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Local Economic Impacts of Corporate Mergers: The Nebraska Experience

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Preface

The primary concern of economists in the area of corporate mergers has been potential anti-competitive effects. Little systematic research has been devoted to local economic impacts of corporate acquisitions. The probable reasons for this research vacuum are twofold. First, economists have long recognized that short run dislocations are a necessary by-product of a well-functioning market economy. Second, the conventional economic wisdom has tacitly assumed that acquisitions of local firms by large national corporations typically result in increased employment and payroll in the community of the acquired firm.

This study indicates clearly that local economic impacts of corporate mergers deserve greater attention. The Nebraska data refute the conventional wisdom and reveal that acquisitions have resulted in an outflow of employment opportunities and corporate control from Nebraska. Similar outflow is common to other sparsely populated states. In the light of an expressed national desire to halt the unprecedented movement of population to metropolitan areas, adverse local impacts of corporate acquisitions assume a national social and economic significance.

This monograph is a result of a year of research undertaken to complete a doctoral dissertation at the University of Nebraska. I am indebted to several individuals for the help which they rendered. First and foremost, I would like to publicly thank my wife Terri, who key punched computer cards, performed numerous calculations, and typed the various manuscripts.

Since most of the data were collected from the Nebraska Labor Department, Division of Employment, I owe a large debt to several individuals in this Division. I especially wish to thank Les Johnson for his cooperation and aid. The study would not have been possible without his generous assistance.

I also wish to thank Professors Campbell R. McConnell and John R. Felton of the Department of Economics, University of Nebraska – Lincoln, for their valuable suggestions and encouragement. Finally, I am indebted to the University of Nebraska – Lincoln Bureau of Business Research for aid during the early stages of the project.

I / *Introduction*

Primary and Secondary Economic Effects of Corporate Mergers

A considerable amount of time and research effort has been devoted to the analysis of the effects of corporate mergers upon industrial concentration.[1] Likewise, much research has been undertaken with respect to the relationship between economic concentration and market performance. Indeed, the primary economic concern associated with mergers and acquisitions is the possible anti-competitive effects which may accompany them. Thus, the Federal Trade Commission staff has pointed out: "The major public policy concern arising from mergers is that they have the effect of entrenching or creating market power, thereby rendering competition ineffective as a regulatory mechanism."[2]

Although the anti-competitive potential associated with mergers must remain the primary focus of economic research in the merger area, there exists an equally important need to assess secondary economic impacts of corporate marriages. In light of the phenomenal increase in mergers during the past decade and the fact that the recent merger wave is increasingly of a conglomerate nature, these "secondary" economic effects, in fact, may push their way to the forefront of policy concern. In particular, the local economic impacts of corporate acquisitions require careful appraisal. Also, the directional flow of corporate control and its accompanying geographic concentration should be of interest to researchers and policy makers.

The Research Vacuum

Dr. Willard Mueller, former director of the Bureau of Economics, Federal Trade Commission, pointed out to a Senate subcommittee in November 1969 that:

> Little systematic research has been conducted on the impact of mergers on local communities . . . . The most comprehensive study undertaken to date was conducted by the Bureau of Business Research and Service of the University of Wisconsin for the Governor of the State of Wisconsin.[3]

It is this research vacuum, along with severe methodological weaknesses of the Wisconsin study,* which has led the author to undertake the empirical and analytical study which follows.

Purpose and Objectives

This analysis will provide at least partial answers to the following questions:

1. To what extent have Nebraska firms been involved in the current merger wave? What has been the nature and scope of this Nebraska involvement? How do Nebraska merger characteristics, i.e., size of firm, type of merger, industry of the acquired firm, compare with those of the United States as a whole?
2. What were the primary and secondary motives associated with the Nebraska acquisitions? What institutional factors have served to encourage merger activity?
3. How did the pre-merger employment and payroll growth rates of the acquired firms compare to non-acquired firms in the same industry?
4. What were the local employment and payroll impacts of the mergers?
5. What was the geographical pattern of the transfer of control? To what extent did changes in sources of supply and locational changes in the use of financial institutions result from the acquisition?

This research clearly transcends the Wisconsin study both in scope and in empirical substance. The Wisconsin study relied heavily on questionnaires as a means of assessing the impact of the Wisconsin mergers. In attempting to ascertain employment and payroll effects, the Wisconsin effort compared pre-merger growth rates to post-merger rates. As will be pointed out in Chapter IV, this method of comparison failed to isolate the merger effect. The present study, using correlated tests for matched-pairs, compared pre- and post-merger rates of acquired firms with the pre- and post-merger rates of hypothetical average firms within their 2-digit industries. Furthermore, aggregate employment and payroll impacts of the corporate mergers were estimated.

This study also transcends the Wisconsin study in that it traces the geographical flow of corporate control which resulted from the acquisition of the Nebraska firms. In addition, the acquired Ne-

* These weaknesses will be described in Chapter IV.

braska firms were classified and analyzed by type of merger, 4-digit industry, and employment size. These classifications allowed a direct comparison of the Nebraska merger movement with the recent United States merger experience.

It should be pointed out, however, that the Wisconsin study examined an important local impact which this study did not, namely, the effect of mergers on contributions to community causes. Therefore, this Nebraska study expands and complements the Wisconsin research. The two studies, taken together, serve as a research beginning in the important area of state and local economic impacts of corporate mergers.

The Conventional Wisdom

Specifically, this research attempts to test systematically the general validity of the conventional wisdom that firms which are acquired by other corporations are typically dying enterprises and that the merger brings with it an infusion of new and progressive management along with expanded financial resources. The result, so this argument goes, is growth of the acquired operation. This expansion includes greater employment and payrolls and, therefore, additional local spending, tax collections, and so forth. Thus, the real winner is the total community.

If, by chance, the acquired corporation was a financially successful one showing vigorous growth, then the merger would, in the view of the conventional wisdom, serve to accentuate this growth. In a statement introduced into official Senate hearing records by Senator Roman Hruska of Nebraska, Ira G. Corn, Jr., Senior Executive Officer of the Michigan General Corporation, stated:

> Assume the example of a privately-held company recently acquired as a marginal operation with turnabout potential. Ownership of such a corporation by a conglomerate has a great beneficial impact. Added capital creates both a greater challenge and job security for management and manpower. Customers are better served with better products. Suppliers enjoy increased business. Efficient facilities are developed, lower production costs are achieved, and greater profit margins are attained. Higher Federal, State, and local taxes are paid.
>
> Assume the example of an acquisition of a highly successful, privately-held firm. It is likely to have its momentum accelerated under conglomerate management . . .[4]

Nor is the conventional wisdom confined solely to corporate executives. Donald F. Dewey has stated that the majority of mergers ". . . are merely a civilized alternative to bankruptcy, or the voluntary liquidation that transfers assets from failing to rising firms."[5]

Henry Manne, in a sense, has theoretically formalized and rationalized the conventional wisdom.[6] According to Manne, the separation of ownership and control of American enterprise, in conjunction with inadequate product market competition, results in a general business environment which allows professional managers to operate their concerns inefficiently. The possibility of a takeover via acquisition, however, performs a function which assures an efficient allocation of resources. This possibility serves as a potential punishment for management which is not maximizing profits.

Why is this the case? According to the Manne position, inefficient management and accompanying sluggish corporate growth will serve to lower the price-earnings ratio of the corporation's stock. Firms with low stock-earnings ratios are prime targets for takeover.* It will thus be slow-growing firms dominated by ineffective management which will be ripe for acquisition. The truly well-managed corporation will not likely become the object of an acquisition attempt.

It is clear that Manne's position, though more sophisticated, leads to conclusions similar to those expressed by Mr. Corn. Acquisitions, on the average, are likely to involve slow-growing firms. Upon acquisition these enterprises, on the average, will have increased profits and corporate growth rates.

Types of Merger Arrangements

Before proceeding to an examination of the merger movements in Nebraska and the United States, it is necessary to establish a definitional framework. Mergers may be of several forms and types.

Broadly speaking, a merger is said to occur: "Whenever one company acquires, assumes, or otherwise gains control over the assets of another company by an exchange of assets or equity securities, or when two companies combine to form a brand new enterprise."[7]

Mergers may be of two basic forms: acquisitions or consolidations.[8] An *acquisition* occurs when the acquiring firm retains its identity. The acquired concern may also retain its name as a sub-

* The reason this is the case will be examined in Chapter III.

sidiary of the larger corporation or it may undergo a complete identity change. A *consolidation* occurs when two or more corporations are combined into a new identity. The large majority of mergers involving Nebraska firms, 1964–1968, were acquisitions rather than consolidations.

Distinguishing between *types* of mergers is a more difficult task than determining their forms. Scholars have employed various categorizations of mergers by type. For the sake of providing a basis for comparing Nebraska data to United States merger data, the author has utilized standard Federal Trade Commission merger definitions in classifying Nebraska mergers.*

Basically mergers are of three distinct types: horizontal, vertical, or conglomerate. *Horizontal* mergers are those which involve firms which produce closely related products and sell these products in the same geographic market. An example of this type of merger is the acquisition of Nixon and Company, a livestock feed producer, Omaha, by Nebraska Consolidated Mills, also of Omaha. This horizontal combination was consummated in 1966.

Vertical mergers are those in which the firms involved have a buyer-seller relationship. These mergers, therefore, may be either "forward" or "backward" depending upon whether the acquiring firm purchases a firm which buys its product or one which supplies raw materials or components. An example of a forward vertical acquisition would be the 1968 purchase of Pioneer Glass and Paint Co., Omaha, a paint wholesaler, by Benjamin Moore Corp. of New York, a paint producer. On the other hand, the acquisition of Craft Guild Products of Omaha by Josten's Inc., Minnesota, in 1968, is an example of a backward vertical merger. Josten's Inc., produces trophies while Craft Guild builds trophy bases.

The third type of merger is the *conglomerate* combination. These mergers may be subdivided into three types. Conglomerate mergers of the *geographic market extension* variety are characterized by mergers which involve firms which produce the same product

* Some observers have concluded that the FTC definitions of conglomerate mergers are too inclusive. All mergers which do not specifically fit the horizontal and vertical categories are classified as some type of a conglomerate. As a result, it is argued that the FTC data greatly magnify the actual conglomerate nature of the current merger movement. See in particular Samuel R. Reid, "Conglomerate Growth: Consistency with Economic Theory of Growth," in *Economics of Conglomerate Growth*, Leon Garoian, ed. (Corvallis, Oregon: Oregon State University, 1969) pp. 44, 45. The author, though sympathizing with this contention, has nevertheless concluded that the advantages associated with using the FTC definitions far outweigh any misconceptions which might arise from their use. Comparisons of the Nebraska and overall merger movements require a common set of definitions.

or service but sell them in different geographic markets. An example of this type of conglomerate acquisition would be the acquisition of Center Bank, Omaha, by Northwest Bank Corporation, Minneapolis, in 1965.

A conglomerate merger may be of a *product extension* type. Such mergers involve firms which are related in production and/or distribution but whose products do not directly compete with one another. The 1967 merger between Allegheny Ludlum Steel Corporation, Pittsburgh, Pennsylvania, and Ogallala Electronics Manufacturing, Ogallala, was of the product extension type. Imperial Eastman Corporation's 1967 takeover of Brunning Co., Lincoln, was also of this basic conglomerate type.

A final category of conglomerate mergers may be called *pure conglomerates.* Those mergers involve totally unrelated diversification. No functional or buyer-seller relationship exists. The acquisitions of the Sun Newspaper of Omaha and the National Indemnity Co., Omaha, by Berkshire Hathaway, New Bedford, Massachusetts, were of the pure conglomerate type. Likewise, the 1966 purchase of Nebraska Crib and Silo Co., Fremont by Fugua Industries, Atlanta, Georgia, was a pure conglomerate acquisition.

Overview of the Study

In the following chapter the magnitude, scope, and nature of the recent Nebraska merger movement are compared and contrasted with the United States experience. Nebraska mergers are classified by type of merger, industry of the acquired firm, and employment size. In Chapter III, factors encouraging mergers are explored. Questionnaire responses are utilized as a beginning point for an analysis of merger motives of both acquired and acquiring firms.

Chapters IV and V deal with local economic impacts of corporate mergers. In the former, results of statistical tests employing pre- and post-merger employment and payroll growth rates are reported and analyzed. In addition, aggregate employment and payroll effects are estimated. In Chapter IV, the directional flow of corporate control resulting from Nebraska acquisitions is traced. Possible adverse local economic effects are examined. In the final chapter, policy implications of the research findings are explored.

II / *The Magnitude, Scope, and Nature of the Recent Merger Movements Within the United States and Nebraska*

THE NATIONAL MERGER EXPERIENCE

The industrial organization of American enterprise has undergone two major merger movements and is currently in the midst of a third. Each period of intense merger activity has served to alter the basic structure of American enterprise.

The first major merger movement in the United States began about 1895 and lasted midway into the first decade of the new century. The basic outcome of this movement was the successful achievement of greater market concentration. This wave of merger activity was dominated by several large horizontal and vertical mergers within the steel, tin, tobacco, copper, and farm machinery industries.

Such industrial giants as United States Steel, duPont, International Telephone and Telegraph, and American Tobacco trace their origins to mergers consummated during this 1895–1905 period.

Ralph L. Nelson, a prominent scholar of American merger movements, has concluded that the first merger wave transformed industries characterized by many medium and small-sized firms ". . . into those in which one or a few very large enterprises occupied leading positions. It laid the foundation for the industrial structure that has characterized most of American industry in the twentieth century."[1]

The second major wave of merger activity occurred in the 1930's. This movement, like its predecessor, was composed primarily of horizontal and vertical mergers initiated by investment bankers. Much of the industrial concentration achieved in the initial movement had become diluted by the entry of new firms. Thus, the second merger movement was characterized by an attempt to reclaim market power.[2] In addition, the second movement witnessed several mergers and acquisitions designed to establish concentration in new and emerging industries.

Though primarily horizontal in nature, some conglomerate mergers of the geographic market extension type did occur during the second movement. These took place mainly within the dairy and food retailing industries.

During the 1921–1933 period, nearly $13 billion of assets were acquired. These $13 billion of assets amounted to a cumulative 17.49 percent of the total manufacturing and mining assets in the United States.[3] The second wave of merger activity peaked in 1929. This wave was not effectively restrained by Section 7 of the Clayton Act. In fact, Supreme Court decisions between 1926 and 1934 served to render Section 7 useless as a governmental anti-merger weapon.[4]

The Scope and Magnitude of the Current Merger Movement

The contemporary merger wave began during World War II. It may be divided into two parts, 1943–1947 and 1950 to the present. The early portion of the current movement brought forth increases in concentration in the textile, alcoholic beverage, paper, and cement industries, while the later 20-year experience has produced the widespread dominance of the conglomerate industrial structure. The current merger experience has been the longest in duration of the three major American movements; it has also been the largest in terms of the number of firms involved.

Figure 2-1 compares manufacturing and mining acquisitions during each of the three major merger periods. Only large acquisitions (over $10 million in assets) are recorded.

During the 1950–1968 period, 15,096 mergers took place, and over 600 occurred each year since 1965. In fact, 5,941 acquisitions took place in the four-year period, 1965–1968. As seen in Figure 2-1, 2,444 mergers were consummated in 1968 alone. The fact that 39.35 percent of all mergers occurring during the 18-year period did so in the last four years, 1965–1968, clearly shows the recent monumental growth of merger activity in the United States.

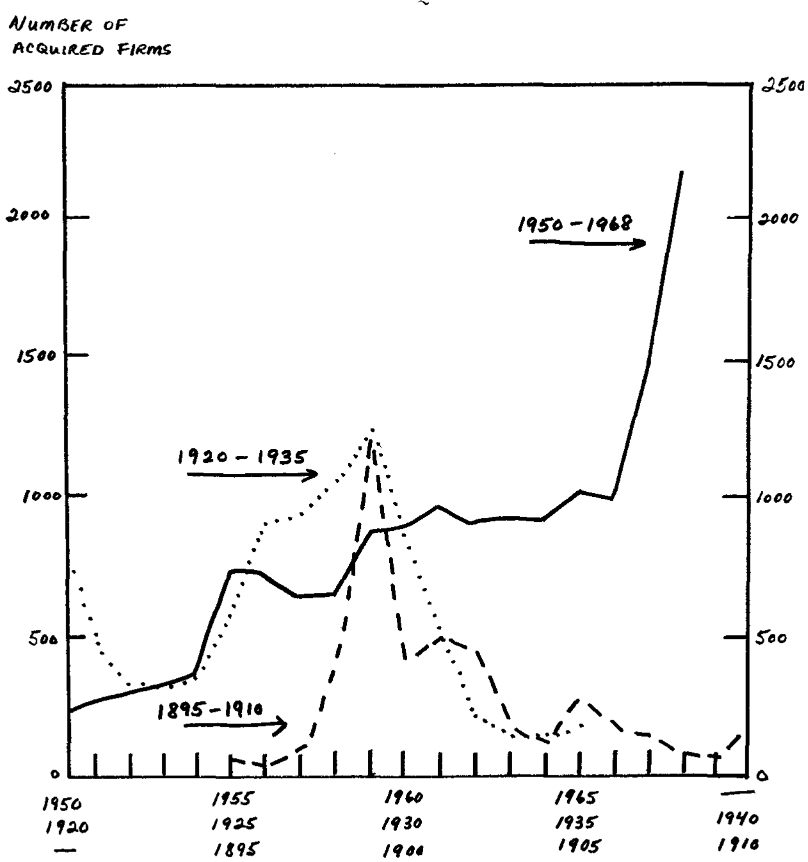
Figure 2-1 understates total merger activity since it includes only manufacturing and mining mergers. The number of acquisitions within the trade and service industries has also increased sharply in recent years, particularly in 1968. The growth of mergers in trade and services is documented in Table 2-1.

The magnitude of the current merger movement may also be measured with respect to the total volume of assets acquired. Table 2-2 clearly establishes the fact that the value of acquired assets has increased drastically during the 1965–1968 period. Once again,

only mining and manufacturing firms are included. Table 2-2, unlike Table 2-1, however, includes estimates of assets of small firms (under $10 million asset size).[5]

FIGURE 2-1

THREE MERGER MOVEMENTS COMPARED, MANUFACTURING AND MINING ACQUISITIONS



SOURCE: *FTC Staff Merger Report, 1969*, Figure 1-1, p. 32

Figure 2-2 depicts Table 2-2 graphically and also shows the relationship of acquired assets to the number of firms acquired. The growth of mergers within the trade and service industries (Table 2-2) is also illustrated.

If one compares the assets of acquired firms with total new investment within manufacturing and mining, the magnitude of

TABLE 2-1
MERGERS AND ACQUISITIONS IN TRADE AND SERVICES, 1960–1968

Year	Wholesale and Retail Trade	Services	Total
1960	127	123	250
1961	255	220	475
1962	235	236	471
1963	186	158	344
1964	207	247	454
1965	191	312	503
1966	188	223	411
1967	232	310	542
1968	452	696	1,148
Total	1,893	2,525	4,418

SOURCE: Adapted by author from *FTC Staff Merger Report, 1969.* Appendix Table 1-14, p. 679.

the current wave is seen in yet an additional aspect. In 1960, the acquire assets were $2.3 billion; in 1968, $15.2 billion. As a percentage of total new investment, acquired assets increased from 15.0 percent in 1960 to 54.6 percent in 1968. Table 2-3 shows these relationships.

It should be obvious from Table 2-3 that a growing percentage of available expansion funds are being used to purchase existing assets, while a diminishing percentage is being utilized to purchase new capital. It is, of course, only the latter which adds to total economic capacity. The 1967–68 period is particularly interesting. New capital expenditures failed to increase during these two years while the volume of assets acquired increased sharply.

