Cross-Border Acquisitions and Labor Regulations

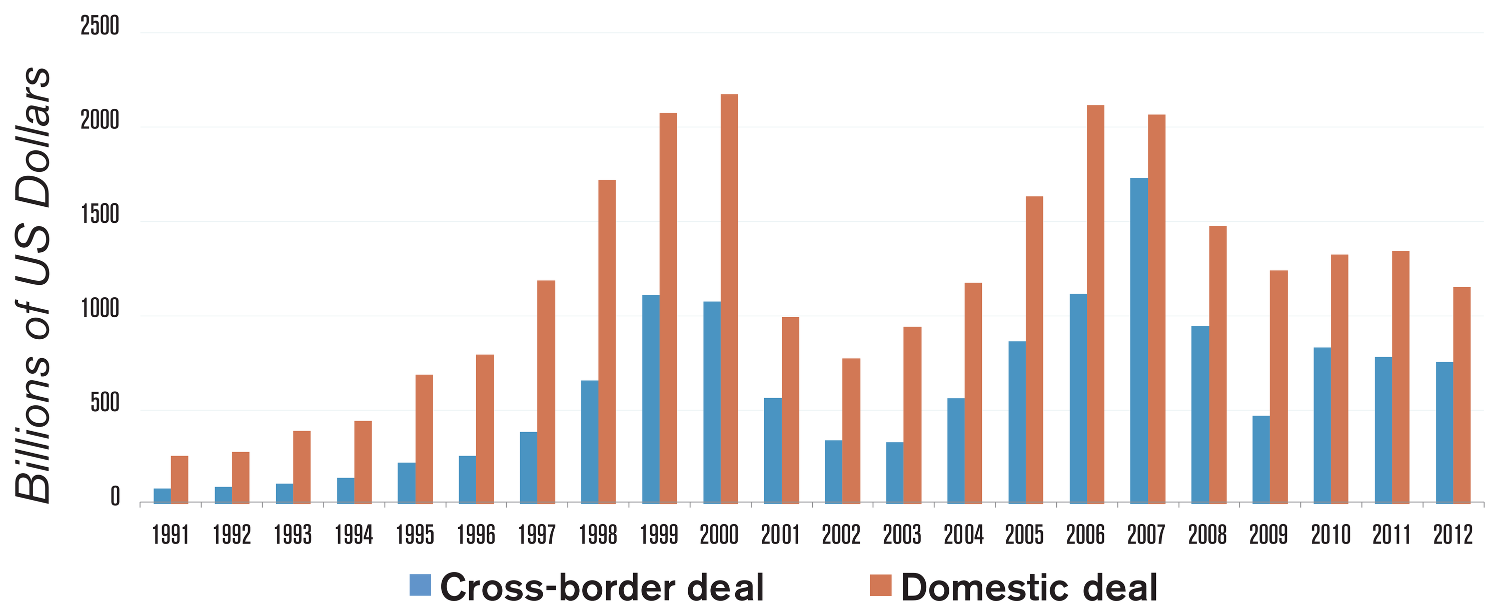
AUTHORS Ross Levine, Haas School of Business | Chen Lin, School of Economics and Finance at the University of Hong Kong | Beibei Shen, CUHK Business School at the Chinese University of Hong Kong

DO LABOR REGULATIONS AFFECT THE RETURN FROM INTERNATIONAL ACQUISITIONS?

International mergers and acquisitions are on the rise. Cross-border deals now account for 39% of all acquisitions, up from 24% in the 1990s. In total, they average $800 billion annually. Surprisingly, researchers have not yet studied how labor regulations influence the stock returns and profitability of the acquiring firms.

This paper provides an assessment of the relationship between cross-border differences in labor regulations and international mergers and acquisitions.

Total value of cross-border and domestic mergers by year



METHODOLOGY

The researchers analyzed a sample of 11,485 acquisitions across 50 countries from 1991 through 2012.

