The Perfect Match: Assortative Matching in International Acquisitions and the Source of Multinational Advantage

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Abstract

(Preliminary)

Ninety percent of foreign direct investment (FDI) between developed countries takes the form of mergers and acquisitions rather than greenfield investment, and the well-documented MNC productivity premium can be attributed both to productivity growth post-acquisition and to selection into this cross-border M&A market. This paper investigates the source of surplus from cross-border M&A by examining the selection process of both the parent and the acquired firm via a revealed-preference argument: Data from nearly 10,000 M&A deals in Western Europe between 2000 and 2010 are used to infer the motives for acquisition. The matching model developed builds on Galichon and Salanie (2012), and allows matching between MNC parents and subsidiaries on multiple firm characteristics, specifically on firm productivity and market size. Preliminary findings show that parents match with subsidiaries with similar characteristics, suggesting that firm productivity and market size are complements in generating surplus. These findings run counter to the widely-held belief that cross-border acquisitions lead to productivity growth mainly through the transfer of capabilities or resources from parent firms to their newly-acquired subsidiaries.