TABLE 2-2
TOTAL ASSETS OF MANUFACTURING AND MINING FIRMS ACQUIRED, 1960–1968

Year	Assets (Millions)	Year	Assets (Millions)
1960	$2,326	1965	$ 4,914
1961	2,630	1966	5,416
1962	2,990	1967	10,815
1963	3,947	1968	15,200
1964	3,670		
Total			$51,908

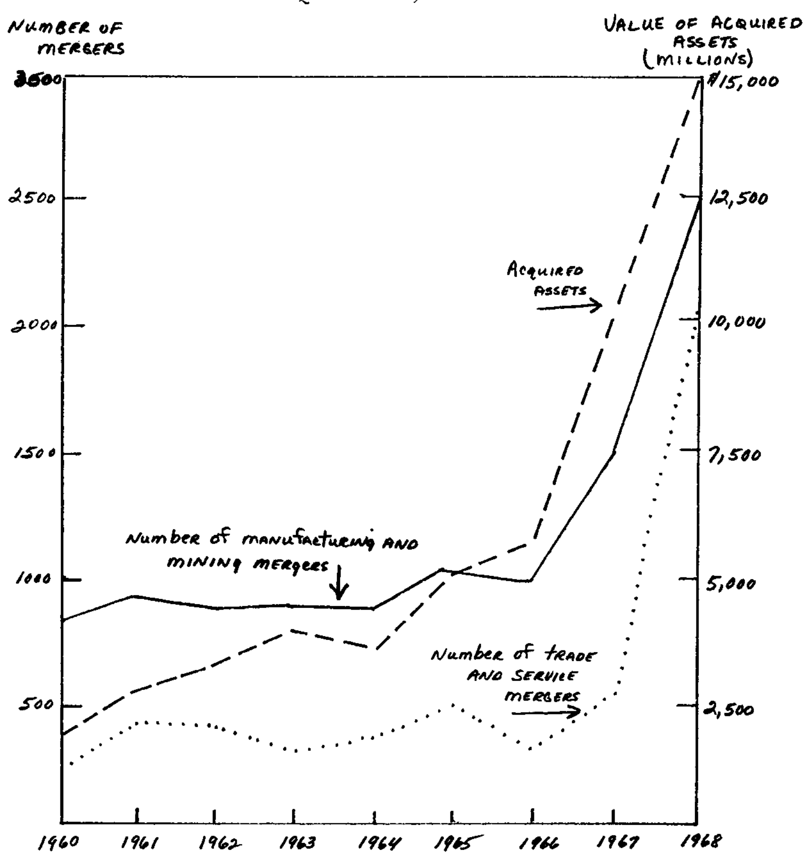
SOURCE: Adapted by author from *FTC Merger Report, 1969.* Appendix Table 1-3, p. 667.

Before proceeding to an examination of the merger experience within Nebraska, several additional facts concerning the scope and magnitude of the current merger movement might be mentioned. All of the following points were gleaned from the comprehensive 1969 Federal Trade Commission staff report on corporate mergers:[6]

1. Only six corporations with assets of $250 million or more were acquired during the entire 1948–1966 period. Six such corporations were acquired in 1967; 12, in 1968.
2. Nearly all of the acquired corporations with $25 million or more assets were profitable in the year prior to the merger.
3. Sixty-three percent of all firms in the $10-25 million asset size class were acquired sometime during the 1948–1968 period.

FIGURE 2-2

NUMBER AND TOTAL ASSETS OF MANUFACTURING AND MINING FIRMS ACQUIRED AND NUMBER OF TRADE AND SERVICE ACQUISITIONS, 1960–1968



SOURCE: Compiled by author from *FTC Staff Merger Report, 1969,* Appendix Tables 1-1, 1-3, and 1-14.

4. In 1959 there were 883 firms of $25 million-plus asset size. If the number of such firms had grown at the same rate relative to total manufacturing assets as they did between 1949 and 1959, 2,209 such firms would have existed in 1969. Instead, there were 1,354 firms in this size class in that year. Merger activity accounts for most of the difference.
5. A total of 327 corporations ranked among the largest 1,000 manufacturing companies of 1950 had been acquired by 1968.

TABLE 2-3

ACQUIRED ASSETS COMPARED WITH NEW INVESTMENT IN MANUFACTURING AND MINING, 1960–1968
(Billions of Dollars)

Year	New Investment[a]	Total Assets Acquired	Acquired Assets as Percentage of New Investment
1960	$ 15.47	$ 2.326	15.0%
1961	14.66	2.630	17.9
1962	15.76	2.990	19.0
1963	16.73	3.947	23.6
1964	19.77	3.670	18.6
1965	23.75	4.914	20.7
1966	28.46	5.416	19.0
1967	28.11	10.815	38.5
1968	27.86	15.200	54.6
Total	$190.57	$51.908	27.2%

[a] As reported in *Economic Report of the President, 1969*, p. 271.

SOURCE: Adapted by author from *FTC Staff Merger Report, 1969*, Appendix Table 1-4, p. 668.

THE NATURE OF RECENT INDUSTRIAL COMBINATION: THE TYPE OF MERGER

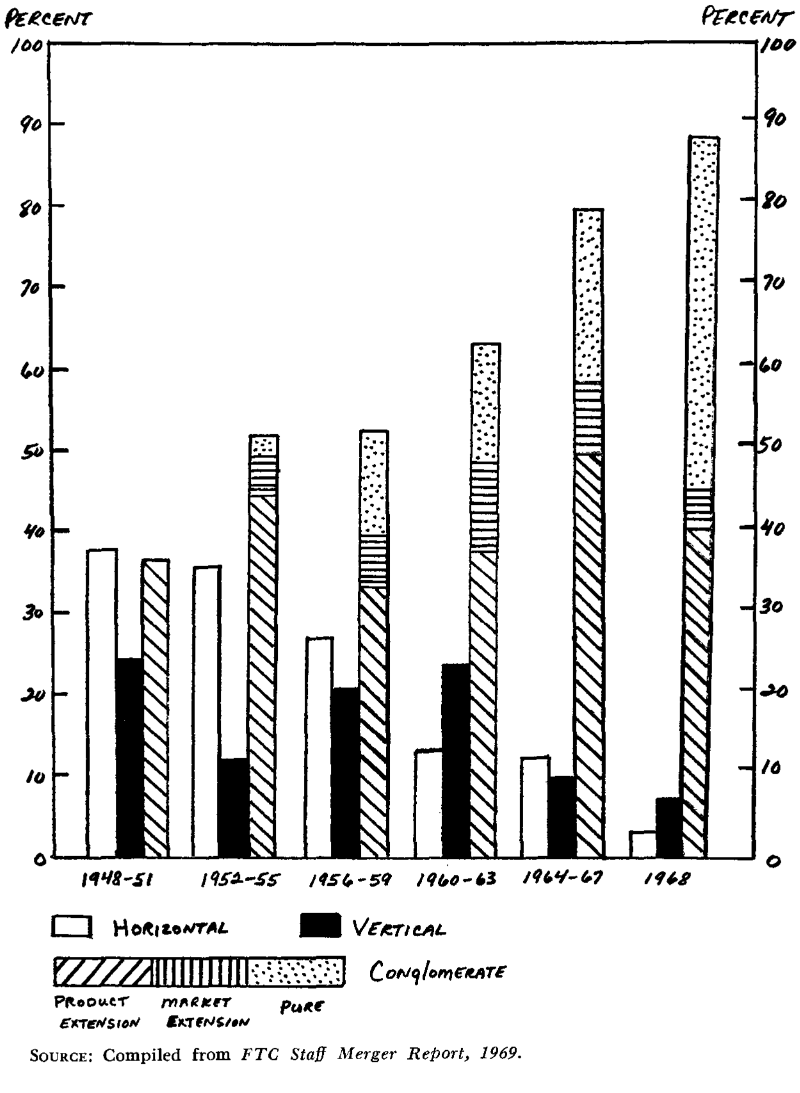
The nature of the corporate merger movement has changed remarkably during the 1948–1968 period. The current merger movement has increasingly become a conglomerate phenomenon. It is obvious from Figure 2-3 that while horizontal mergers, in terms of acquired assets, declined relatively, conglomerate-type acquisitions increased from 37.5 percent of the 1948–1951 total to 88.5 percent of the assets acquired in 1968. Vertical mergers also declined relatively during the 20-year period.

Another facet of the changing nature of corporate mergers is evident. Pure conglomerate mergers—those in which unrelated diversification occurred—increased from zero percent of total conglomerate acquired assets at the beginning of the period to 43.6 percent of such assets in 1968. Thus two definite patterns have evidenced themselves:

1. Horizontal and vertical mergers have declined relative to conglomerate mergers.
2. Pure conglomerate mergers have increased relative to other types of conglomerate combinations.

FIGURE 2-3

DISTRIBUTION OF ASSETS ACQUIRED IN LARGE MERGERS, BY TYPE, 1948–1968



SOURCE: Compiled from *FTC Staff Merger Report, 1969.*

The Nature of Recent Industrial Combination: The Industry of the Acquired Firm

Unfortunately, national data on mergers by industry of the acquired firm do not exist. Such a disaggregation of Nebraska mergers will be presented later. Several facts, however, are clear from the national data which are available.

As noted earlier, merger activity in the trade and service industries increased more rapidly than in manufacturing and mining, 1960–1968. Likewise, the holding company has achieved new vitality.[7] Given the movement toward unrelated diversification, nonmanufacturing corporations have increasingly been acquired by manufacturing entities and vice versa.

In general, it may be concluded that the current upswing in merger activity has affected nearly all industries in the United States. The recent movement has not been confined to a relatively limited number of industries as in the earlier merger waves. The Nebraska data, gathered by the author, confirm this general conclusion.

THE NEBRASKA MERGER EXPERIENCE

The Identification Problem

Owing to the extreme difficulty of identifying Nebraska firms which were involved in merger activity, only a five-year period, 1964–1968, was utilized as a basis for the analysis which follows. No single agency or organization had a complete listing of Nebraska mergers, but several bodies had a partial listing of acquisitions which in some manner fell under their jurisdiction or scope of concern.

Briefly, the Nebraska mergers were identified in the following manner:

1. National Industrial Conference Board monthly *Announcements of Mergers and Acquisitions* were scrutinized over the five-year period. This process yielded several large mergers involving Nebraska-based firms. The Conference Board listing includes only large acquisitions.
2. Financial journals such as *Standard and Poor's* and *Moody's* were used to attempt to trace specific acquisitions.
3. The Bureau of Economics, Federal Trade Commission, provided a partial list of Nebraska firms acquired by the 200 largest manufacturing corporations in the United States. Much of the FTC data was compiled from confidential sources and could not be released.

4. Approximately 75 questionnaires were sent to Chamber of Commerce officials and bank presidents throughout the state seeking their help in identifying mergers involving firms in their localities. Responses to the questionnaire yielded a substantial number of mergers.
5. A tedious search through data made available by the Research and Statistics Division, Division of Employment and Wages, Nebraska State Labor Department, was undertaken. The Employment and Wage Division records all formal changes in business ownership in conjunction with its administration of the Unemployment Compensation program. Of course, most of the changes of ownership which occurred during the five-year period under review were not mergers. This is to say, they simply involved the selling of a business to another individual, the inclusion of a new partner, or the incorporation of the enterprise. Therefore, the true mergers or acquisitions had to be distilled from the numerous changes of ownership. Individual files on each firm were helpful in this regard.

Though each of the above methods contributed to the establishment of the Nebraska merger list, the last proved to be the most helpful. Some mergers, particularly those involving stock transactions, were not included. However, nearly all mergers involving *two* Nebraska firms were identified through the Unemployment Compensation records.

Only mergers involving acquired Nebraska-based companies were included in the Nebraska list. If, for example, an out-of-state based corporation had operations in Nebraska, and this out-of-state corporation was then acquired, the change of ownership of the Nebraska operations was not included in the Nebraska merger list. Thus, for example, although North American Van Lines had business establishments in Nebraska and was purchased by Pepsi Co., Inc., in 1968, the change of control of the Nebraska establishments was not considered to be a Nebraska merger.

The Nebraska merger list which was compiled also excluded mergers in which Nebraska-based corporations purchased out-of-state businesses. It will be demonstrated later that only a small number of Nebraska corporations have been active acquirers of out-of-state firms.

The identification procedure was very time consuming. Nevertheless, the methods utilized allowed for cross checking and, therefore, yielded a rather comprehensive sample of Nebraska merger

activity, 1964–1968. A total of 149 acquisitions were identified. It is probable that nearly all acquisitions of large Nebraska firms were included and that a large percentage of all acquisitions of firms with more than ten employees were represented. A partial listing of these mergers is printed in the Appendix. Many of the 149 acquisitions were obtained through confidential records and, therefore, are not included in this listing.

The Magnitude of the Nebraska Merger Experience

In many respects the Nebraska merger experience during the period 1964–1968 broadly mirrored that of the overall national movement.

In Table 2-4 and Figure 2-4, the 149 mergers are divided into two groups. One group includes all mergers in which a Nebraska firm was acquired by an out-of-state corporation; the other, mergers or acquisitions involving Nebraska firms only. Hereafter, the former mergers will be referred to as Nebraska-Outstate; the latter, Nebraska-Nebraska.

A steady increase in merger activity is evident throughout the five-year period. It is clear, in particular, that there has been a sharp upswing in merger activity involving the acquisition of Nebraska firms by outstate corporations. On the other hand, the number of Nebraska-Nebraska mergers has remained quite constant during the last four years of the period.

Over 33 percent of the Nebraska-Outstate acquisitions occurred in 1968, and nearly 60 percent took place in either 1967 or 1968. Overall, 55.03 percent of the mergers occurred in 1967 and 1968 while only 22.82 percent were consummated in the first two years of the study. This trend, though not directly comparable to the national data,* is reflective of the national merger experience as shown in Figure 2-1 and Table 2-1.

The Size of Nebraska Acquired Firms

Asset data on each firm was not recorded. However, it will be seen later in this chapter that the Nebraska-Nebraska mergers largely involved relatively small firms while the opposite was the case with respect to the outstate mergers. Therefore, in terms of acquired assets, the increase in the magnitude of the Nebraska merger movement, 1964–1968, more closely approximates the Nebraska-Outstate trend line in Figure 2-4 than it does the total trend line.

* The national data include only large acquisitions, i.e., those with assets of $10 million or more.

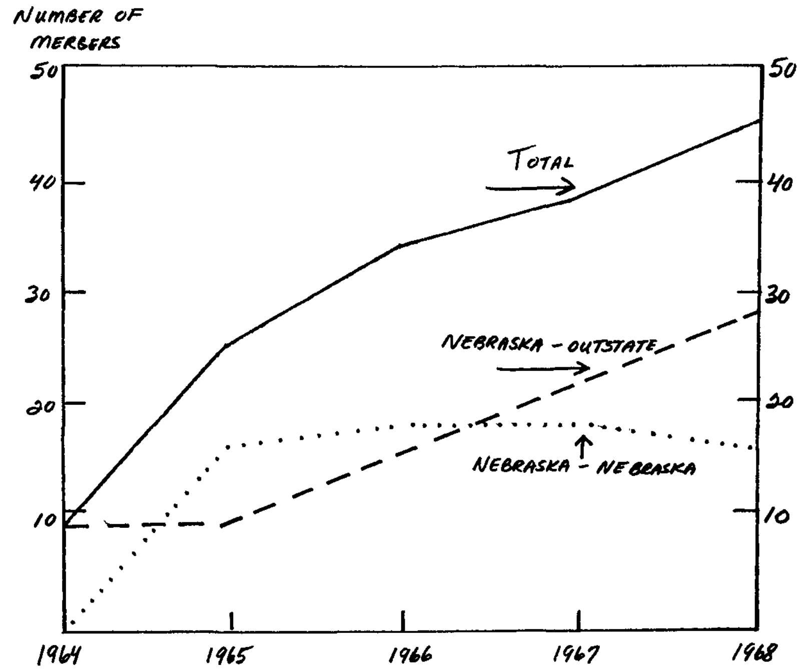
TABLE 2-4

MERGERS INVOLVING NEBRASKA FIRMS, 1964–1968

Year	Nebraska-Outstate	Nebraska-Nebraska	Total
1968	28	16	44
1967	21	17	38
1966	16	17	33
1965	9	16	25
1964	9	0	9
Total	83	66	149
Percent of Total	55.70	44.30	100.00

FIGURE 2-4

MERGERS INVOLVING NEBRASKA FIRMS, 1964–1968



During the 1955–1968 period, Nebraska firms with assets of over $129 million were acquired by members of the 200 largest United States manufacturing firms alone. Table 2-5 summarizes these acquisitions.

Table 2-6 indicates the employment size range of Nebraska firms which were acquired by corporations *located outside of the state.* Thirty-eight percent of the firms acquired are considered "small" firms in that they had fewer than 25 employees at the time of acquisition. Another 38 percent fall into the medium-sized category, and

TABLE 2-5

PUBLICLY HELD COMPANIES IN NEBRASKA ACQUIRED BY MEMBERS OF THE 1968 200 LARGEST MANUFACTURING FIRMS, 1955–1968[a]

Year of Acquisition	Name of Acquiring Co.	Name of Acquired Co.	Value in Year Prior to Acquisition (Millions)
1955	Campbell Soup Co.	C. A. Swanson and Sons	$ 25.1
1955	Consolidated Foods	Ocoma Foods Co. (Omaha Cold Storage Co.)	......
1956	Fruehauf Corp.	Independent Metal Prods. Co.	4.3
1956	Proctor and Gamble Co.	Nebraska Consolidated Mills Co. of Omaha (Division)	......
1957	Martin-Marietta Corp.	Platte Valley Cement	1.3
1960	TRW, Inc.	Good-All Electric Manufacturing Co.	3.2
1961	National Distillers and Chemical	Farm Fertilizers, Inc.	0.7
1961	Standard Oil Co. of Indiana	Imperial Casualty and Indemnity Co.	6.4
1964	Mobil Oil Corp.	Northern Natural Gas Producing	78.0
1964	Rohm and Haas Co.	Grain Belt Supply Co.	0.6
1965	Avco Corp.	Iowa Finance Co.	16.0
Total			$129.2

[a] This is only a partial list since some of the acquisitions in this category were taken from confidential sources.

SOURCE: Bureau of Economics, Federal Trade Commission.

24 percent are classified as "large" firms by virtue of employing over 100 workers.

It should be pointed out that the average Nebraska firm (subject to unemployment compensation) had only 20 employees in 1968. Therefore, most of the firms acquired by outstate corporations were larger than the typical Nebraska firm. In fact, 39 of a sample of 54 Nebraska-Outstate mergers had more employees at the time of acquisition than the average number of employees per firm within the SIC 2-digit classification of their respective industry.

Firms acquired by other Nebraska firms were, on the average, smaller in terms of employment than firms purchased by corporations residing outside of the state. In fact, the Nebraska-Nebraska mergers tended to be of two basic types. Either relatively small Nebraska firms merged or large Nebraska firms acquired medium-sized or small ones. Over 83 percent of the firms acquired by other Nebraska firms were small, i.e., they had fewer than 25 employees.

TABLE 2-6

NEBRASKA-OUTSTATE ACQUISITIONS, 1964–1968, SIZE CATEGORY OF ACQUIRED FIRM AT TIME OF ACQUISITION[a]

Employment Size Category	1964	1965	1966	1967	1968	Total
Fewer than 25	4	5	4	8	9	30
25–100	2	4	9	7	8	30
101–200	1	0	3	2	5	11
201–500	0	0	0	2	3	5
Over 500	2	0	0	0	1	3
						79

[a] Four of the 85 firms are excluded owing to a lack of employment data.

Table 2-7 indicates the size pattern of Nebraska-Nebraska acquisitions. Figure 2-5 compares mergers as to the percentage of total acquisitions within each size category.

THE NATURE OF RECENT NEBRASKA MERGERS: THE TYPE OF MERGER

As noted earlier, the recent national merger movement has been characterized by a remarkable shift toward conglomerate mergers. Conglomerate mergers composed 79.8 percent of assets acquired in large manufacturing and mining mergers during the 1964–1967 period, and 88.5 percent of such assets in 1968.

The predominance of conglomerate mergers may also be seen in the Nebraska data, particularly in connection with Nebraska-Outstate mergers.* Table 2-8 describes the Nebraska experience, 1964–1968, by type of merger; Figure 2-6 depicts each type of merger as a percentage of all mergers.

As indicated in Figure 2-6, nearly 70 percent of all Nebraska-Outstate mergers were of the conglomerate type, while only 51.56 percent of the instate mergers were of this variety. It would appear from Table 2-8 that a large majority of the Nebraska-Nebraska acquisitions were of the horizontal or quasi-horizontal variety in that 40.9 percent were horizontal and another 39.3 percent were geographic market extension. The fact that the Nebraska-Nebraska mergers generally involved small localized firms, of course, explains the predominance of horizontal-type mergers. The Nebraska-Outstate acquisitions, on the other hand, involved, for the most part, larger firms and, therefore, tended to conform more closely to the national percentages by merger type.