For each acquisition, they analyzed differences between the countries of the acquiring firm and the firm being acquired using three established measures of labor regulations:

- **Employment Law:** the degree to which regulations impede firms from firing workers or adjusting workforce hours
- **The Employment Protection Law Index:** a measure of the cost of firing workers
- **Unemployment Coverage:** the proportion of the unemployed covered by unemployment benefits

Firm performance after an acquisition was captured with two measures of excess returns (i.e., returns above the industry median):

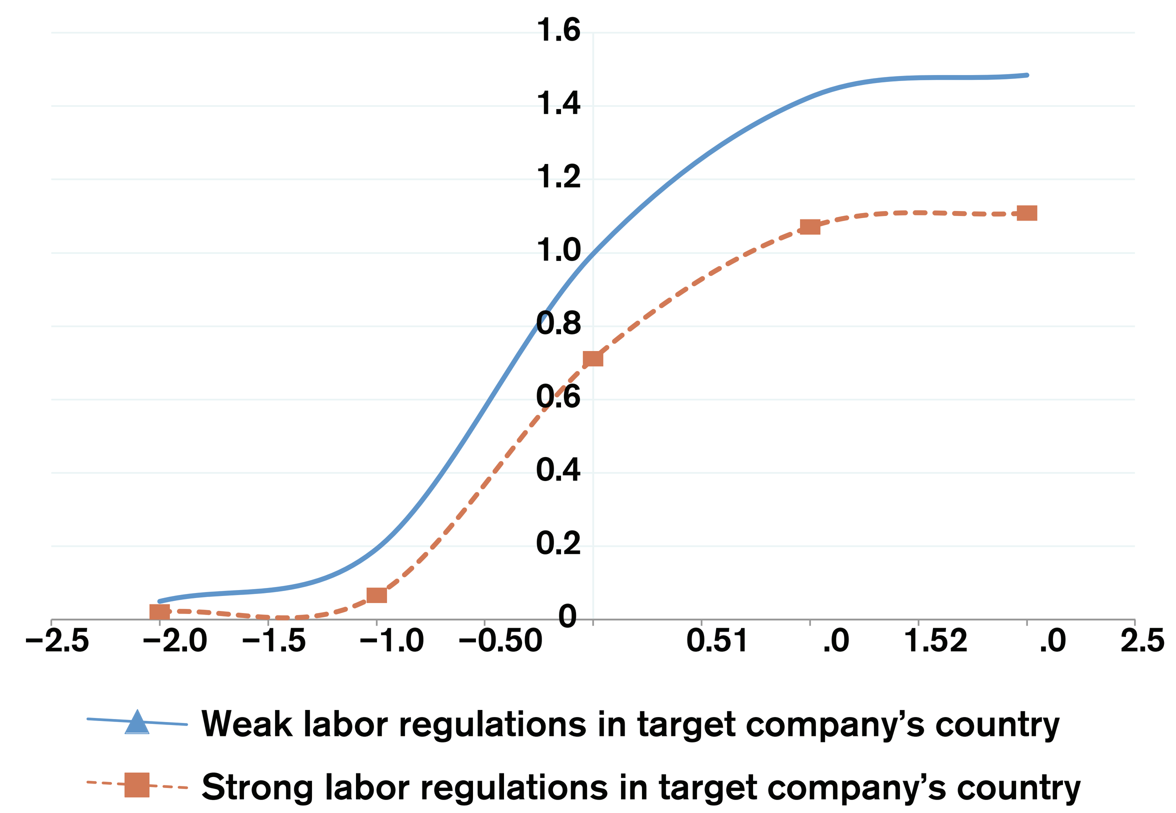
- **Cumulative abnormal stock returns**
- **Abnormal return on assets**

RESULTS

The researchers found that companies experienced a bigger boost in returns when they acquired firms in countries with weaker labor laws, as those laws make it cheaper for acquiring firms to restructure the labor forces of target firms. In particular:

- **Excess stock market and company returns are the most positive when the target company is in a country with weaker labor regulations than the acquiring company.**
- **These benefits are strongest for firms in labor-intensive industries.**
- **Acquiring firms target countries with weaker labor laws than their own.**

Acquiring firms' cumulative abnormal returns from before and after an acquisition announcement



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