate mergers and acquisitions, driving down activity while cutting the synergy gains associated with it.

The effect is so significant that researchers have concluded that the potential for labour restructuring is one of the key reason behind takeover bids.

The study from the University of Toronto's Rotman School of Management found an almost 15 per cent drop in the number of takeover deals and a 25 per cent drop in deal volume in response to major employment protection reforms that had been passed during the study period. When takeovers did happen, synergy gains from consolidation were cut by half.

The paper, forthcoming in *Journal of Financial Economics*, marks the first systematic empirical evidence documenting the link between labour restructuring and takeovers around the world.

"Everything starts from the potential for eliminating overlap," said Andrey Golubov, a Rotman assistant professor of finance and one of three study co-authors. "If the potential is not there, synergies are lower and deals don't happen."

Increased labour protections were found to moderate post-merger layoffs, resulting in 7.4 per cent more jobs left behind after a merger than in places where no such strengthening had taken place. For an average combined firm workforce of 31,500 employees, that represents 2,200 jobs.

While the value of takeover deals dropped in a heightened job protection environment, the researchers found that the price bidders paid did not drop as much as the expected gains from the merger, suggesting that both bidder and target firm shareholders bear the cost of increased labour protection.

The study analyzed nearly 46,000 takeover deals in 21 countries between 1985 and 2007. Researchers compared OECD and another study's records on labour protection reforms passed during that period with data collected by Thomson Reuters about takeover activity during the same time. The data covered the world's most active takeover markets, including countries such as the United States, United Kingdom, Canada and Japan. Researchers controlled for such differences as the level of economic development and economic growth, corporate tax rates, political orientation of governments and union power.

As an example of how national labour regulation can shape merger activity, the U.S. and New Zealand were among countries found with high takeover activity and comparatively low labour protections. In contrast, Italy and Spain were among those countries that saw higher levels job protection with relatively limited merger activity.

Provided by University of Toronto

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