* Nebraska mergers were classified on the basis of National Industrial Conference Board information, 4-digit SIC codes, and a direct questionnaire sent to many of the firms involved.

TABLE 2-7

NEBRASKA-NEBRASKA ACQUISITIONS, 1965–1968, SIZE CATEGORY OF ACQUIRED FIRM AT TIME OF ACQUISITION[a]

Employment Size Category	1965	1966	1967	1968	Total
Fewer than 25	12	13	15	14	54
25–100	3	3	2	0	8
101–200	1	1	0	1	3
201–500	0	0	0	0	0
Over 500	0	0	0	0	0
					65

[a] One of the 65 Nebraska-Nebraska acquisitions is excluded owing to a lack of employment data.

TABLE 2-8

NEBRASKA MERGERS, 1964–1968, BY TYPES OF COMBINATION

Type of Merger	Nebraska-Outstate	Nebraska-Nebraska	Total	Percent of Total
Horizontal	18	27	45	30.20%
Vertical	7	5	12	8.05
All conglomerate	58	34	92	61.74
Geographic market extension	34	26	60	40.27
Product extension	15	6	21	14.09
Pure conglomerate	9	2	11	7.38
Total				100.00%

Fifty-three of the 92 conglomerate mergers occurred in 1967 and 1968, and nearly 84 percent of the Nebraska-Outstate conglomerate mergers occurred in these two years. Thus it is clear that the Nebraska merger experience, as the broader movement of which it is a part, is characterized by an increase in merger activity and a relative increase in conglomerate combinations.

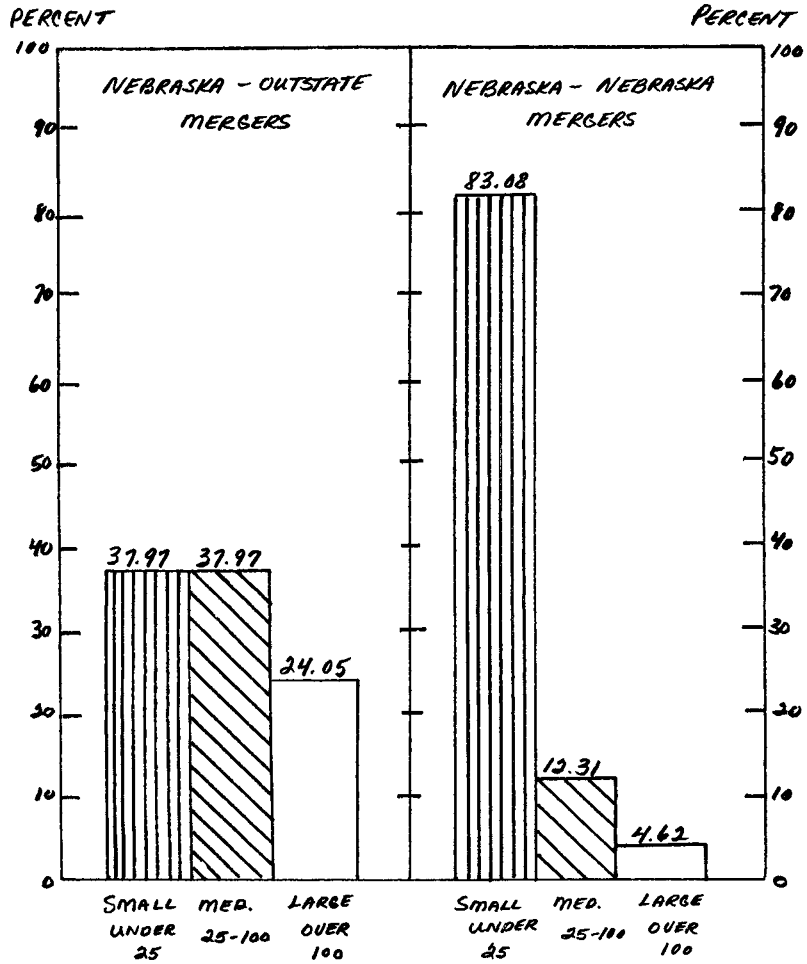
The movement away from horizontal and vertical mergers is at least partially explained by the enactment and enforcement of the Celler-Kefauver Amendment to Section 7 of the Clayton Act. This so-termed "Anti-Merger Amendment" has seemingly failed to halt the advance of the merger wave; rather it has served to change the nature of the advance.

THE NATURE OF RECENT NEBRASKA MERGERS: THE INDUSTRY OF THE ACQUIRED FIRM

The Nebraska mergers were classified by SIC 4-digit industry codes. The 4-digit codes were recorded for both the acquiring and

FIGURE 2-5

NEBRASKA-OUTSTATE AND NEBRASKA-NEBRASKA ACQUISITIONS AS A PERCENTAGE OF THEIR TOTALS BY EMPLOYMENT SIZE CATEGORY, 1964–1968

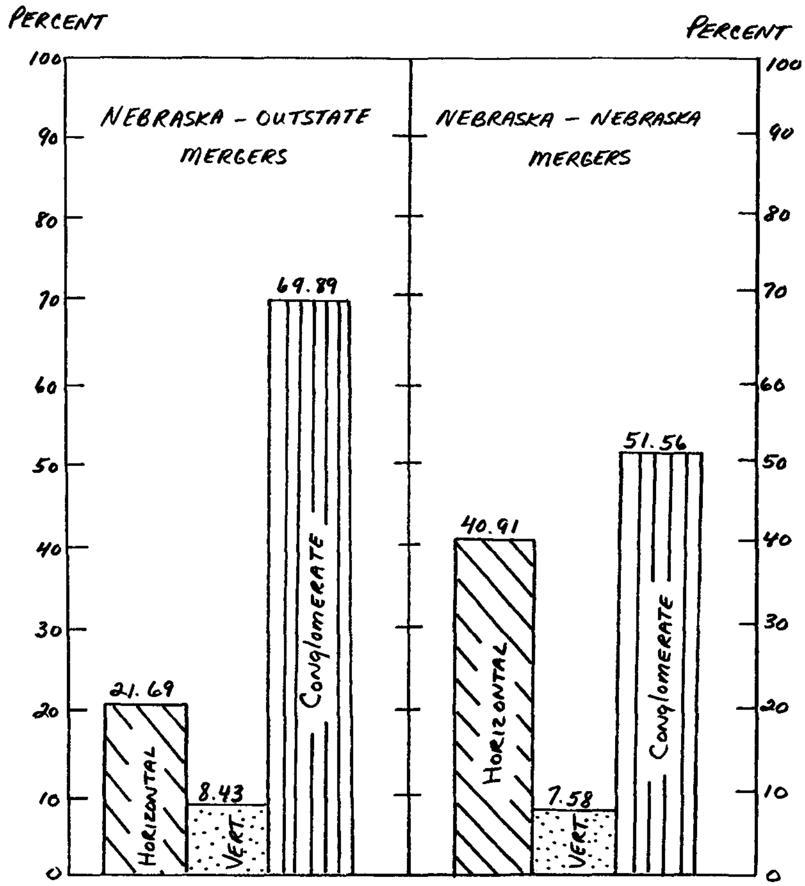


acquired firms. Owing to the vast number of these 4-digit classifications, the acquired firms were sorted into 2-digit industry classifications. The 2-digit classifications, in turn, were combined into broader industry categories.

Tables 2-9 and 2-10 reveal the broad industry categorization of the acquired Nebraska firms. Several observations may be made on the basis of these tables. First, it is clear that the industry patterns

FIGURE 2-6

NEBRASKA-OUTSTATE AND NEBRASKA-NEBRASKA ACQUISITIONS AS A PERCENTAGE OF THEIR TOTALS BY TYPE OF MERGER, 1964–1968



in both the Nebraska-Nebraska and Nebraska-Outstate acquisitions were nearly identical, except for the fact that there were four instate acquisitions within the mining and construction industries and no outstate purchases within these areas. Manufacturing acquisitions accounted for 28.79 percent of the instate purchases and 33.73 percent of the Nebraska-Outstate mergers.

Second, the Nebraska data parallel the national merger experience in that there were more acquisitions of firms within the trade and service industries than in manufacturing and mining. In fact, in 1967 and 1968, there were 50 mergers involving trade and service firms and only 22 acquisitions of mining and manufacturing con-

cerns. This is understandable since Nebraska has far fewer firms engaged in manufacturing than in selling goods and services.* Within manufacturing, 21 of 47 Nebraska acquisitions, or 44.68 percent, involved SIC code 20 (Food Products). Nationally, the food product industry has been subject to a high degree of merger activity.[8]

Thirdly, the Nebraska mergers reflect the broader trend in another respect. Thirteen mergers involved firms engaged in finance, insurance, or real estate. Several of these mergers were of the broad holding-company type. For example, Northwest Bancorporation, a bank holding company headquartered in Minneapolis, acquired Center Bank of Omaha. Berkshire Hathaway of New Bedford, Massachusetts, acquired the National Indemnity Co. and the National Fire and Marine Insurance Co., both of Omaha. Fidelity Banker's Life of Richmond, Virginia, purchased Central National Insurance Group of Omaha in 1968. Thus the recent national trend toward large mergers within the finance and insurance industries is reflected in the Nebraska experience, 1964–1968.

TABLE 2-9

BROAD INDUSTRY CLASSIFICATIONS OF NEBRASKA FIRMS ACQUIRED BY OUTSTATE FIRMS, 1964–1968

Broad Industry	1964	1965	1966	1967	1968	Total	Percent of Total
Manufacturing	4	2	9	4	9	28	33.73%
Transportation, Communications and Utilities	3	0	1	0	2	6	7.23
Trade	2	3	5	12	10	32	38.55
Wholesale	(1)	(2)	(4)	(6)	(5)	(18)	
Retail	(1)	(1)	(1)	(6)	(5)	(14)	
Finance, Insurance, and Real Estate	0	3	1	2	1	7	8.43
Services	0	1	0	3	6	10	12.05
	9	9	16	21	28	83	100.00%

Finally, it might be noted that, although Nebraska retail trade establishments outnumbered wholesale establishments 5,273 to 1,964 in 1968, acquisitions of wholesale establishments outnumbered those of retail concerns 31 to 25 over the five-year period.†

* In 1968, Nebraska had only 1,278 firms engaged in manufacturing while it had 9,972 businesses providing goods and services (firms subject to unemployment compensation).

† Includes only firms subjected to unemployment compensation.

TABLE 2-10

BROAD INDUSTRY CLASSIFICATION OF NEBRASKA FIRMS ACQUIRED BY OTHER NEBRASKA FIRMS, 1965–1968

Broad Industry	1965	1966	1967	1968	Total	Percent of Total
Mining	1	0	1	0	2	3.03%
Construction	0	1	0	1	2	3.03
Manufacturing	2	9	7	1	19	28.79
Transportation, Communications and Utilities	3	0	3	0	6	9.09
Trade	5	5	4	10	24	36.36
Wholesale	(4)	(3)	(2)	(4)	(13)	
Retail	(1)	(2)	(2)	(6)	(11)	
Finance, Insurance, and Real Estate	4	1	0	1	6	9.09
Services	1	1	2	3	7	10.61
	16	17	17	16	66	100.00%

SUMMARY AND CONCLUSIONS

The current merger movement in the United States is the longest in duration of the three major merger waves, and it has surpassed its predecessors in magnitude. The 1966–1968 portion of the current wave, in particular, has been characterized by a tremendous growth in both the number of mergers consummated and the volume of assets acquired. In addition, the nature of the recent wave of merger activity has been distinct from the two which preceded it. The recent merger scene has been dominated by conglomerate mergers and has witnessed spectacular increases in merger activity within the trade, services, finance, and insurance industries.

The Nebraska merger experience, 1964–1968, has been, in general, a reflection of the overall pattern. As many Nebraska firms were purchased by outstate corporations during this period as were acquired by other Nebraska concerns. Furthermore, the firms purchased by corporations residing outside of Nebraska tended to be relatively large firms compared with the firms purchased by instate companies and compared with the average-sized firm within their respective 2-digit industries. Conglomerate combinations dominated the Nebraska merger scene, particularly in those cases where Nebraska firms were acquired by out-of-state corporations.

III / *Merger Motives*

MERGER MOTIVES OF ACQUIRED FIRMS

The evidence presented in the preceding chapter establishes that merger activity has been a growing phenomenon during the last decade. Furthermore, this activity has increasingly involved Nebraska firms. It is the purpose of this chapter to examine possible explanations for this rapid merger advance and to explore possible motives underlying merger agreements. Of course, there are two parties to any merger agreement so merger motives of the acquired firm, as well as those of the purchaser, need to be scrutinized.

It would appear from a survey of the relevant literature that, while a great deal of attention has been devoted to merger motivations, this attention has been one-sided. That is, most discussions of merger motives are analyses of why firms desire to purchase other firms or why two relatively equal-sized corporations wish to combine. The Nebraska experience, however, is largely one characterized by large firms purchasing smaller local enterprises. In Chapter IV it will be shown that these acquired firms do *not*, on the average, appear to be failing enterprises at the time of acquisition. Therefore, it is of interest to attempt an assessment of the reasons why these local firms agree to become a part of a larger corporate structure.*

Assessing another person's motives for undertaking a particular action is a precarious business. This is particularly true with respect to merger decisions, since these decisions are often made jointly by several individuals. One individual's motive for selling control of the business may be quite different from the motives of other parties to the decision. Furthermore, in asking the decision-makers why they decided to engage in a merger, hidden motives are not likely to surface. On the other hand, it is not proper to assume that all direct responses are less than truthful. Regardless of the potential

* Some mergers, of course, result from stock takeovers which are beyond the control of the acquired firm. The discussion which follows is concerned with only those firms which willingly enter into merger agreements.

biases, expressed merger motives provide a logical starting point for a broad discussion of the complex merger-motivation question.

Expressed Merger Motives of Nebraska Acquired Firms

In order to ascertain possible motives associated with agreeing to be acquired, the author surveyed 23 executives of Nebraska firms which were acquired during the period 1964–1968. Each of these executives was associated with the acquired Nebraska firm at the time of acquisition.* Fifteen of the Nebraska firms were acquired by firms located outside of the state; eight, by other Nebraska-based concerns.

In each case, the executive was given a list of potential merger motives and was asked to check those which were applicable to his firm's merger. He was then asked to rank the applicable motives by numbering them. If motives other than those listed were involved, the respondent was asked to check "Other" and was given space to amplify on this as well as on the other choices.

TABLE 3-1

Merger Motives as Expressed by Executives of Acquired Nebraska Firms

Motives	Nebraska-Outstate		Nebraska-Nebraska	
	First Choice	Other Mention	First Choice	Other Mention
Death of owner	0	0	0	0
To solve estate tax problems	1	0	0	0
To obtain corporate or personal income tax advantages	0	0	0	1
To acquire greater financial resources	1	5	2	1
To obtain marketing advantages	0	5	1	2
To obtain research and development advantages	1	2	0	0
Product diversification	1	1	0	1
To enhance growth potential	3	1	2	4
Aging management	1	3	1	1
To obtain stock market listing	0	2	0	0
Attractiveness of acquirer's offer	5	2	1	1
To obtain production economies	0	0	0	3
Other	2	0	1	0
Total	15	21	8	14

* A total of 75, five-page questionnaires were mailed to acquired Nebraska firms. Fifty-one of the firms responded to the questionnaire. Of these 51 responses, 23 were former executives of the acquired company who thus could meaningfully answer the question dealing with merger motives of the *acquired* company. Owing to the obvious limitations of the survey technique and the nature of the sample, the author does not, of course, seek to make statistical inferences from the data. Rather the data provide an interesting starting point for a general discussion on motives.

Tables 3-1 and 3-2 describe the results of the survey. The responses are divided into Nebraska-Nebraska and Nebraska-Outstate categories.

TABLE 3-2

MERGER MOTIVES AS EXPRESSED BY EXECUTIVES OF ACQUIRED NEBRASKA FIRMS, COMBINED TABULATION

	Nebraska-Outstate and Nebraska-Nebraska		
Motives	First Choice	Other Mention	Total Mention
Death of owner	0	0	0
To solve estate tax problems	1	0	1
To obtain corporate or personal income tax advantages	0	1	1
To acquire greater financial resources	3	6	9
To obtain marketing advantages	1	7	8
To obtain research and development advantages	1	2	3
Product diversification	1	2	3
To enhance growth potential	5	5	10
Aging management	2	4	6
To obtain stock market listing	0	2	2
Attractiveness of acquirer's offer	6	3	9
To obtain production economies	0	3	3
Other	3	0	3
Total	23	35	58

AN ANALYSIS OF THE NEBRASKA SURVEY

The most cited reasons for agreeing to be acquired were the following, in descending order:

1. The enhancement of growth potential.
2. The acquisition of greater financial resources.
3. The attractiveness of the acquirer's offer.
4. The realization of marketing advantages.

Closer inspection of Table 3-2, however, indicates that the responses associated with items 1 and 4 above were mainly second-, third-, and fourth-ranked responses. In terms of first-ranked motives, "the attractiveness of the acquirer's offer," and "the enhancement of growth potential" were clearly dominant, constituting 47.82 percent of all first-choice responses.

While a diversity of merger motives was cited, there existed a conspicuous lack of responses indicating efficiency-type motives. Three such categories, "production economies," "research and development economies," and "marketing economies," were cited as first-choice motives for merging in only two of the 23 questionnaires.

Of the Nebraska-Outstate mergers involved in the survey, 68.75 percent were conglomerate. This fact apparently explains why only 6.67 percent of the executives in this group selected one of the "efficiency" motives as a first choice. Conglomerate mergers, by their very nature, enable few, if any, true economies. It is interesting to note, however, that only one of the eight Nebraska-Nebraska respondents indicated one of the "efficiency" motives as a primary reason for his merger. Inasmuch as 75 percent of these firms were engaged in horizontal or vertical mergers, a higher proportion of "efficiency" responses might have been expected.

The "product diversification" category received only a single first-choice mention from the executives of firms acquired by out-of-state corporations. This might seem strange in light of the fact that a large percentage of these mergers were conglomerate combinations. However, it must be remembered that the reasons cited are those associated with the *acquired* firm and not those of the acquiring corporation.

What might be concluded from the Nebraska survey? First, it must be remembered that the questionnaire approach is of limited usefulness. Therefore, it is extremely risky to make inferences, statistical or otherwise, from the data. However, assuming a tolerable amount of bias, one might conclude that, insofar as the acquired firms are concerned:

1. Nebraska merger motives are, in general, quite diverse.
2. Merger motives cited by involved executives tend to indicate that financial considerations, e.g., the attractiveness of the acquirer's offer, are more important than motives centering around obtaining efficiencies or economies.
3. Many of the executives surveyed were of the opinion that the merger would enhance the growth of the local firm.

THE OVERALL MERGER CLIMATE

Inasmuch as "the attractiveness of the acquirer's offer" was one of the most-cited merger motives given by executives of acquired Nebraska firms, one must examine the overall merger climate which has enabled larger corporations to advance attractive offers to smaller localized firms. In other words, one must examine the other side of the merger coin.

It would appear that the thrust of the recent merger phenomenon has come from a desire to *acquire*, as opposed to a desire to be purchased. If the limited Nebraska data are representative, it would seem that the attractiveness of the buyer's offer looms as a

large motivation in many decisions to merge. In order to be able to make an attractive offer, the acquirer must feel that the merger will result in substantial financial benefits. The questions which need to be answered, therefore, are "What financial benefits are likely to be realized from a corporate merger?" and "How are these benefits related to the current merger phenomenon?"

Mergers and the Level of Economic Activity

Merger activity is positively correlated with overall business activity. According to Willard F. Mueller, former director of the Bureau of Economics, Federal Trade Commission:

> The conclusion suggested by our analysis is this: Although there may be a variety of unique reasons underlying particular mergers, the overall rate of merger activity is associated with general economic conditions, and there appears to be a particularly close relationship between merger activity and stock prices.[1]

Business expectations are largely a function of current and expected product demand and profits. In an economic expansion, of course, current demand and profit levels are relatively high. In light of these high levels of profits and demand and in the absence of reasons to expect that the economic expansion will soon recede, corporations have an incentive to expand their operations. This expansion may take place via either internal or external corporate growth.* In many instances, institutional factors serve to encourage external growth at the expense of internal expansion. These factors will be discussed in the following sections of this chapter.

