

Capital Idea #20

How M&A can drive productivity improvements

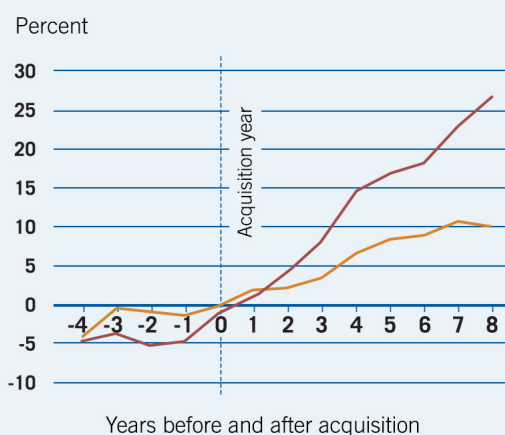
Skilled managers and advanced technology successfully combined in a wave of acquisitions in the Japanese yarn industry

- Companies can unleash significant increases in productivity by taking over rival firms that have newer capital equipment and applying their own superior management techniques, according to research by Chicago Booth's **Chad Syverson** with Serguey Braguinsky of Carnegie Mellon University, Atsushi Ohyama of Hokkaido University, and Tetsuji Okazaki of University of Tokyo.
- The researchers analyzed how Japan's yarn industry experienced rapid growth in the early 20th century, after a yarn glut sparked a wave of successful acquisitions.
- Although the acquirers' own plants were no more productive than those they purchased, they were more profitable. The targets had newer and more efficient machinery, but were not as adept at managing demand fluctuations, resulting in higher inventories of unsold yarn and lower capacity utilization.
- After a takeover, the new owners managed sales more effectively and used machinery more intensely. The acquired plants' return on capital employed—the researchers' measure of profitability—increased by six percentage points on average in just three years after acquisition.
- Productivity also improved significantly and grew faster at acquired plants than at the buyers' original plants (see chart). The acquired plants' total factor productivity—the efficiency with which labor and capital are used—grew about twice as fast after acquisition as it did in the acquirers' plants.

Productivity boost

Total factor productivity relative to acquiring plants in acquisition year

— Acquired plants
— Acquiring plants



Source: Braguinsky, Ohyama, Okazaki, and Syverson, 2014

After a takeover, productivity grew faster at acquired plants than at the buyers' original plants.

Serguey Braguinsky, Atsushi Ohyama, Tetsuji Okazaki, and Chad Syverson, "Acquisitions, Productivity, and Profitability: Evidence from the Japanese Cotton Spinning Industry," Working paper, September 2014.

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