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EXPANDING MULTINATIONALS - CONGLOMERATE M&A AND ACTIVITY-BASKET PROXIMITY

Abstract:

This paper analyzes how multinational firms (MNEs) expand the spectrum of their activities via Mergers & Acquisitions (M&A). While international trade studies systematically focus on horizontal versus vertical motives for foreign direct investment (FDI), I document that over 46% of both domestic and cross-border M&A deals done worldwide by MNEs are conglomerate, i.e., neither horizontal nor vertical. Literature to date fails to explain this puzzling stylized fact. What are conglomerate M&A and what are their drivers? Why do MNEs acquire firms in industries distinct from their own? The present study argues that conglomerate M&A represent a tool for multinationals to expand the spectrum of their activities towards industries that are closely related to their own range of occupations. The approach looks at MNEs from a multi-product perspective. It introduces a series of measures of "distance" between firms based on their respective activity-baskets. These are built relying on industry task intensities and the product space tools. The results show that despite the absence of direct horizontal or vertical linkages, conglomerate M&A appear to occur between firms relatively closely related in terms of their activity-mix. Further, the study investigates how the shape of activity basket of corporate group evolves with the acquiror's subsequent transactions. The degree of compactness of corporate activity decreases over time. MNEs also seem to expand their activity mostly radially, towards multiple direction, rather than linearly.

Keywords:

Foreign direct investment, Mergers and acquisitions, Multinationals, Conglomerate M&A, Multiproduct firms, Product space, Task content

JEL Classification: F21, F23