In view of the chain of causation explained above, the highly positive statistical correlation between business activity and mergers is quite logical. In essence, "prosperity accelerates mergers because it accelerates business expansion."[2]

To the extent that stock prices are a proxy of business expectations, it is not surprising to discover also the existence of a close relationship between these prices and merger activity. Furthermore, it has been pointed out that during a general upswing in stock prices disparities are likely to develop in the price-earnings ratio of various issues. As will be shown later in the chapter, such disparities encourage merger activity since instantaneous gains in earnings per share may be realized.

* Internal growth refers to new investment in plant and equipment and the expansion of existing operations. External growth refers to expansion via acquisition or merger.

The merger experience of the 1960's is thus a reflection of 1) an expanding economy, 2) increasing stock prices, and 3) institutional factors which, in many instances, encourage growth through acquisition. The tremendous upswing in merger activity in 1967 and 1968, both nationally and in Nebraska, was paralleled by vigorous economic expansion and a rising stock market.

As stated in the preceding paragraph and alluded to earlier, certain institutional biases seem to encourage mergers as a method of corporate expansion. These institutional perpetrators fall into two basic categories: tax factors and accounting factors. Each factor, in turn, often enlists the stock market as an ally.

Tax Factors Encouraging Mergers

According to the Bureau of Economics, Federal Trade Commission, "The tax laws in the United States create institutional bias in favor of merger activity. Rather than exerting a neutral influence, current tax laws actually subsidize mergers."[3]

Current tax laws subsidize mergers in a variety of ways. Perhaps the largest and most direct subsidy has resulted under Section 368 of the Internal Revenue Code. Under this statute, capital gains resulting from particular types of mergers are exempted from taxation. These "tax-free mergers" include acquisitions consummated through exchanges of voting stock. Thus, a corporation may pay a significant premium over the market value for the acquired enterprise, yet the acquired firm need pay no tax on the ensuing capital gain.[4] Thus it is little wonder that "the attractiveness of the acquirer's offer" was a leading response in the Nebraska survey. Indeed, a large portion of the attractiveness may be due directly to the tax-free nature of the transaction.

According to Federal Trade Commission data, approximately 85 percent of all the large mergers which transpired between 1963 and 1968 received tax-free treatment. Though the author did not determine how each Nebraska merger was accomplished, he did acquire such information for three of the largest Nebraska acquisitions. In each of the cases listed in Table 3-3, the merger was consummated via an exchange of stock. Since many of the Nebraska firms were acquired by large out-of-state corporations, it is safe to assume that a substantial number of these acquisitions were of the tax-free variety. However, since the Nebraska-Nebraska mergers involved on the average small, localized concerns, it is doubtful that many of these mergers involved exchanges of stock.

Another tax bias which has served to encourage mergers involves the use of debt-equity switching. If debt securities are exchanged

TABLE 3-3

THREE NEBRASKA MERGERS INVOLVING EXCHANGES OF STOCK

Year	Acquirer	Acquiree	Method of Acquisition
1964	Mobil Oil Corp.	Northern Natural Gas Producing	The outstanding stock of Northern acquired for exchange of 946,500 shares of Mobil
1964	Rayette Inc.	Tip Top Products Co.	Tip Top acquired for 483,475 shares of Rayette on basis of 2 shares of Rayette for each 9 shares of Tip Top
1968	Dravo Corp.	Hastings Industries	All shares of Hastings acquired for exchange of 77,000 shares of Dravo

SOURCE: *Moody's Industrial Journal* and *Standard and Poors.*

for the common stock of an acquired firm, tax savings are realized. This is the case since interest payments are deductible business expenses for tax purposes. The American Enterprise Institute has pointed out:

> . . . if the company taken over was conservatively capitalized and distributed its earnings in the form of dividends, it paid taxes . . . at the rate of approximately 50 percent. If it is taken over by means of debt securities, the shareholders are paid interest instead of dividends and the net income from the company taken over is increased by the tax benefit from paying interest, a deductible business expense, which amounts to about 50 percent of the interest.[5]

Also, when debt-equity switching is utilized, the capital gains tax for the seller may be deferred until the due date on the debt securities. This fact, together with the use of interest as a tax deduction, enables the acquiring firm to make "an attractive offer" to the corporation it wishes to take over.

Corporate mergers may also create superior estate-tax situations for individuals who hold controlling interest in acquired firms in the form of rather closely-held, non-marketable stock.[6] Although only a single Nebraska respondent indicated estate-tax advantages as a merger motive, this advantage is obviously a compelling motive in many small mergers. A Wisconsin survey of 20 executives of acquired firms reported that 25 percent of the respondents mentioned estate-tax advantages as a merger consideration.[7]

Yet an additional set of tax biases which has served to encourage mergers in the United States involves tax losses and tax credits. Losses, of course, may be carried forward and utilized as tax deductions against income. In industries characterized by high degrees of obsolesence of plant and equipment and, therefore, by large losses, individual firms have an incentive to find a merger partner which has sufficient income to utilize the losses as tax deductions. Under current corporate tax schedules, "every dollar of profits, net after taxes, earned by an acquired corporation is worth $2 in the shelter of an acquiring tax loss corporation."[8]

In the same vein, investment tax credits have served to induce merger activity. In the computer, airline, and equipment leasing industries, in particular, where there have been large investment expenditures, mergers have been encouraged. This has been the case since a corporation desires to have sufficient income against which it can apply all of its investment tax credits.[9]

It is obvious from the above discussion that the tax structure in the United States has been a definite factor underlying the "urge to merge." As will be noted in the following section, however, additional institutional biases exist which tend to encourage corporate mergers.

Accounting Factors Encouraging Mergers

The fact that "generally accepted accounting procedures" include a wide range of alternative practices has allowed the use of reporting techniques designed to maximize the apparent gains from mergers. Since the specific method of accounting may change from one period to another, financial statements may be made to give an appearance of large gains in profits, assets, and sales, when these gains may be due solely to acquisitions. Thus mergers, in effect, are encouraged since they enable a corporation to have an appearance of a vigorously growing concern.

The fact that conglomerate firms usually publish financial reports on a consolidated basis masks the profitability of the individual components and camouflages internal difficulties. As a result, the true effectiveness of the conglomerate management may be judged improperly.[10]

One of the most abused accounting techniques has been pooling of interests. When a merger is consummated through the exchange of stock, the book value of the assets of the acquired firm is simply added to the book value of the acquiring company. The true market value of the acquired firm, however, is usually substantially

greater than its book value. As a result, the acquiring firm is able to list the value of the acquired assets at less than the real cost. These supppressed values produce revenues, however, and since they are the basis of rate of return computation, the earnings of the firm are exaggerated.[11]

Even greater earnings distortions occur when conglomerates sell a previously acquired firm. Since the costs of acquiring the firm were suppressed, the sale generates "instant earnings." These "earnings" occur whenever the book value of the assets of the firm is less than the sale price.[12]

An alternative accounting procedure also may be used to distort true economic values. The purchase accounting method records the costs of acquired assets in amounts equal to their book values and records the excess paid over this amount to a static account entitled "goodwill." The end result may be much the same as under the pooling method. Costs may be suppressed and rates of return inflated.[13]

Mergers may contribute to illusory earnings growth in yet another manner. Instantaneous gains may be realized whenever the price-earnings ratio of the acquired firm is less than that of the acquiring company.[14]

A simple example may illustrate the validity of this statement. Assume company A, a conglomerate, is the acquiring firm while B is the acquiree. Assume also that each firm has an annual income of $1,000 and each has two shares of stock outstanding. Both firms, therefore, have earnings per share of $500. Assume that A is a "growth conglomerate" and has a price earnings ratio of 20, while B has one of 10. Each share of A's stock would be selling for $10,000 (20 x $500). On the other hand, the market value of each of B's shares would be $5,000 (10 x $500). The combined value of B's two shares would be $10,000.

Company A is able to acquire company B for a single share of A. The conglomerate prints a third share, valued at $10,000, and gives it to B whose shareholders are delighted to exchange their $10,000 worth of stock in B for the $10,000 worth of stock in A.

Now one may begin to see the emergence of the instant earnings. A has three shares of stock outstanding and earnings of $2,000. Earnings per share, therefore, are no longer $500 but $667. The new price for each share is $13,340 (20 x $667). Thus, as a result of the merger, earnings per share and price per share have increased.[15]

Since the stock market appears to reward increases in earnings per share regardless of how these increases are achieved,[16] external

agerial efficiency. In view of several studies which indicate that external growth oriented firms are not typically more profitable than internal growth firms, it would appear that the "synergy" contention also has very little, if any, solid empirical support.[23]

Diversification may provide certain financial advantages to corporations, but it is certainly doubtful that any true economies are achieved. For example, it has been shown that no significant relationship exists between the degree of diversification and the amount of expenditures on research and development.[24] Nor is there a systematic relationship between diversification and inventive output.[25] With respect to the synergy or efficiency contention, the author must concur with the *FTC Staff Report* conclusion that: "The balance of evidence so far available lends little support to the view that the current merger movement reflects, in substantial measure, efforts to exploit opportunities to improve efficiencies in resource allocation.[26]

The Size Maximization Motive

A very interesting hypothesis concerning merger motivation has been advanced and tested by Samuel R. Reid. It is Reid's contention that "firms which frequently utilize conglomerate mergers in their growth strategy tend to be size-maximizers rather than profit-maximizers and are engaging in a distinct form of 'conspicuous investment.' "[27]

Professor Reid supports his hypothesis through an extensive empirical study in which he isolates successfully various effects of growth strategies. Using analysis of variance, he found that firms engaged in conglomerate mergers dominated all of the size-related variables while internal growth firms performed better in "profit-to-stockholders" variables.[28]

Reid also made separate tests utilizing distinct subsets of the conglomerate group. Three subgroups were established. One subgroup was labeled "offensive" conglomerates. This group was composed of conglomerates which were extremely aggressive in their approach to external expansion. These firms were dominated by finance-oriented management and displayed nearly unbelievable short-run growth rates. A second subgroup was composed of firms which did not appear to be following a planned diversification strategy but occasionally undertook a conglomerate acquisition. This subgroup was entitled the "unique" conglomerates. A final subgroup, "defensive" conglomerates, included firms which diversified into other industries owing to the declining nature of the demand for their basic product.

The analysis of variance technique revealed that each of the size-related variables "strongly favored the 'offensive' conglomerate and each was statistically significant."[29] When the conglomerate subgroups were compared to the internal growth subset with respect to the usual profit maximization variables, the latter group evidenced a clear superiority.

If personal managerial rewards are more closely tied to firm size than to profitability, and ownership and control are separate, a plausible rationale for the recent merger wave is established. Professional managers, according to this hypothesis, being personal gain maximizers, pursue corporate acquisitions even when such business transactions are unprofitable in the usual economic sense.

At first glance, the "Reid hypothesis" would appear to contradict the tax, accounting, and stock market motives. For if external growth oriented corporations are not profit maximizers, one might argue that they would not be induced by motives which are based upon greater profitability. However, on closer inspection, it becomes clear that a reconciliation of these seemingly contradictory hypotheses may be achieved.

The reconciliation requires a modification of the pure revenue or size maximization hypothesis. The Baumol constrained-revenue maximization model,[30] for example, is consistent with the combined motives. In this model it is assumed that the firm will maximize revenue subject to a minimum or "satisficing" rate of return on investment. Given the tax, accounting, and stock market advantages associated with merger, the firm is able to engage in an otherwise unprofitable merger, yet realize the financial gains arising from these factors. These gains serve to offset the basic unprofitable nature of the acquisition and, as a result, allow profits to remain at an overall "satisficing" rate. In addition, of course, the firm expands its total size and revenue, and the professional management is rewarded accordingly.

The Baumol model enables one to maintain the tax, accounting, and stock market factors as important merger motives. These factors, in effect, allow the size maximizing firm to make an attractive offer, yet maintain a satisficing profit level while pursuing a policy of external expansion.

The Relative Growth of the Conglomerate Merger

The foregoing discussion of various merger motives sheds considerable light on the underlying reasons for the tremendous merger surge of the last two decades. However, the discussion, at first glance, seemingly fails to direct itself to the question, "Why has the third

The analysis of variance technique revealed that each of the size-related variables "strongly favored the 'offensive' conglomerate and each was statistically significant."[29] When the conglomerate subgroups were compared to the internal growth subset with respect to the usual profit maximization variables, the latter group evidenced a clear superiority.

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merger movement increasingly become conglomerate in nature?" The answer to this question lies embedded within the general discussion of merger motives.

The nature of the institutional factors encouraging merger, as well as the nature of the legal restraints on merger activity, have served to channel the recent merger movement toward unrelated diversification. The Celler-Kefauver Amendment to Section 7 of the Clayton Act, as was alluded in Chapter III, does not appear successfully to have suppressed the current merger wave. However, this so-termed "anti-merger amendment" has been at least partially responsible for changing the nature of the merger movement. Specifically, the evidence indicates that horizontal and vertical mergers have come under at least moderate attack by the Federal Trade Commission and the Justice Department.* This attack, so the argument goes, has led many corporate executives to believe that horizontal and vertical mergers invite federal investigation. As a result, corporations much prefer the conglomerate merger as a means to expand their corporate control.[31]

Although granting that the "anti-merger amendment" has been of considerable influence in directing the merger wave toward conglomerates, this explanation, taken alone, is insufficient. Rather, the institutional factors which have encouraged mergers (in general) have encouraged conglomerate type mergers to an even greater extent. The tax advantages discussed earlier in the chapter, for example, are often of such a nature that a firm by necessity is forced to go outside its own industry to find a partner. This is particularly true if tax loss carryovers or investment tax credits are involved. Also, given the advantages associated with debt-equity switching, a conservatively capitalized firm, regardless of its industry, is a potential target. When a "good buy" of this nature arises, one takes it. If the firm happens to be in another industry, so be it.

The accounting factors, in particular, have encouraged conglomerate mergers. The fact that firms of diverse product line are brought together allows greater flexibility in achieving "accounting earnings" since it becomes nearly impossible for investors to determine what each part is contributing to the whole. Likewise, the desire for instantaneous gains in earnings per share, via mergers involving firms with low price earnings ratios, compels firms to look throughout American industry for merger partners rather than to limit the horizon to one's own particular industry.

* Since the enactment of the Celler-Kefauver Act, over 800 mergers have been challenged, practically all of which were horizontal, vertical, or market-extension.

The desire to place oneself in a position which will allow cross-subsidization may also be an important factor in the conglomerate merger phenomenon. Also, the size-maximization hypothesis lends itself readily as an explanation for the growth of conglomerates. Firms wishing to maximize size, revenues, and corporate power must look beyond their own industry if they are successfully to avoid antitrust action. Furthermore, if these firms are indeed empire-builders, the conglomerate structure provides a remarkable base of economic power and prestige.

Summary and Conclusions

It would appear that the conglomerate nature of the current merger wave is due largely to a new set of merger motives. These motives are not as *directly* anticompetitive as were the motives underlying the first two merger movements. Nor do they revolve around a desire to achieve economies. Since this is the case, and since the inducements seem to be so compelling, the acquiring firm is largely indifferent to the industry classification of the potential partner. It would appear that the urge to merge transcends product lines as it does broad industry classifications.

Rather than being *forced* toward a conglomerate nature by the Celler-Kefauver Amendment, the current merger wave has been largely *drawn* toward that nature by the conglomerate's unique ability to maximize revenues and managerial income, maximize investors' capital gains, and satisfice actual economic profits.

The desire to find a merger partner is a complex one. It would appear that a diversity of merger motives exists and that each merger may be undertaken for a variety of reasons. However, it appears that institutional biases promote mergers by rewarding external expansion. These rewards, in turn, allow the purchaser to make extremely attractive offers to the potential acquiree. In many instances, the desire to acquire is based upon a constrained revenue maximization motive. The empirical evidence seems to suggest overwhelmingly that few true economies of scale are associated with most large mergers.

IV / *Local Employment and Payroll Effects of Corporate Acquisitions*

As stated in Chapter I, the conventional wisdom with respect to local impacts of merger activity contends that acquired firms are typically slowly growing, poorly managed concerns. Upon acquisition, new management, together with new and larger sources of capital, serve to re-invigorate the local operation. As a result, according to this widespread belief, profits, employment, and payrolls will likely expand following the acquisition. This expansion will produce multiplicative economic benefits within the community of the acquired firm.

The proponents of the conventional wisdom, of course, do not suggest that local acquisitions will be beneficial in all instances. Nor would they contend that no negative effects exist. Rather, adherents of this view believe that, in general, net local benefits will be highly positive.

The Wisconsin Merger Study

The Wisconsin merger study indirectly tested the conventional wisdom by examining pre- and post-merger employment and payroll data.[1] This study found that "the average pre-merger Wisconsin employment growth rate of out-of-state acquired firms was 6.02 percent. Following the mergers, their employment growth rate declined to −.48 percent."[2] Payrolls also were adversely affected by the acquisitions. The pre-merger aggregate payroll growth rate among firms acquired by out-of-state corporations was 10.47 percent; the post-merger rate, 3.68 percent.

The Wisconsin findings cast considerable doubt upon the general validity of the conventional wisdom. These results are less than conclusive, however. Methodological weaknesses in the Wisconsin research serve to leave unanswered the question of local employment and payroll impacts of corporate acquisitions.

The most serious weakness in the Wisconsin methodology is that conclusions were based exclusively upon comparisons of pre- and post-merger growth rates. Cyclical fluctuations were ignored

on the contention that the period under study, 1960–1968, was basically one of general economic expansion. Indeed, cyclical fluctuations were relatively slight during this period. However, cyclical and/or secular trends within individual industries may run counter to overall cyclical and secular trends.

Thus, data indicating that the acquired firms did not grow, on the average, as rapidly as they had grown before the merger do not isolate the merger as the causative factor. Perhaps a significant number of the acquired firms were in industries which witnessed declining employment and payroll growth rates during the period. If this were the case, the acquired firms would show a decrease in their aggregate average post-merger growth rate. Yet these firms may have experienced employment and payroll growth at rates equal to or greater than the majority of the firms in their respective industries. "Before" and "after" comparisons simply fail to exclude numerous potential causative factors and thereby do not isolate the true merger effects.

Other weaknesses in the Wisconsin study are apparent. One has no way of knowing, for example, if observed differences in growth rates are statistically significant or are sampling variations within the larger Wisconsin merger movement. Also, the Wisconsin research lacks adequate economic analysis of its findings. One is left with no rationale to explain the indicated results.

Nebraska Study Methodology

The Wisconsin research results, however, regardless of their limitations, definitely offer a clear alternative *hypothesis* to the conventional wisdom. The Wisconsin study has raised an important issue, and the Nebraska findings shed additional light upon it.

Obviously, that which is true for acquired firms located in Nebraska need not be true for firms in other states. However, as will be shown in Chapter V, the recent Nebraska merger experience appears to be typical of the acquisition patterns involving firms in other sparsely populated neighboring states. The Nebraska merger sample is believed to be highly representative of the larger population of acquired firms within the Midwestern region. As a consequence, inferences transcending the actual Nebraska experience are drawn.

As described in Chapter II, 149 Nebraska mergers were identified as having occurred during the 1964–1968 period. A sample of 90 acquired firms was drawn for purposes of testing the employment and payroll impacts of the mergers. Fifty-one of the 90 acquisitions consisted of Nebraska firms acquired by out-of-state corporations

and the remaining 39 involved the acquisition of one Nebraska firm by another.

Employment and 4th quarter payroll data were collected on each of the acquired firms in the sample. These data were obtained through the Research and Statistics Department of the Division of Employment, State Labor Department. All Nebraska firms covered under unemployment compensation laws are required to file employment and payroll reports to this agency on a regular basis. December employment and 4th quarter payroll data were utilized since these data had the advantage of usually being post-merger data in the year of the merger.

