PHYS.ORG

New research shows company mergers may increase investment and innovation

November 16 2023, by Faith Pring

Credit: Pixabay/CC0 Public Domain

New research from Nottingham University Business School (NUBS) has shown that some company mergers may promote product innovation and benefit society, contrary to previously held opinions.

In previous research, merger decisions, which see companies merge to create a single firm, have been criticized for removing competition in the market and for their adverse effects on innovation.

Antitrust authorities, which challenge company mergers, prevented mergers due to their possible adverse effects on innovation and competition, previously supported by research in this area.

Professor Arijit Mukherjee, from Nottingham University Business School, challenges this in his new research paper, published in *Economics Letters*, and suggests that mergers may increase product innovation and benefit society in the presence of passive cross ownership—where businesses hold non-controlling shares in rival businesses.

Competition among businesses encourages them to invest a significant amount in the research of competitors. Both passive cross ownership and cooperative research tend to reduce investments by reducing competitive behavior or, in other words, creating more collusive behavior among the businesses.

On the other hand, mergers between businesses creates an upward pressure on investments in research by increasing the profits of the businesses. The intensity of competition in the product market plays an important role to determine the net effect.

In an industry with severe price wars, mergers may increase product innovation and benefit society in the presence of passive cross ownership or cooperative research.

Professor Mukherjee said, "Challenging mergers due to their adverse effects on innovation is a complex matter. This research explains how passive cross ownership and cooperative research contribute to this complexity. The intensity of competition in the product market plays an important role for the innovation and welfare raising effects of a merger. These factors make decision making by antitrust authorities difficult."

Antitrust authorities may actually reduce product innovation and the betterment of society by preventing mergers in these industries when there is a severe price war among the businesses.

More information: Arijit Mukherjee, Merger and product innovation under cross ownership and cooperative R&D, *Economics Letters* (2023). DOI: 10.1016/j.econlet.2023.111418

Provided by University of Nottingham