The use of December and 4th quarter data did not bias the study. Average annual rates of change in employment and payroll, not changes of employment or payroll within a single year, were employed in the statistical tests. Since December and 4th quarter data were used consistently in computing these rates of change, seasonality is of no consequence. The annual rates of change, so computed, will logically approximate those employing data from any other single month.

Employment and payroll data were collected for five years prior to each merger and for five years following it. In the case of 1967 mergers, data for only four post-merger years were available; for 1968 acquisitions, three post-merger years.*

Once these data were collected, both pre- and post-merger average annual rates of change were computed. The average annual rate of change is equivalent to r in the following equation:

$$1 + r = (Y/X)^{1/n} \text{ where,}$$

X = original value, Y = new value, and n = the number of years between values. The sum 1 + r, of course, is simply the geometric mean of the annual relative changes.†

Since the author desired to eliminate the methodological weaknesses of the Wisconsin study, each acquired Nebraska firm was matched against a hypothetical average firm in its industry. For each of the appropriate years, SIC 2-digit aggregate December employment and 4th quarter payroll data were collected. These data were divided by the number of firms within each industry at each time period. This, of course, yielded an average December employment

* Since the data are from December, the year of the merger is a post-merger year.

† This equation is an alternative presentation of the familiar discounting formula. The need for computing a geometric mean, in fact, arises from the need to take compounding into consideration.

figure and an average 4th quarter payroll figure for each 2-digit industry in each appropriate year. It was then possible to compute the growth rates for average firms and match them against the growth rates of the acquired firms.*

An example will perhaps clarify the matching process. Company A was acquired in April of 1966. Its 4-digit SIC classification was 5824. The pre-merger employment growth rate, 1961–1965, was computed as was the rate of growth of the hypothetical average firm in SIC industry 58. The same five-year period was utilized in computing each growth rate. In a similar manner, pre-merger and post-merger payroll growth rates were computed for both the acquired firm and its hypothetical industry counterpart.

The correlated match technique allowed one to test statistically the hypotheses under question. If the conventional wisdom was valid, the mean *pre-merger* growth rates of the acquired firms should have been significantly smaller than those of the match group. On the other hand, the mean *post-merger* employment and payroll rates of the acquired firms should have been equal to, or greater than, the mean rates of the hypothetical firms.

If merged firms were typical of other Nebraska firms with respect to growth rates, either pre- or post-merger, then one would have expected to find no significant difference between the mean growth rate of such firms and the mean growth rate of the hypothetical average firms. That is, the mean of the differences between the rates of the two groups would have been approximately zero. Since the hypothetical firms displayed the average characteristics of their industries, approximately one-half of the acquired firms should have had growth rates greater than these hypothetical firms; the other half, smaller rates.

The above tendency allowed the author to employ statistical techniques which test the differences between group means. Specifically, two-tailed, correlated matched-pair t tests were utilized. In each test the null hypothesis was zero difference between means, $\mu_X = \mu_Y$. The alternative hypotheses were $\mu_X < \mu_Y$ and $\mu_X > \mu_Y$. The

* SIC 2-digit industry data were utilized in computing the growth rates of the hypothetical average firms because they were available. Since the 2-digit industries were quite broad, the hypothetical average firms had heterogeneous natures. However, the employment of 4-digit aggregate data would have necessitated prohibitively time-consuming and costly computations. Furthermore, many 4-digit Nebraska industries were composed of only a few firms. As a result, the growth rates of the hypothetical average firms in these 4-digit industries might have been influenced unduly by entry and exit of firms. The 2-digit industries had the advantage of being sufficiently broad to include numerous Nebraska firms.

decision to retain or reject the null hypothesis was made at the .10 level of significance.

The 90 firms in the sample were divided into two basic groups, Nebraska-Nebraska and Nebraska-Outstate acquisitions. These main groups were divided into subgroups based upon firm size, broad industry classification, and type of merger. In all, 136 matched-pair t tests were performed. These tests required the computation of approximately 1,000 separate average annual growth rates.

Data Problems

A troublesome methodological problem was encountered with respect to the Nebraska-Nebraska merger data. When a Nebraska firm acquired another Nebraska firm, subsequent employment and payroll reporting was of two types. Some of the merged firms continued to report employment and payroll for both of the individual units. When this was the case, no problem occurred. However, many of the merged firms "pooled interests" and thus reported a single, combined employment and payroll. When this occurred, post-merger growth rates included the growth of both the acquired and acquiring units. This fact made it impossible to determine the portion of the post-merger growth rate which was attributable to the acquired component.

Matched-pair t tests were performed for the pre-merger growth rates of both the *acquiring* and *acquired* units in the Nebraska-Nebraska cases. However, since the majority of post-merger rates involved the combined growth of the components of the merged firms, the post-merger Nebraska-Nebraska analysis is somewhat limited.

Fortunately, as will be shown in the following chapter, the Nebraska-Outstate mergers, as opposed to the Nebraska-Nebraska ones, are of primary economic concern. The Nebraska-Nebraska acquisitions generally involved small acquirees, and business control remained within the state.

The Nebraska-Outstate acquisitions did not present the data problems associated with the instate mergers. Nearly all of the outstate acquisitions involved acquiring firms which did not have Nebraska operations prior to their acquisition. In most of those cases in which pre-merger Nebraska operations did exist, the firms continued to file separate reports for the acquired firms.

Pre-Merger Growth Rates: Nebraska-Outstate Acquisitions

The matched-pair t tests on the Nebraska-Outstate employment and payroll data do not support the contention that acquired firms

are typically slow-growing concerns. Table 4-1 reports the results of the Nebraska-Outstate pre-merger employment tests; Table 4-2, the results of the payroll tests. In each of the tables, and those which follow, n = number of pairs, X = sample mean of average annual change for the test group, Y = sample mean of average annual change for the match group, t = test statistic, μ_D = the population difference between μ_X and μ_Y. All italicized t values indicate significant differences at, or below, the .10 level.

As shown in Table 4-1, the mean annual pre-merger employment growth rate of 51 Nebraska firms acquired by out-of-state firms was 1.257 percent. The mean growth rate of the hypothetical average firms was 1.656 percent. This slight difference was not statistically significant. The null hypothesis, zero difference between means, was therefore retained with 90 percent confidence in the correctness of the decision.

Of course, the retention of the null hypothesis, in itself, does not allow one to reject the alternative hypotheses. The width and position of the confidence interval, however, allows one to conclude that the two groups are not sufficiently different to accept the conventional wisdom. The interval tends to suggest that the mean difference of the populations is near the hypothesized location (zero).

Table 4-1 also indicates the results of several subgroup tests. In each instance, the null hypothesis was retained. It might be noted that acquired firms which were involved in product extension mergers were characterized by a very rapid pre-merger employment growth rate while firms involved in horizontal, vertical, and geographic market extension combinations had slightly negative annual growth rates. In each instance, however, the differences between the test groups and their matched pairs were not found to be statistically significant.

The results of the payroll tests as shown in Table 4-2 yield similar conclusions to those inferred from the pre-merger employment tests. The average annual pre-merger payroll growth rate of the 51 acquired firms was 6.958 percent while the pre-merger rate of the matched group was 4.929 percent. Though this difference was not significant and the null hypothesis was retained (along with the alternative hypotheses), the location of the confidence interval once again serves to discredit the contention that acquired firms are usually slow-growing or dying enterprises.

In conclusion, it would appear that firms acquired by non-Nebraska corporations are typical Nebraska firms insofar as pre-

TABLE 4-1

RESULTS OF NEBRASKA-OUTSTATE PRE-MERGER EMPLOYMENT
T TESTS FOR MATCHED PAIRS

Test Group	X	Y	t	Decision
All Firms (n = 51)	1.257	1.656	−0.619	Retain $\mu_X = \mu_Y$
	Conf$(-1.483 \leq \mu_D \leq +.687) = 90\%$			
Type				
Horizontal and Vertical (n = 11)	−0.797	0.408	−0.471	Retain $\mu_X = \mu_Y$
Geographic Market Extension (n = 19)	−0.990	0.962	−0.903	Retain $\mu_X = \mu_Y$
Product Extension (n = 14)	6.515	3.823	0.954	Retain $\mu_X = \mu_Y$
Pure Conglomerate[a]	0.065	1.167	....	....
Broad Industry				
Manufacturing (n = 22)	1.610	2.223	−0.481	Retain $\mu_X = \mu_Y$
Trade (n = 14)	3.051	0.328	1.000	Retain $\mu_X = \mu_Y$
Services (n = 15)	−0.936	2.049	−1.039	Retain $\mu_X = \mu_Y$
Employment Size of Acquired Firm				
Over 100 (n = 19)	1.256	3.147	−0.844	Retain $\mu_X = \mu_Y$
Under 100 (n = 32)	1.257	0.771	0.320	Retain $\mu_X = \mu_Y$

[a] No test performed because of the small sample size.

merger growth of employment and payroll is concerned. This is of course a "general" conclusion. Obviously some acquired firms are slowly growing or negatively growing concerns; others are very rapidly expanding companies. The former, however, certainly do not appear to outweigh the latter.

PRE-MERGER GROWTH RATES: NEBRASKA-NEBRASKA ACQUISITIONS

Tables 4-3 and 4-4 report the results of the Nebraska-Nebraska pre-merger employment and payroll tests, respectively. These tables reveal that the average *acquiring* Nebraska firm was growing faster than the typical Nebraska acquiree. This was particularly true for pre-merger *payroll* growth. Although the acquiring firms in the sample were growing at average annual employment and payroll rates of 2.920 and 6.641 percent respectively, and their matched

TABLE 4-2

RESULTS OF THE NEBRASKA-OUTSTATE PRE-MERGER PAYROLL
T TESTS FOR MATCHED PAIRS

Test Group	X	Y	t	Decision
All Firms (n = 51)	6.958	4.929	0.877	Retain $\mu_X = \mu_Y$
	Conf$(-1.932 \leq \mu_D \leq +5.990) = 90\%$			
Type				
Horizontal and Vertical (n = 11)	3.946	4.448	–0.183	Retain $\mu_X = \mu_Y$
Geographic Market Extension (n = 19)	7.819	3.648	0.760	Retain $\mu_X = \mu_Y$
Product Extension (n = 14)	9.859	7.244	0.791	Retain $\mu_X = \mu_Y$
Pure Conglomerate[a] (n = 7)	3.553	4.705	....	....
Broad Industry				
Manufacturing (n = 22)	6.505	5.653	0.499	Retain $\mu_X = \mu_Y$
Trade (n = 14)	5.959	4.202	0.567	Retain $\mu_X = \mu_Y$
Services (n = 15)	8.554	4.553	1.510	Retain $\mu_X = \mu_Y$
Employment Size of Acquired Firm				
Over 100 (n = 19)	10.077	6.062	0.748	Retain $\mu_X = \mu_Y$
Under 100 (n = 32)	5.106	4.257	0.440	Retain $\mu_X = \mu_Y$

[a] No test performed owing to the small sample size.

pairs were expanding at mean rates of 0.420 and 3.805, these differences were not found to be statistically significant. This was also the case in the tests involving the *acquired* firms.

The test of all acquired firms does not allow one to conclude that such firms have slower growth rates than do typical non-acquired firms. In one of the subgroup tests, however, the null hypothesis was rejected. Those Nebraska firms engaged in "Trade" displayed a statistically lower mean annual pre-merger payroll growth rate than did their control group. The test group had a mean of −4.322 while the match group possessed a mean of 4.147. It may be concluded with 90 percent confidence that Nebraska firms engaged in trade which were acquired by other Nebraska firms typically had relatively small or negative rates of payroll growth prior to their acquisitions.

TABLE 4-3

RESULTS OF NEBRASKA-NEBRASKA PRE-MERGER EMPLOYMENT t TESTS FOR MATCHED PAIRS

Test Group	X	Y	t	Decision
All Acquiring Firms (n = 30)	2.920	0.420	1.409	Retain $\mu_X = \mu_Y$
	Conf($-.517 \leq \mu_D \leq +5.515$) = 90%			
All Acquired Firms (n = 39)	−0.181	−0.009	−0.099	Retain $\mu_X = \mu_Y$
	Conf($-3.705 \leq \mu_D \leq +3.361$) = 90%			
Type (Acquired Firm)				
Horizontal and Vertical (n = 20)	0.532	−0.213	0.378	Retain $\mu_X = \mu_Y$
Conglomerate (n = 19)	−0.405	0.206	−0.205	Retain $\mu_X = \mu_Y$
Broad Industry				
Manufacturing[a] (n = 14)	2.917	−0.683	1.522	Retain $\mu_X = \mu_Y$
Trade (n = 17)	−4.482	0.492	−1.746	Retain $\mu_X = \mu_Y$
Services[b] (n = 8)	4.787	0.840	....	....

[a] Includes mining.

[b] No test performed because of the small sample size.

TABLE 4-4

RESULTS OF NEBRASKA-NEBRASKA PRE-MERGER PAYROLL t TESTS FOR MATCHED PAIRS

Test Group	X	Y	t	Decision
All Acquiring Firms (n = 30)	6.641	3.805	1.596	Retain $\mu_X = \mu_Y$
	Conf($-.190 \leq \mu_D \leq +5.862$) = 90%			
All Acquired Firms (n = 39)	1.682	3.538	−0.955	Retain $\mu_X = \mu_Y$
	(Conf($-5.141 \leq \mu_D \leq +1.429$) = 90%			
Type (Acquired Firm)				
Horizontal and Vertical (n = 20)	1.003	3.500	−1.065	Retain $\mu_X = \mu_Y$
Conglomerate (n = 19)	1.916	3.580	−0.522	Retain $\mu_X = \mu_Y$
Broad Industry				
Manufacturing[a] (n = 14)	3.717	2.684	0.655	Retain $\mu_X = \mu_Y$
Trade (n = 17)	−4.322	4.147	*−3.162*$^{(.01)}$	Accept $\mu_X < \mu_Y$
Services[b] (n = 8)	11.003	3.739	....	....

[a] Includes mining.

[b] No test performed because of the small sample size.

It should be noted that the pre-merger *employment* growth rate for acquired firms engaged in trade was also strongly negative. Nevertheless, the null hypothesis was accepted in the employment case.

Returning to Tables 4-1 and 4-2, one may see that the significant mean difference in the Nebraska-Nebraska "Trade" group is peculiar to the Nebraska-Nebraska acquisitions. The "Trade" firms which were acquired by non-Nebraska corporations did not have mean growth rates significantly smaller than their matched pairs.

No test was performed on the Nebraska-Nebraska "Services" subgroup owing to the small sample size, but the firms in the sample possessed extremely rapid mean pre-merger employment and payroll rates relative to their hypothetical average industry counterparts.

Interestingly, the pre-merger mean rates of firms acquired by non-Nebraska corporations exceeded those acquired by other Nebraska concerns in nearly every case. At the same time, the industry rates were generally slower in the Nebraska-Nebraska cases. A logical interpretation of the latter difference is that Nebraska firms acquired by other Nebraska firms were typically in slower growing industries than were those firms acquired by non-Nebraska corporations.

The conventional wisdom may be descriptive of small localized mergers as evidenced by the "Trade" category in the Nebraska-Nebraska tables. Though the null hypothesis was retained in all but one of the pre-merger Nebraska-Nebraska tests, the alternative hypothesis (the conventional wisdom) need not be rejected. The Nebraska-Nebraska pre-merger experience is much less conclusive than the Nebraska-Outstate experience.

Post-Merger Growth Rates: Nebraska-Outstate Acquisitions

If corporate acquisitions of Nebraska firms by non-Nebraska corporations served to accelerate the growth of the Nebraska firms, one would expect to discover that their average post-merger employment and payroll growth rates would exceed both their pre-merger rates and those of average firms within their industries. This is definitely not the case. In fact, the opposite is true. The Nebraska-Outstate firms in the sample had substantially faster pre-merger rates than post-merger, and of even greater consequence, their post-merger rates were significantly smaller than those of the industry control group.

Table 4-5 compares the pre- and post-merger employment and payroll rates of firms acquired by non-Nebraska corporations. In

both the employment and payroll cases, post-merger rates were substantially lower than pre-merger ones. The 51 firms in the sample were growing at an average annual pre-merger employment rate of 1.257 percent. The mean post-merger rate declined to −8.353 percent. The average annual pre-merger payroll rates for the acquired firms was nearly 7 percent; the post-merger rate, −1.592 percent. Similar results were discovered in each of the test subgroups. For example, the firms acquired in product extension mergers were growing at a pre-merger rate of 6.515 percent while their post-merger growth averaged −10.154 percent.

The results reported in Table 4-5, of course, do not conclusively demonstrate the true merger effects. In the case of the 1966–1968 mergers, 1970 employment and payroll data were utilized as

TABLE 4-5

COMPARISONS OF NEBRASKA-OUTSTATE PRE- AND POST-MERGERS EMPLOYMENT AND PAYROLL GROWTH RATES

Test Group	Employment Growth Rate		Payroll Growth Rate	
	Pre-Merger	Post-Merger	Pre-Merger	Post-Merger
All Firms (n = 51)	1.257	-8.353	6.958	-1.592
Type				
Horizontal and Vertical (n = 11)	-0.797	-9.338	3.946	-4.862
Geographic Market Extension (n = 19)	-0.990	-6.646	7.819	1.548
Product Extension (n = 14)	6.515	-10.154	9.859	-3.267
Pure Conglomerate (n = 7)	0.065	-7.834	3.553	-1.622
Broad Industry				
Manufacturing (n =22)	1.610	-11.085	6.505	-5.249
Trade (n = 14)	3.051	-9.982	5.959	-3.292
Services (n = 15)	-0.936	-2.826	8.554	5.360
Employment Size of Acquired Firm				
Over 100 (n = 19)	1.256	-8.932	10.007	-1.552
Under 100 (n = 32)	1.257	-8.633	5.106	-1.615

the final post-merger figures in calculating post-merger growth rates. Therefore, these rates reflect the impact of the 1970 recession.

The matched-pair tests eliminated this problem, however. Since the post-merger growth rates of the hypothetical average firms also were based upon 1970 data for the 1966–1968 mergers, the post-merger comparisons between these hypothetical firms and the acquired firms eliminated the cyclical problem. The post-merger matched-pair technique sufficiently isolated the true merger effects.* Tables 4-6 and 4-7 report the results of the post-merger employment and payroll tests.

As may be seen in Table 4-6, corporate mergers involving non-Nebraska acquirers appear to have had adverse impacts upon the employment growth of the acquired firms. It should be recalled that the mean *pre-merger* employment growth rates of the test and control groups were found to be near the hypothesized location ($\mu_D = 0$). In other words, acquired Nebraska firms had pre-merger employment growth rates very similar to typical Nebraska firms. This was not the case post-merger. With 90 percent confidence, one may conclude that post-merger employment growth rates of acquired firms typically are significantly smaller than average Nebraska firms.

During the post-merger years, the hypothetical average firms were growing at an average employment rate of 1.618 percent. This compares favorably with their pre-merger rate of 1.656 percent. The average annual post-merger rate of the acquired firms, however, was −8.353 percent. As may be noted in Table 4-6, the adverse employment effects occurred regardless of the type of merger or the firm size. Only in the subgroup "Services" was no significant difference noted. It would appear that the Nebraska-Outstate mergers have definitely had an adverse employment impact within Nebraska.†

* The merger effects are not totally isolated since the post-merger growth rates of the hypothetical average firms included the rates of the acquired firms. If mergers had an adverse impact upon the acquired firms, for example, then the post-merger industry average rate would be reduced. As a result, the observed differences between the growth rates of the acquired firms and the industry average firms would slightly understate the true differences between acquired firms and non-acquired firms. Since in all cases the employment and payroll of the acquired firms were only small portions of the total industry employment and payroll, this bias is minimal.

† A matched-pair *4-digit* test performed by the author on 21 Nebraska firms acquired by conglomerates also supports this general conclusion. The acquired firms were paired against similar-sized, non-acquired Nebraska firms on a 4-digit industry basis. The differences in pre-merger growth rates were not statistically significant. However, the average post-merger employment of the acquired group was significantly lower than that of the non-acquired firms.

TABLE 4-6

RESULTS OF NEBRASKA-OUTSTATE POST-MERGER EMPLOYMENT t TESTS FOR MATCHED PAIRS

Test Group	X	Y	t	Decision
All Firms (n = 51)	–8.353	1.618	*–3.107*(.01)	Accept $\mu_X < \mu_Y$
	(Conf(–14.878 ≤ μ_D ≤ –5.064) = 90%			
Type				
Horizontal and Vertical (n = 11)	–9.338	1.708	*–2.105*(.10)	Accept $\mu_X < \mu_Y$
Geographic Market Extension (n = 19)	–6.646	1.600	–1.556	Retain $\mu_X = \mu_Y$
Product Extension (n = 14)	–10.154	1.164	*–1.926*(.10)	Accept $\mu_X < \mu_Y$
Pure Conglomerate[a] (n = 7)	–7.834	1.139	....	....
Industry of the Acquired Firm				
Manufacturing (n = 22)	–11.085	0.324	*–3.072*(.01)	Accept $\mu_X < \mu_Y$
Trade (n = 14)	–9.982	2.516	*–3.422*(.01)	Accept $\mu_X < \mu_Y$
Services (n = 15)	–2.826	3.080	–0.935	Retain $\mu_X = \mu_Y$
Employment Size of Acquired Firm				
Over 100 (n = 19)	–8.932	0.942	*–2.278*(.05)	Accept $\mu_X < \mu_Y$
Under 100 (n = 32)	–8.633	1.223	*–2.498*(.02)	Accept $\mu_X < \mu_Y$

[a] No test performed owing to small sample size.

The results of the Nebraska-Outstate post-merger payroll tests, Table 4-7, closely parallel those of the employment tests. The acquired companies exhibited an average annual post-merger payroll growth rate of −1.592 percent while the control group had an average of 6.282 percent. This difference was significant at the .01 level.

Manufacturing firms were particularly adversely affected by the mergers. The hypothetical average firms engaged in manufacturing had an average annual payroll growth rate of 5.609 percent during the post-merger years. The acquired manufacturing firms, however, had a negative post-merger rate of −5.248.

Firms with more than 100 employees were growing at an average pre-merger payroll rate of 10.077 percent. This growth declined to a post-merger rate of −1.552 percent. This rate was significantly

lower than the mean rate displayed by the hypothetical average firms during the same post-merger years. Likewise, a significant difference was observed in the "Under 100 employees" category. These firms had an average annual post-merger growth rate of −1.615 percent while the control firms had a rate of 7.093 percent. It would appear that firm size is not an important factor in determining the extent of the reduction in the payroll growth rate.

The conventional wisdom is clearly refuted in the Nebraska-Outstate merger evidence. Rather than being slowly-growing firms, the Nebraska-Outstate evidence indicated that, on the average, acquired firms were normal. Upon acquisition, however, these firms experienced adverse employment and payroll effects.

TABLE 4-7

RESULTS OF NEBRASKA-OUTSTATE POST-MERGER PAYROLL T TESTS FOR MATCHED PAIRS

Test Group	X	Y	t	Decision
All Firms (n = 51)	−1.592	6.282	*−2.909*$^{(.01)}$	Accept $\mu_X < \mu_Y$
	Conf$(-12.422 \leq \mu_D \leq -3.322) = 90\%$			
Type				
Horizontal and Vertical (n = 11)	−4.862	6.800	*−2.012*$^{(.10)}$	Accept $\mu_X < \mu_Y$
Geographic Market Extension (n = 19)	1.548	6.238	−1.090	Retain $\mu_X = \mu_Y$
Product Extension (n = 14)	−3.267	6.130	−1.685	Retain $\mu_X = \mu_Y$
Pure Conglomerate[a] (n = 7)	−1.622	5.889	....	....
Industry of the Acquired Firm				
Manufacturing (n = 22)	−5.249	5.609	*−2.283*$^{(.05)}$	Accept $\mu_X < \mu_Y$
Trade (n = 14)	−3.292	4.918	*−2.403*$^{(.05)}$	Accept $\mu_X < \mu_Y$
Services (n = 15)	5.360	8.540	−0.616	Retain $\mu_X = \mu_Y$
Employment Size of Acquired Firm				
Over 100 (n = 19)	−1.552	5.922	*−2.203*$^{(.05)}$	Accept $\mu_X < \mu_Y$
Under 100 (n = 32)	−1.615	7.093	*−2.265*$^{(.05)}$	Accept $\mu_X < \mu_Y$

[a] No tests performed owing to small sample size.

POST-MERGER GROWTH RATES: NEBRASKA-NEBRASKA ACQUISITIONS

The post-merger employment and payroll tests involving Nebraska-Nebraska acquisitions indicated that those mergers had no significantly adverse impacts upon employment and payroll in Nebraska. The average annual post-merger employment and payroll growth rates of the combined firms were found not to be significantly different from the average rates of the hypothetical industry average firms. In each of the post-merger tests, the null hypothesis was retained.

Since it was impossible to determine the proportion of the post-merger growth attributable to the acquired units, no conclusions could be drawn as to the impact of the mergers on the employment and payroll of the acquired units. The overall post-merger rates may represent any combination of growth of the acquired and acquiring units.

In terms of Nebraska employment and payroll, however, it does not appear that the mergers had either a significantly adverse or favorable effect. The pre- and post-merger rates are compared in Table 4-8 and the results of the matched-pair tests are shown in Tables 4-9 and 4-10.

At least two possible explanations of the marked difference between the Nebraska-Nebraska and Nebraska-Outstate conclusions may be advanced. The first is that the acquisition of one Nebraska firm by another precludes the possibility that employment and payrolls may be transferred to locations outside of the state. The second explanation is explored later.

TABLE 4-8

COMPARISONS OF NEBRASKA-NEBRASKA PRE- AND POST-MERGER EMPLOYMENT AND PAYROLL GROWTH RATES

Test Group	Employment Growth Rate		Payroll Growth Rate	
	Pre-Merger	Post-Merger	Pre-Merger	Post-Merger
Acquiring Firms (n = 30)	2.920	....	6.641	....
Acquired Firms (n = 39)	-0.181	....	1.682	....
Combined Firms (n = 35)	....	0.797	....	6.641

TABLE 4-9

Results of Nebraska-Nebraska Post-Merger Employment t Tests for Matched Pairs

Test Group	X	Y	t	Decision
All Acquired Firms (n = 35)	0.797	2.379	–1.164	Retain $\mu_X = \mu_Y$
	Conf($-3.892 \leq \mu_D \leq +0.728$) = 90%			
Type (Acquired Firm)				
Horizontal and Vertical (n = 20)	0.027	2.144	–0.976	Retain $\mu_X = \mu_Y$
Conglomerate (n = 15)	1.824	2.693	–0.366	Retain $\mu_X = \mu_Y$
Broad Industry				
Manufacturing[a] (n = 11)	1.992	2.569	–0.146	Retain $\mu_X = \mu_Y$
Trade (n = 16)	2.076	2.969	–0.459	Retain $\mu_X = \mu_Y$
Services[b] (n = 8)	–3.403	0.939	....	....

[a] Includes mining.
[b] No test performed owing to the small sample size.

TABLE 4-10

Results of Nebraska-Nebraska Post-Merger Payroll t Tests for Matched Pairs

Test Group	X	Y	t	Decision
All Acquired Firms (n = 35)	6.641	7.330	–0.361	Retain $\mu_X = \mu_Y$
	Conf($-3.936 \leq \mu_D \leq +2.558$) = 90%			
Type (Acquired Firm)				
Horizontal and Vertical (n = 20)	5.507	7.262	–0.760	Retain $\mu_X = \mu_Y$
Conglomerate (n = 15)	8.152	7.419	0.233	Retain $\mu_X = \mu_Y$
Broad Industry				
Manufacturing[a] (n = 11)	7.059	8.009	–0.221	Retain $\mu_X = \mu_Y$
Trade (n = 16)	7.882	7.112	0.326	Retain $\mu_X = \mu_Y$
Services[b] (n = 8)	3.583	6.784	....	....

[a] Includes mining.
[b] No test performed owing to the small sample size.

AGGREGATE EMPLOYMENT AND PAYROLL EFFECTS OF THE NEBRASKA-OUTSTATE ACQUISITIONS

The matched-pair tests on the Nebraska-Outstate data indicated that mergers of this type adversely affected the employment and payroll growth rates of the acquired firms. The magnitude of the resulting negative impacts, however, could not be determined from the growth rates alone. The aggregate employment and payroll losses depended upon the sizes of the firms at the time of their acquisitions.

In order to estimate these losses, each firm's employment and payroll at the time of acquisition was projected to 1970 figures by assuming the firm's employment and payroll would have grown at rates equal to the average firm in its industry.* The projected 1970 values were then compared with the actual 1970 ones. The difference between the aggregated projected values and the actual 1970 values constituted the aggregate 1970 impact of the 51 mergers, 1964–1968.

This methodology was utilized since the pre-merger employment and payroll growth rates of the acquired firms were not significantly different from those of the hypothetical average firms in their 2-digit industries.† Hence, in the absence of the mergers, one would expect that approximately one-half of the firms would have grown faster than their industry averages; another one-half, slower. If the 51 mergers had not occurred, therefore, the actual aggregate 1970 employment and payroll of the 51 firms would have been approximately equal to the aggregate values based upon the industry average rates. Table 4-11 summarizes the estimated 1970 aggregate impacts of the 51 mergers which occurred during the 1964–1968 period.

The 51 acquisitions of Nebraska firms by out-of-state corporations resulted in an estimated net 1970 employment loss of 1,762 and a net 4th quarter payroll loss of $2,959,234. The total 1970 payroll loss, therefore, would be approximately four times this value, $11,836,936.

* If the firm was acquired in 1967, for example, then the "appropriate" industry growth rate was computed using 1966 through 1970 industry average data. The following formula was used to calculate the projected 1970 figures:

$$Y = X(1 + r)^n \text{ where,}$$

Y = projected 1970 value, X = value at time of acquisition, r = average annual growth rate of hypothetical industry average firm, and n = number of years between values X and Y.

† In fact, the average pre-merger payroll growth rate of the acquired firms exceeded that of the hypothetical match firms, 6.958 percent to 4.929 percent. The estimated aggregate impact, therefore, is a conservative one.

Several points regarding this loss need to be underscored. First, the estimated loss is for the year 1970 only. The total loss from the mergers, including all post-merger years, would be substantially greater. Second, only 51 of the 83 Nebraska-Outstate mergers are included in this estimate. Also, the 83 mergers occurred in the five-year period 1964–1968. If all Nebraska-Outstate mergers occurring during the entire decade were used in the estimation, the resulting 1970 figure would be greatly magnified. Third, the 1970 loss is "re-occurring" since it will also evidence itself in 1971, 1972, and so forth. In fact, the annual magnitude of the negative impact will increase because of the acquired firm's negative employment and payroll trends.

A final point deserves careful consideration. The $11,836,936 loss to the 1970 Nebraska economy was a "primary" loss. "Secondary" or multiplicative losses also resulted. A dollar reduction in household spending in Nebraska creates secondary income losses of approximately an additional dollar.* Hence, the total payroll impact of the 51 mergers was approximately $23,673,872. Other potential "secondary" economic impacts of the mergers are examined in the following chapter.

TABLE 4-11

AGGREGATE 1970 IMPACTS OF 51 NEBRASKA-OUTSTATE ACQUISITIONS, 1964–1968

	Projected	Actual	Net Aggregate Impact
Employment	8,359	6,597	–1,762
Payroll	$16,269,447	$13,310,213	–$2,959,234 (4th Quarter)

Taking all of these factors into consideration, it must be concluded that acquisitions of Nebraska firms by non-Nebraska corporations have substantially reduced employment and income within Nebraska. This conclusion is true in the *aggregate*. It is not true in each individual merger case. Some Nebraska firms have had large annual post-merger growth rates relative to both their pre-merger rates and to their industry average rates.

* The actual Nebraska household multiplier as indicated by Nebraska input-output tables is 2.12557. See Theodore W. Roesler, F. Charles Lamphear, and M. David Beveridge, *The Economic Impact of Irrigated Agriculture on the Economy of Nebraska* (Lincoln: Bureau of Business Research, University of Nebraska, 1968), Appendix.

EXPLANATIONS OF THE ADVERSE EMPLOYMENT AND PAYROLL EFFECTS

Several possible explanations for the observed employment and payroll effects associated with the Nebraska-Outstate acquisitions require examination. One such explanation involves an application of the merger-efficiency contention.

Greater economic efficiency may have resulted in a reduction of employment and consequently payroll in either of two ways. First, the acquired firms may have employed inefficiently large work forces prior to their acquisitions. That is, many employees may have had overlapping functions. Upon acquisition, the local operations may have become more efficient by eliminating specific jobs and reorganizing and combining others. The net result would be slow or negative annual post-merger employment and payroll growth rates.

A second "efficiency" explanation may be offered. Prior to the acquisitions, the acquired firms may have had low capital-labor ratios. Once acquired, however, the access to new capital sources may have allowed the firms to obtain more efficient capital-labor mixes. Post-merger growth may have taken the form of capital expansion, rather than employment and payroll growth.*

Both of the "efficiency" explanations, however, appear to be tenuous at best. Little evidence exists to suggest that, on the average, acquired firms are inefficient firms and that most mergers are accompanied by economies. In fact, as noted in Chapter III, the bulk of the existing evidence appears to indicate that acquired firms are usually profitable enterprises and that few genuine economies result from corporate acquisitions. While some overlapping functions between the acquired and acquiring units may have existed, it is extremely doubtful that the resulting employment and payroll effects would be of the magnitudes indicated by the Nebraska post-merger rates.

Furthermore, the addition of new capital may just as likely expand employment and payroll as reduce it. New investments in plant and equipment usually entail "output effects" as well as "substitution effects." These "output effects" would serve to increase employment and thereby mitigate any reductions resulting from the substitution of capital for labor. Owing to the reasons cited above, the "efficiency" interpretations are deemed to be unsatisfactory explanations of the adverse Nebraska merger impact.

* Asset size data on the firms were not available. These data, of course, would allow one to test the capital-labor hypothesis.

A second potential explanation of the Nebraska results is that the acquisitions, in general, may have proved to be unprofitable. The acquiring firms, often conglomerates, may have misjudged the potential profitability of their acquisitions. Upon finding themselves in financial difficulties, the conglomerate firms may have ordered cutbacks in operations at their smaller units in order to free funds to continue operating large units at full capacity. Nebraska employment and payroll may have suffered as a result of the inability of the conglomerates to sustain overall economic profits.

Although a reasonable interpretation, this explanation does not appear to be sufficiently general to serve as an adequate explanation for the overall Nebraska results. This explanation is probably descriptive in some of the individual Nebraska cases, but the on-going nature of the conglomerate merger movement casts doubt upon the general proposition that acquisition strategies prove to be financially self-defeating.

A third potential interpretation of the Nebraska-Outstate merger results is that the Nebraska acquisitions were accompanied by transfers of personnel from Nebraska. This explanation appears to be limited to specific mergers and relatively small numbers of employees. Although transfer did occur,* it does not seem probable that they were of a sufficient magnitude to serve as more than a partial explanation of the Nebraska results.

A fourth explanation may be cited. The Nebraska-acquired firms may have been acquired for reasons other than their potential profitability. Some acquisitions may have involved attempts to "purchase" patent rights, trade secrets, innovative management, and so forth. Once these were obtained, the continued growth of the local firm may have been of little consequence to the acquirer. In some instances, the acquisition may have been an attempt to acquire a new market area through the elimination of local competition. If this were the case, local employment and payrolls might be adversely affected.

A final interpertation of the observed Nebraska impact may be termed a "transposed-growth-strategy" explanation. It was hypothesized in Chapter III that corporations with external growth policies tend to be constrained, size-maximizing companies while non-acquiring firms usually have traditional profit-maximizing motives.

* In the questionnaire sent to executives of acquired Nebraska firms, over 50 percent of the respondents indicated that there had been transfers of upper management personnel as a result of their mergers.

The non-Nebraska acquiring firms, most of which were conglomerates, obviously were pursuing external growth strategies. Being typical profit-maximizing firms, however, the Nebraska acquirees were undoubtably seeking growth through internal expansion. The fact that their pre-merger rates of employment and payroll were typical of those of other Nebraska businesses tends to support this contention. But what occurred to the internal-growth strategies of the Nebraska firms upon acquisition? The external-growth, size-maximizing policies of the acquiring firms were transposed upon the local firms. That is, the Nebraska firms became a part of organizations with different growth philosophies. These new strategies were responsible for the stagnation in local employment and payroll growth. Large proportions of the available investment capital of the parent corporations may have been devoted to *further* external expansion, rather than to internal expansion of the operations of the many subdivisions.

This explanation may also show why no adverse impacts were associated with the Nebraska-Nebraska mergers. Most of these acquisitions were of the horizontal and vertical variety and involved small localized firms. It is doubtful, therefore, that the acquiring firms were pursuing a *basic* external growth policy. The acquisitions were likely prompted by expediency and not by a general desire to maximize size. As a result, transpositions of growth strategies did not occur upon acquisition. Rather, the merged firms continued to pursue internal expansion just as they had prior to the mergers.

Thus, the "transposed growth strategy" hypothesis is sufficiently general as to be tenable with respect to the overall Nebraska results. This interpretation certainly deserves additional research exploration.

Summary and Conclusions

Nebraska firms acquired by out-of-state corporations, experienced average annual pre-merger employment and payroll growth rates similar to other average Nebraska firms. In the post-merger periods, however, these rates declined sharply and were significantly smaller than those of average Nebraska firms. The aggregate adverse impact of the Nebraska-Outstate mergers was substantial. The "direct" 1970 loss resulting from 51 mergers alone was nearly $12 million. Several explanations of the adverse economic employment and payroll effects may be advanced, but the "transposed-growth-strategy" interpretation appears to be the most tenable general explanation.

The Nebraska-Nebraska mergers differed remarkably from the Nebraska-Outstate acquisitions. Firms acquired by other Nebraska companies were relatively slow-growing concerns in slowly expanding industries. The analysis of the post-merger records of the merged firms indicated that no adverse Nebraska employment and payroll effects resulted from these acquisitions.

V / *The Outflow of Corporate Control and Decision-Making: Possible Economic Consequences*

An additional salient effect accompanying corporate mergers involving Nebraska firms is a geographical shift of corporate control and decision-making.* In a net sense, Nebraska clearly has not fared well in this regard. This is to suggest that during the period under study, 1964–1968, a substantially greater number of Nebraska firms were acquired by corporations residing outside of the state than vice versa.

During the five-year period, 83 Nebraska firms were acquired by outstate concerns. Also, it should be recalled from Chapter II that the majority of these firms were large relative to the average-sized firm within their 2-digit industry. During the last two years of the period, 1967 and 1968, 49 Nebraska firms were purchased. During these same two years, only 14 out-of-state corporations were acquired by Nebraska-based firms. Only six Nebraska corporations were found to be actively engaged in an acquisition program which involved one or more non-Nebraska corporations.† Thus the years 1967 and 1968 witnessed a net outflow of corporate control on a 3.5:1 basis.

The Locations of Nebraska Firms Acquired by Non-Nebraska Corporations

Table 5-1 indicates the location of the Nebraska firms which were acquired by non-Nebraska corporations during the period, 1964–1968. Of 83 such firms, 45, or 54.2 percent, were located in Omaha, 8, or 9.6 percent, in Lincoln; and 4 in Grand Island. Thus over two-thirds of all the firms acquired by outstate corporations were located in one of Nebraska's three largest cities.

The predominance of Omaha acquisitions is particularly obvious in the 1968 merger data. Nineteen of the 28 mergers occurring dur-

* Corporate control may be defined as "decision-making authority with respect to corporate assets." It is assumed that this control resides with management rather than with stockholders.

† See the Appendix.

TABLE 5-1

NEBRASKA-OUTSTATE ACQUISITIONS BY LOCATION OF THE ACQUIRED FIRM, 1964–1968

Location of Acquired Firm	1964	1965	1966	1967	1968	Total
Omaha	7	2	7	10	19	45
Lincoln	....	2	1	1	4	8
Grand Island	1	1	....	1	1	4
Fremont	....	1	2	1	....	4
Hastings	....	....	1	1	1	3
Scottsbluff	....	....	....	1	1	2
Other	1	3	5	6	2	17
Total	9	9	16	21	28	83

ing this year involved Omaha firms. Omaha, of course, is Nebraska's largest city with a population over twice as large as its nearest rival, Lincoln. If the relative frequency of mergers is computed on a per capita basis, however, Omaha ranks third in merger activity among the five largest Nebraska cities. This relationship is shown in Figure 5-1.

Fremont, with .179 mergers per 1,000 people, showed the highest relative frequency of Nebraska-Outstate mergers, 1964–1968, among the five largest Nebraska cities. Grand Island was second with nearly .14 mergers per 1,000 population. Lincoln had relatively few mergers as measured on the per capita basis. A small number of mergers per capita need not indicate a small relative impact, however. The relative local impact of the mergers will depend upon the sizes of the acquired firms.

The column marked "Other" in Table 5-1 should be noted. Seventeen acquisitions, each occurring in a separate community, are represented in this category. The population of the 13 smallest of these communities ranged from 5,226 to 626, with an average population of 1,926. In each of the thirteen cases, therefore, acquisitions per capita exceeded that of Fremont. In absolute size, the majority of these firms were extremely small. In three of the 13 cases, however, the firms which were acquired had approximately 50 employees each. In their respective communities, one of which had a population of 626 and another 749, the acquisitions resulted in significant relative losses of local corporate control.

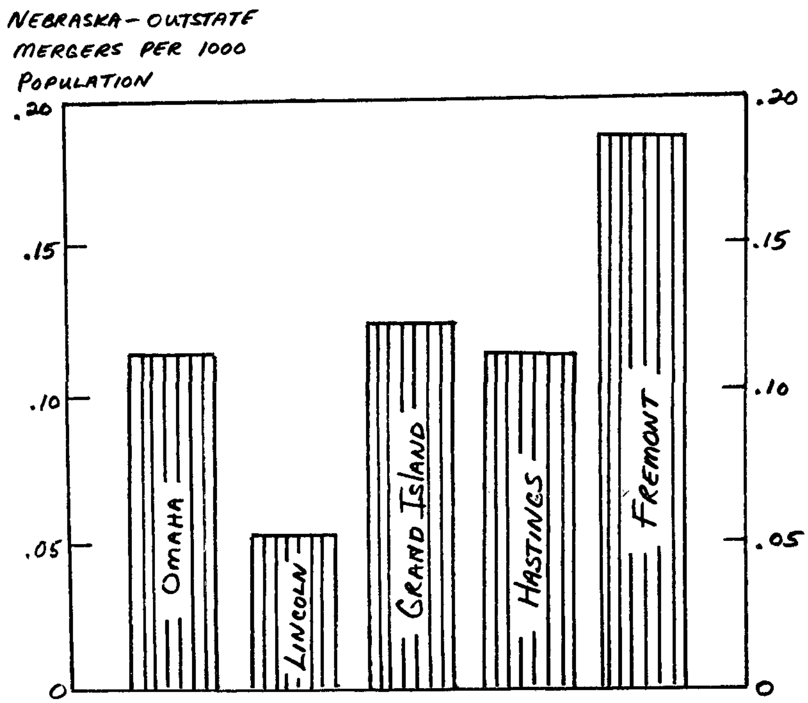
THE LOCATIONS OF THE ACQUIRING NON-NEBRASKA CORPORATIONS

Table 5-2 indicates the regional locations of the outstate firms which acquired Nebraska firms, 1964–1968.* Thirty-four of the

* For a complete classification of acquiring firms by state, see the Appendix.

FIGURE 5-1

NEBRASKA-OUTSTATE ACQUISITIONS PER 1,000 RESIDENTS, BY CITY, 1964–1968



acquiring corporations, nearly 41 percent, resided in states adjacent to Nebraska. Twelve of these 34 firms were headquartered in Minnesota and 9 in Iowa. Kansas and Missouri firms each undertook five acquisitions. All but one of the Minnesota acquirers resided in Minneapolis-St. Paul, and a majority of the Iowa purchasers headquartered in Des Moines.

Nearly 50 percent of the non-Nebraska acquirers resided in either the Northeast or Mideast regions of the United States. Twenty-two corporations were from the former region; 18 from the latter. New York dominated the "Northeast" category with 10 acquiring firms; Illinois topped the Mideast region with 11. Massachusetts, Pennsylvania, and Ohio each headquartered four acquiring firms.

As indicated in Figure 5-2, over 50 percent of the outflow of corporate control resulting from the Nebraska acquisitions ended up in just four states: Minnesota, Illinois, New York, and Iowa.

TABLE 5-2

NEBRASKA-OUTSTATE MERGERS BY REGION OF THE ACQUIRING FIRM, 1964–1968

Region of Acquiring Corporation	1964	1965	1966	1967	1968	Total
Neighboring States (Minnesota, Iowa, Kansas, Missouri, South Dakota, Colorado)	2	5	7	9	11	34
Northeast (New York, Massachusetts, Connecticut, Pennsylvania, New Jersey, Maryland)	4	2	1	5	10	22
Mideast (Illinois, Ohio, Michigan, Indiana)	2	2	4	6	5	19
Other Regions	1	....	4	1	2	8
Total	9	9	16	21	28	83

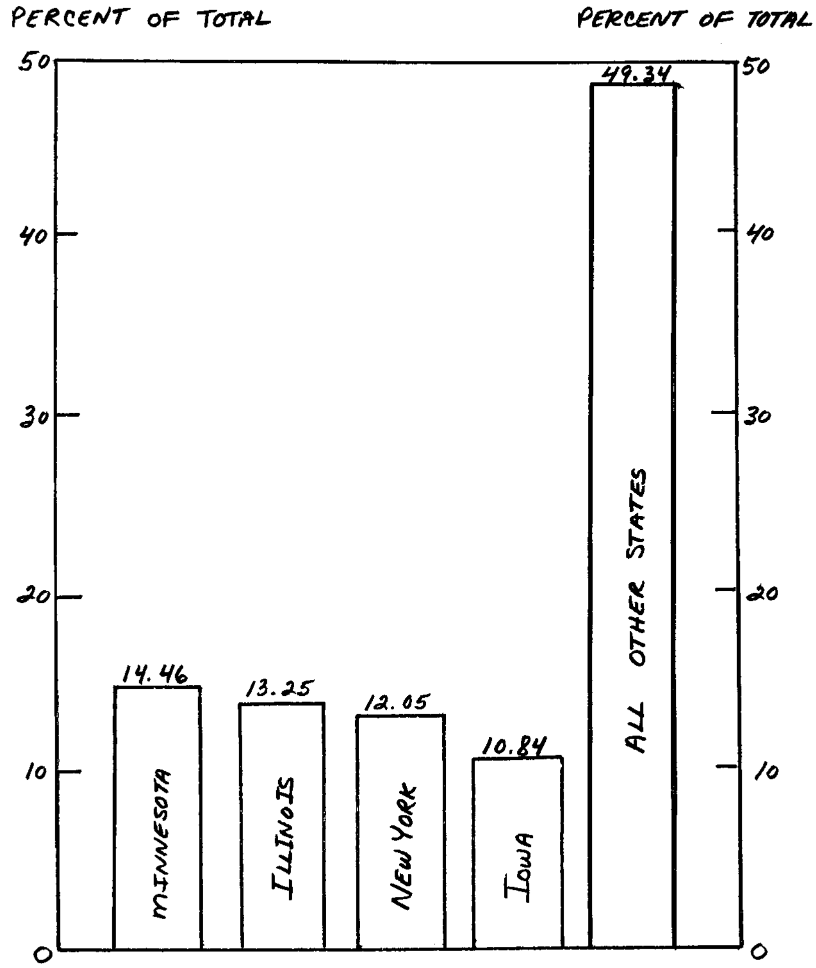
THE DIRECTIONAL FLOW OF CORPORATE CONTROL RESULTING FROM NEBRASKA-OUTSTATE ACQUISITIONS

It is clear from Table 5-2 and Figure 5-2 that the outflow of corporate control from Nebraska has been multi-directional. A common thread runs through the data, however. In the great majority of instances, corporate control flowed into a state with a larger population than that of Nebraska. Furthermore, two of the regions of the United States in which a large portion of all corporate control resided, the Northeast and Mideast, gained additional decision-making authority at the expense of a state which had relatively little such control.*

This pattern seems to involve most of the Midwest region, in general. As evident from Table 5-3, the states of Nebraska, Iowa, South Dakota, Kansas, Colorado, Wyoming, and North Dakota had a combined net loss of corporate control of 334 manufacturing corporations during the 1955–1968 period. This does not include the loss of control resulting from acquisitions of trade, finance, and service firms. If these industries were included, the net loss figure

* For example, New York, Michigan, Pennsylvania, Ohio and Illinois headquartered 77.2 percent of the combined assets of the 200 largest manufacturing corporations in 1968. The 200 largest corporations in the United States control over 60 percent of all the manufacturing assets in the nation.

FIGURE 5-2
NEBRASKA-OUTSTATE ACQUISITIONS BY STATE OF THE ACQUIRING FIRM, AS A PERCENTAGE OF TOTAL



might be twice as large.* New York gained the largest amount of corporate control during this period. It showed a net gain of 1,732. Illinois was second with a gain of 484.

Not only did the direction of Nebraska corporate control flow toward larger industrial states, it also tended to flow toward larger urban areas. This is clearly shown in Figure 5-3.

* The author bases this estimate on the findings of Chapter II. There it was shown that more Nebraska-Outstate acquisitions involved firms engaged in trade, finance, and services than in manufacturing, 1964–1968.

TABLE 5-3

NET LOSSES OF CORPORATE CONTROL IN MANUFACTURING, 1955–1968

State	Companies Acquired by Firms Outside State	Outstate Firms Acquired by State Companies	Net Loss
Colorado	187	55	–132
Iowa	110	42	–68
Kansas	121	32	–89
Nebraska	70	54	–16
North Dakota	7	1	–6
South Dakota	13	1	–12
Wyoming	16	5	–11
New York	1,346	3,078	+1,732
Illinois	910	1,829	+484

SOURCE: Bureau of Economics, Federal Trade Commission.

In 59 of the 83 instances in which non-Nebraska corporations acquired Nebraska firms, corporate control flowed to a larger metropolitan area. In other words, the metropolitan area of the acquiring firm had a greater population than the metropolitan area of the acquired Nebraska firm. In 44, or 75 percent of these 59 instances, the population of the metropolitan area of the acquiring corporation exceeded one million. It is thus clear that corporate acquisitions of Nebraska firms have served to shift corporate control toward states which headquarter substantial numbers of corporations and, in particular, to concentrate that control in large urban centers.

Nebraska's largest city, Omaha, has been a net loser of corporate control as have smaller Nebraska communities. Though Omaha firms, for example, acquired 13 non-Nebraska-based corporations in 1967–1968, out-of-state corporations acquired 29 Omaha firms during this same period.

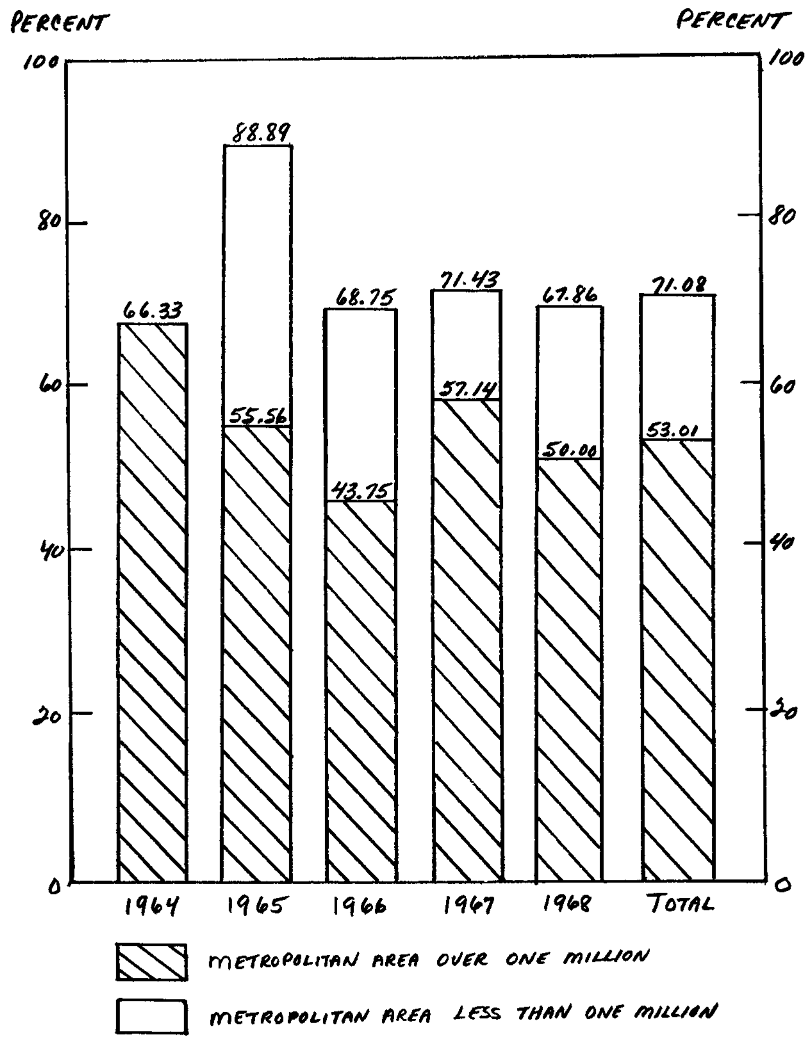
The outflow of corporate control from Nebraska and from other relatively sparsely populated Midwestern states could have serious economic, social, and political implications. These implications will be discussed later in this chapter.

THE DIRECTIONAL FLOW OF BUSINESS CONTROL RESULTING FROM NEBRASKA-NEBRASKA ACQUISITIONS

An examination of the Nebraska-Nebraska acquisitions on the basis of the locations of the acquiring and acquired firms revealed that a net flow of corporate control toward larger communities was generated. Though directionally the same as the Nebraska-Outstate mergers, the loss of corporate control to larger communities was much less pronounced. Of the 66 acquisitions of Nebraska firms by

FIGURE 5-3

THE PERCENTAGE OF INSTANCES IN WHICH NEBRASKA CONTROL FLOWED TO LARGER METROPOLITAN AREAS AND AREAS WITH POPULATIONS OVER ONE MILLION



other Nebraska companies, 26 involved cases in which the community of the acquiring firm was larger than that of the acquiree. On the other hand, 13 mergers involved situations in which the acquiring firm was located in a smaller community than the community headquartering the acquired firm. In 27 of the 66 mergers,

40.9 percent, the firms were either located in the same community or else their respective communities were of approximately equal size. Thus of the 39 acquisitions which involved two unequal-sized communities, 66.7 percent resulted in a loss of corporate control for the smaller city or village.

It should be remembered that the Nebraska-Nebraska mergers generally involved the acquisition of small firms. However, the local loss of control of a firm in a small town may be significant in a relative sense, regardless of the actual size of the company which was purchased.

In 17 of the 26 instances in which business control flowed to a larger city, Omaha, Lincoln, or Grand Island was the recipient. Just as acquisitions of Nebraska firms by non-Nebraska corporations have led to a greater geographical concentration of corporate control in the U.S., the Nebraska-Nebraska mergers have resulted in a greater concentration of business control within Nebraska. The trend within Nebraska, however, has not been nearly as pronounced as the trend associated with the purchase of Nebraska firms by corporations residing in other states.

Implications of the Outflow of Corporate Control: Population Dispersion

The economic, sociological, and political effects associated with the shift of corporate control from smaller to larger communities are potentially of great significance. That portion of the merger movement in Nebraska which had involved only Nebraska firms has served to concentrate business control within the state. The portion which has involved purchases of Nebraska firms by non-Nebraska corporations has served to drain corporate decision-making power from Nebraska.

In the case of Nebraska-Outstate mergers, vital economic decisions which may greatly affect local Nebraska communities are increasingly being made from distant headquarters. This is not to suggest that the management of locally acquired firms relinquish all corporate decision-making authority upon acquisition. Obviously, day-to-day decisions continue to be made at the local level. The fact remains, however, that most major decisions, those which are most likely to affect the community vitally, will subsequently be determined in some other city. In the case of the Nebraska-Outstate acquisitions, this city is likely to be New York, Chicago, Minneapolis, or some similar urban area. In a sense, the Nebraska community loses a portion of the economic control of its own destiny. In light of the research findings stated in Chapter IV,

there is reason to suspect that this loss of economic decision-making authority, on the average, may be accompanied by adverse local economic repercussions.

Though it does not appear that Nebraska-Nebraska mergers have been accompanied by adverse employment and payroll effects, other adverse local impacts may have accompanied these acquisitions. For example, many of the mergers may have resulted in shifts in sources of supply and the abandonment of the use of local financial institutions. Thus, the flow of corporate control generated by the Nebraska-Nebraska mergers, as with the outstate acquisitions, may have served to affect adversely the communities of the acquired firms.

The author's concern with the loss of corporate control from states and communities which possess relatively little such control, and the subsequent concentration of corporate decision making, goes far beyond a simple desire to preserve small enterprises. This matter needs further explanation.

First, remember that the major motives underlying the current merger movement are largely financial. Mergers which involve true economies, economies which will ultimately find their way back to consumers in the form of lower prices, are certainly justifiable. However, even "efficiency" itself is subject to broader constraints. If the end result is undesirable, then to do something efficiently is to compound that undesirability. But that is another issue. Fortunately, we are on safe grounds, particularly in analyzing the Nebraska-Outstate acquisitions, to assume that few true economies were involved. This is the case since these mergers were predominantly of the conglomerate type. Therefore, one may look directly at the negative effects of the acquisitions.

A new and rapidly emerging concern in the United States is the lack of dispersion of population within the nation. The tremendous flow of people from sparsely populated areas to bulging urban areas has given rise to tremendous economic and social problems. One need only remind the reader of air and water pollution, traffic congestion, urban blight, and poverty to reinforce the contention that the social costs associated with our urban environment have tended partially to mitigate the economies resulting from a highly concentrated population.

The need to reverse the population flow from our metropolitan areas has been widely recognized and cogently stated both by leaders within the current Nixon administration and by those in the Democratic Party. These political pronouncements and actions are

actually responses to the realization that human well-being cannot be directly equated to the level of the Gross National Product. External effects and their attendant cost transfers serve to raise the possibility that a private decision may be accompanied by social costs.

But how does this discussion concern itself with the outflow of corporate control from local communities? The answer, of course, is that population dispersion requires viable smaller communities. The reversal of the historical flow of people toward metropolitan areas requires expanding employment opportunities within smaller, more geographically dispersed cities and villages. Furthermore, if these smaller communities are to remain attractive places in which to reside, they must possess certain degrees of economic control over their own futures. The current merger movement, in effect, is abetting perverse locational effects. The removal of corporate control from local communities serves to dilute the viability of the smaller city while concentrating control in urban population centers.

Samuel R. Reid, expressing a similar concern, stated:

> The loss of corporate headquarters can have a major effect upon the quality of life in the smaller communities which may add to the exodus to larger metropolitan areas which are already experiencing numerous problems. While production facilities may remain in the smaller communities, the executives (and those associated with their paperwork) usually are transferred to major urban centers with growing white collar office complexes.[1]

It was concluded in Chapter IV that corporate acquisitions which have involved non-Nebraska acquirers have had adverse employment and payroll effects, on the average, within the localities of the acquired firms. This is but one aspect of the outflow of corporate control. Some other potentialities require examination.

Reductions in Community Involvement

A direct economic and social impact which may result from a corporate acquisition is a reduction in community involvement. New management may replace old, and this new management may not possess the same degree of community pride and participation. It takes time to gain a community spirit, of course, and "a manager who is moved every two or three years becomes company oriented rather than community oriented."[2]

It has been suggested that executives of local-based corporations are more likely, on the average, to give of their time to community causes than are newly established executives of non-Nebraska based companies. For example, when corporations were asked to contribute ten weeks of key executive time for Nebraska's Little Hoover Commission, 42 executives responded favorably. Thirty-seven of those who undertook the research were from Omaha- or Lincoln-based firms, three were retired, and only two were affiliated with Nebraska firms which had out-of-state headquarters.[3]

The Wisconsin merger study sought to test empirically the hypothesis that corporate acquisitions of local firms tends to reduce community involvement.[4] United Fund contributions were utilized as a proxy. The Wisconsin results were extremely mixed. Some firms became generous contributors upon acquisition, others sharply reduced their contributions.

The contributions of 30 acquired Milwaukee firms were compared with those of an equal number of firms which were not involved in acquisitions. Indices measuring the growth of contributions and the average contribution per employee were calculated. The results of the research were less than conclusive. Acquired firms increased their contributions about 16 percent during the years 1958–1968; firms which were not acquired, almost 34 percent. However, the study also discovered that the subsequently acquired firms had a smaller average pre-merger percentage increase than did the non-merging corporations during the same years.

The Wisconsin study concluded: "The only major conclusion to be reached is that United Fund contributions in Milwaukee apparently have been adversely affected by out-of-state acquisitions because of decreased rates of growth following the merger of several Milwaukee companies."[5]

Much additional research is required in this area. The loss of local corporate control may or may not be accompanied by a general reduction in community participation. In the light of adverse employment and payroll effects suggested in Chapter IV, however, it is certainly doubtful that, on the average, total community contributions will increase as a result of an acquisition. Whether there is a likelihood that this involvement will be reduced requires further research.

Plant Shutdowns

A particularly adverse economic impact has accompanied some acquisitions. Sometimes they have been followed by a complete plant shutdown. The acquiring firm may purchase a local con-

cern in order to secure patent rights or to secure technological know-how. The real property of the acquired firm may thus be of secondary importance. Once the acquisition has taken place, therefore, the local operation may be in jeopardy. The Nebraska experience, 1964–1968, witnessed at least three cases in which local operations were terminated within a few years after the acquisition. The exact reasons for these terminations were not discovered. The acquiring firm simply may have found that it had made a poor purchase. However, the pre-merger employment and payroll data on the firms does not indicate that they were "dying businesses" prior to their acquisitions.

Adverse Effects Resulting from Changes in Sources of Raw Materials and Supplies

The outflow of business control may have multiplicative economic impacts within the community of the acquired firm. One of these potential economic effects is a shift in sources of raw materials and general supplies. In those instances in which the acquisition is accompanied by centralized purchasing, local suppliers who previously held accounts with the local firm will suffer. Such effects tend to multiply themselves through the community and thereby serve to decrease employment opportunities and income within the locality.

Of course, the local loss is someone else's gain. The new source of supply, however, is likely to be located in or near the urban area in which the acquirer resides.* Thus the secondary effects of the business acquisition tend to propel the movement of corporate control and population toward metropolitan areas. With this movement come the attendant social costs.

It should be remembered that few, if any, substantial true economies are likely to result from mergers, particularly those of the conglomerate type. Thus the shift to centralized purchasing is usually a matter of managerial expediency. In many instances, however, the monopsonistic purchasing power of the parent corporation may result in some cost saving for the local firm. But even when this is the case, the resulting resource allocation may be less desirable than it was previously. This is to suggest that private efficiency need not correspond to a socially efficient allocation of resources. The external diseconomies generated by the accompanying population

* This may not be true in all cases, however. If the raw materials are bulky and therefore incur high transportation costs, the new source of supply will likely be geographically close to the acquired firm.

shift may far outweigh the private advantages associated with the more efficient purchasing of supplies.

Economists have long realized that private efficiency may be accompanied by social cost. In the above case, these costs may exceed the resource allocation benefits; and as a result, a move which seemingly would be "efficient" is not socially efficient owing to the external diseconomies involved. Thus a socially efficient resource allocation, one which considers external effects, may require modification of private business actions.

TABLE 5-4

RESULTS OF THE NEBRASKA SURVEY OF ACQUIRED FIRMS, CHANGES IN SOURCE OF SUPPLY

Question: Does your firm utilize the same suppliers of raw materials and general supplies that it did pre-merger or does it now rely on centralized purchasing by the parent company?

Responses	Nebraska-Outstate	Nebraska-Nebraska	Total
No Change	17	11	28
Centralized Purchasing	10	8	18
Both	4	...	4
Total	31	19	50

Table 5-4 displays the results of the Nebraska merger survey with respect to changes in sources of supply. Of the 50 participants in the survey, 31 were executives of firms acquired by non-Nebraska corporations; 19 were executives of firms acquired by other Nebraska firms.*

In both the Nebraska-Outstate and Nebraska-Nebraska cases, the majority of the acquired firms witnessed no change in their sources of supplies. However, in approximately 45 percent of the outstate acquisitions and 42 percent of the instate mergers, changes did occur. This is particularly significant in the Nebraska-Outstate case since it is likely that the use of centralized purchasing resulted in a substantial loss to Nebraska business. The 10 firms which switched to centralized purchasing included several which would be considered relatively large Nebraska firms. Hence, these shifts in sources of supply probably entailed large dollar losses of business to their previous suppliers. It should be pointed out, however, that in many instances the original source of supply may have been outstate before the merger.

* To the extent that some executives might not wish to indicate local effects, the survey may contain a bias. If such a bias is involved, the results actually *understate* the adverse local impacts.

It is difficult to assess the actual economic impact resulting from changes in sources of supply. Suffice it to say, however, that the possibility that such changes will accompany a merger serves to increase the probability that adverse local economic impacts will accompany it.

Adverse Effects Resulting from the Employment of the Parent Company's Financial and Legal Institutions

The outflow of business control may have adverse local multiplicative effects in other ways. Upon acquisition, the acquired firm may begin to use the banking, insurance, accounting, and other financial institutions which are employed by the parent corporation. It may also rely on legal services provided through the parent company rather than local services. Tables 5-5 and 5-6 indicate that these effects were more pronounced than were changes in sources of supply.

As may be seen in Table 5-5, in over 45 percent of the Nebraska-Outstate cases surveyed, the acquired firm currently relies exclusively upon the financial institutions employed by the parent corporation. Another 29 percent currently use both local and parent corporation financial institutions. Therefore, in the Nebraska-Outstate experience, nearly 75 percent of the Nebraska firms apparently abandoned the services of some or all of their local financial institutions. The biggest local loss was probably in the banking area. Since many of the acquired Nebraska firms were large, their local accounts were obviously substantial. The loss of these accounts likely was accompanied by multiplicative adverse economic impacts within the local community.

Inasmuch as a large majority of the acquiring firms were located in large metropolitan areas, financial institutions within these areas were probably the recipients of the new business. Once again, then, it may well be that the concentration of corporate control resulting from the Nebraska mergers served further to geographically concentrate economic activity.

Although approximately 63 percent of the Nebraska-Nebraska acquisitions involved changes in the use of financial institutions, the adverse local effects were likely to be much more subdued than in the Nebraska-Outstate acquisitions. The reason this was probably true is that many of the Nebraska-Nebraska mergers involved firms which resided in the same community. Therefore, the shift of financial institutions which may have accompanied the acquisi-

TABLE 5-5

RESULTS OF THE NEBRASKA SURVEY OF ACQUIRED FIRMS, CHANGES IN THE USE OF FINANCIAL INSTITUTIONS

Question: Does your firm currently utilize the same financial (banking, insurance, etc.) institutions as it did before the merger or does it now utilize those of the acquiring company?

Responses	Nebraska-Outstate	Nebraska-Nebraska	Total
Same Institutions	8	10	18
Parent Company's Institutions	14	9	23
Both	9	....	9
Total	31	19	50

tion would have no *net* effect locally. One local bank's loss would simply be another local bank's gain. Furthermore, the transfer of business control in some of the Nebraska-Nebraska mergers involved two relatively small communities. Though the shift of financial institutions would definitely have adverse local effects in the community of the acquired firm, the slightly larger community would benefit. Since both of the communities were small, the perverse population effects associated with the Nebraska-Outstate mergers would not be of serious consequence.

Results very similar to those of the Nebraska survey were obtained in a survey of 20 Wisconsin executives whose firms had been recently acquired.[6] The Wisconsin study found that in 70 percent of the cases the acquired firms had shifted in whole or in part to the financial institutions of the acquiring companies. Fifteen of the 20 surveyed executives were associated with firms which were acquired by non-Wisconsin corporations. The combined results of the Nebraska and Wisconsin surveys allow one to conclude that acquisitions are likely to be accompanied by adverse local effects resulting from the abandonment of local financial institutions.

Table 5-6 indicates that the communities of the acquired Nebraska firms (on the average) were adversely affected in yet another sense. Acquired firms tended to abandon the use of local legal services. Owing to the factors mentioned earlier, the Nebraska-Outstate responses are of the most significance. Here we see that nearly 75 percent of the acquired companies currently utilize legal services provided through their parent corporations. Seventeen of the 31 acquired firms make exclusive use of their parent's legal services; another 7 use them to a lesser degree.

Once again the results of the Wisconsin study are in general conformity with the Nebraska experience. In 75 percent of the Wis-

TABLE 5-6

RESULTS OF THE NEBRASKA SURVEY OF ACQUIRED FIRMS, CHANGES IN THE USE OF LEGAL SERVICES

Question: Does your firm currently utilize local legal services or services provided through the parent company?

Responses	Nebraska-Outstate	Nebraska-Nebraska	Total
Local Services	7	6	13
Parent Company's Services	17	12	29
Both	7	1	8
Total	31	19	50

consin cases surveyed, the acquiring firm's legal services were used in whole or in part.

It is likely that the larger acquiring corporations possessed their own legal departments. Upon acquisition the services of these departments became available to the local firms. Where duplication of legal personnel was involved, some true economies may have resulted. However, when the *acquired* firm was relatively large, the parent corporation was likely to need to expand its legal staff to serve the additional corporate entity. The expansion of employment opportunities in the locality of the parent corporation would, in effect, come at the expense of those individuals and firms which had previously provided the legal services for the acquired firm.

Since the acquiring firms tended to be located in larger metropolitan areas, the shifts in the use of legal services tended to promulgate the flow of population toward metropolitan areas. The loss of local corporate control has thus been shown once again to serve to undermine the economic viability of the smaller city or locality.

These adverse effects—changes in sources of supply and shifts in the utilization of financial and legal services—are multiplicative. The total impact on the local community will exceed the simple dollar expenditure loss. This is due to the fact that such dollars would have been respent within the community. Thus, for example, the dollar loss to the local legal firm may be felt in part by the local car dealer, clothing store, and so on.

SUMMARY AND CONCLUSIONS

The Nebraska merger experience, 1964–1968, reveals several geographic trends with respect to corporate control. The Nebraska-Outstate mergers have resulted in marked shifts of corporate control from smaller to larger cities. A majority of the acquiring firms

resided in metropolitan areas of over one million residents. The outflow of corporate control from Nebraska served further to concentrate it within the United States. To a lesser extent, the Nebraska-Nebraska mergers have resulted in shifts of business control from smaller to larger Nebraska communities.

These shifts of corporate control are often accompanied by adverse local economic effects. These effects are multiplicative. They include shifts in sources of supply; changes in the use of banking, accounting, and other financial services; and abandonment of the use of local legal services.

The outflow of corporate control is a phenomenon shared by other rural Midwestern states. The economic, sociological, and political implications of this outflow deserve careful consideration. This is particularly true in the light of an announced policy to stem the migration of population toward the urban areas.

The author's concern in this area is a shared one. In fact, the wide dispersion of the control of American enterprise was a primary concern of the authors of the Celler-Kefauver Anti-Merger Act of 1950. Senator Kefauver expressed this concern in Congressional hearings on his bill when he stated:

> Local economic independence cannot be preserved in the face of consolidations such as we have had during the past few years. The control of American business is steadily being transferred from local communities to a few large cities in which central managers decide the policies and the fate of the far-flung enterprises they control. Millions of people depend helplessly on their judgment. Through monopolistic mergers the people are losing the power to direct their own economic welfare.[7]

In discussing the issue of shifts in corporate control resulting from mergers, Senator Gaylord Nelson recently concluded:

> My only point is that all of us should understand this [the centralization of corporate control] to be true. Not that there is something intrinsically evil about it. Maybe it is a more prudent decision when it is made in New York for a community in Wichita than when Wichita men made it. I think you would get a lot of static if you made the suggestion in Wichita. But it is a fact of life . . . and if the trend continues at the rate indicated here, we had better understand fully the implications.[8]

VI / *Conclusions and Policy Recommendations*

Summary of Basic Findings

The Nebraska merger experience, 1964–1968, closely paralleled the national merger movement. Both movements displayed a sharp upturn during the last two years of the period. Eighty-two of the 149 acquisitions of Nebraska firms, 1964–1968, occurred in 1967 and 1968. In both the national and Nebraska cases, the current movement has become basically conglomerate. Nearly 70 percent of the acquisitions of Nebraska firms by out-of-state corporations were of this type. The recent Nebraska movement also paralleled the national one in that it involved firms in trade, finance, insurance, and services, as well as in manufacturing.

The basic motives for agreeing to be acquired appeared to be financial in nature. Several corporate tax factors have encouraged mergers by subsidizing external expansion. Section 368 of the Internal Revenue Code has enabled stockholders of involved firms to avoid taxes on capital gains resulting from mergers. In addition, since interest payments are deductible business expenses, debt securities often have been issued and exchanged for the common stock of an acquired corporation. Thus, the shareholders of the acquired company are paid interest rather than dividends and the net income from the acquired unit is increased substantially. Tax loss credits and investment credits also have encouraged mergers. Corporations with high tax-loss carryovers and/or investment tax credits have a financial incentive to find merger partners with sufficient income against which these tax advantages may be charged.

Mergers have been encouraged by certain accounting and stock market factors. Both the pooling of interest and purchase accounting methods of recording mergers have allowed corporations to suppress costs and thereby inflate apparent earnings. Also, instantaneous gains in earnings per share are achieved whenever the price-earnings ratio of the acquired firms is less than that of the acquiring company. Since the stock market has historically rewarded increases in earnings per share regardless of how they were achieved, external growth firms benefit unduly.

In some cases, mergers are accompanied by economies of scale. This does not appear to be the case in most instances, however. Conglomerate mergers, by their very nature, preclude most types of potential economies. The growth of conglomerate mergers may be the result of the adaption of contrained size maximization motives by many large corporations. The managers of these firms find that they may expand their corporation's asset size, sales, and revenues through acquisitions, and, thereby, maximize their own financial and psychological rewards. The financial advantages accruing from the tax, accounting, and stock market biases enable these firms to continue providing satisficing rates of return to stockholders.

An in-depth examination of the pre- and post-merger growth rates of the Nebraska firms acquired by out-of-state corporations leads one to the conclusion that these mergers have adversely affected employment and payroll in Nebraska. The Nebraska-Outstate acquired firms were found to be growing at an average annual *pre-merger* employment and payroll rate approximately equal to those of average firms in their respective 2-digit industries. In the *post-merger* period, this was not the case. The average post-merger employment and payroll rates of the acquired firms were negative and were significantly smaller than the mean industry average rates. The aggregate adverse employment and payroll effects of these mergers were substantial. On the other hand, no apparent negative employment and payroll effects resulted from the mergers in which one Nebraska enterprise purchased another.

Although several potential explanations for the adverse impacts of the Nebraska-Outstate mergers may be offered, a "transposed-growth-strategy" interpretation appears to be the most satisfactory. The external-growth philosophies of the acquiring firms may have been transposed upon the theretofore internal-growth strategies of the acquired firms. Under the domination of the external-growth strategies, internal expansion of the individual units may have been sacrificed for continued growth via acquisition. This interpretation, of course, is consistent with the constrained size maximization hypothesis.

An additional adverse impact of the Nebraska-Outstate acquisitions was the resulting outflow of corporate control and decision-making authority from Nebraska. In over 70 percent of the acquisitions, corporate control flowed to a larger metropolitan area. Firms located in New York, Illinois, Iowa, and Minnesota accounted for over 50 percent of the Nebraska acquisitions, 1964–1968.

The net outflow of corporate control from Nebraska was a phenomenon shared by other Midwestern states. During 1955–1968, the states of Nebraska, Iowa, South Dakota, North Dakota, Kansas, Colorado, and Wyoming experienced a combined net outflow of corporate control of 334 manufacturing concerns. If other types of enterprises were included, this figure would be at least twice as large. The loss of corporate control by sparsely populated states serves to undermine the economic viability of these states and serves further to concentrate both decision-making and population.

The Nebraska-Outstate acquisitions adversely affected Nebraska employment and income in "indirect" as well as in "direct" fashions. In a survey of executives of acquired firms, approximately 45 percent of the respondents indicated that their companies, either in whole or in part, switched to centralized purchasing upon acquisition. Nearly 75 percent of the respondents indicated that their Nebraska firms abandoned the services of some, or all, of their local financial institutions. Likewise, over 77 percent of the executives stated that their firms currently use legal services provided through their parent corporations.

Implications of the Research Findings

Although the economic slowdown during 1970 and 1971 has served to retard the advance of the merger wave, most observers feel that the current merger movement will regain its unprecedented momentum once full economic recovery occurs. Hence, it appears that the merger problem will remain for some time. To the extent that the Nebraska experience is representative of the experience of acquired firms in other states, this trend may pose a threat to the economic vitality and viability of small- and medium-sized communities. In Nebraska, corporate acquisitions have adversely affected employment and income within the communities of the acquired firms. The loss of employment opportunities in rural states such as Nebraska is of national importance. The rural to urban exodus is well documented. If the rates of growth of employment opportunities in the larger cities in rural America are not sufficient to handle this exodus, there is little hope of obtaining the expressed national goal of reversing the flow of population from less-populated states to densely-populated metropolitan areas. The social costs of the merger movement may far outweigh the private and social gains derived from it.

Most economists have long desired a wide geographical dispersion of economic control. The Nebraska merger findings indicate that this wide dispersion is threatened. The loss of decision-making

power in states such as Nebraska has served further to concentrate the control of American business. This concentration has important economic and political implications.

The pre-merger data indicated that the acquired Nebraska firms were internal-growth oriented. This did not appear to be the post-merger case. Apparently, the external-growth strategies of the parent corporations stifled further local expansion. Thus the possibility arises that not only employment and payrolls were adversely affected. Annual investment in new plant and equipment also may have declined.

Internal expansion adds to the nation's capacity to produce goods and services. External expansion, on the other hand, only changes ownership and control of existing capacity. If internal and external expansion compete for funds, then corporate acquisitions clearly impede economic growth. This growth is a vital necessity in areas where the industrial base is extremely small and where rural migration is large.

Diversification through internal expansion promotes product competition but this is not the case with external growth.[1] Internal expansion results in a greater number of firms in the industries in which the diversification occurs. Diversification via acquisition, on the other hand, leaves the number of competitors unchanged.

Policy Recommendations

The merger policy of the United States government has long focused upon anti-competitive effects. Logically, this must remain the primary economic concern. However additional factors, namely local economic impacts and the growing concentration of economic control, need to be made subordinate considerations. A systematic, comprehensive national examination of these economic and social impacts is required. Such an examination would provide a logical foundation for a reformulation of U.S. merger laws.

Some mergers involve economies of scale and these should not be discouraged. However, the potential social costs of the continuing merger wave demand a new approach to merger policy.

One possible new approach to the merger issue is the levying of a merger tax based upon the asset sizes of the involved firms. This tax would have a dual purpose. First, it would discourage mergers by mitigating the financial windfalls resulting from the institutional factors cited earlier. Second, it would provide a large source of funds to be used for both pre- and post-merger antitrust investigations. Currently, only a small percentage of all mergers are investigated owing to limitations of staff and funds.

Under the provisions of the tax system, firms would be required to report pending mergers as well as the exact procedure under which the merger would be consummated. There would be a requirement that these reports be filed at least six months prior to the time of actual takeover. This reporting would have two specific benefits. First, a complete merger list would necessarily result. Currently no such list exists, and as a result research and investigation are seriously hampered. Second, in selected cases pre-merger investigations might be undertaken. In view of the magnitude of the current merger movement and its potential social costs, merger tax proposals deserve careful consideration.

At the state and local level, several policies recommend themselves. First, additional research in the area of local effects of corporate mergers should be undertaken. In particular, the effects of mergers upon annual expenditures for new plant and equipment require attention. Also, the validity of the "transposed-growth-strategy" interpretation of the Nebraska post-merger results should be investigated empirically. A follow-up study of the growth rates of the acquired Nebraska firms would establish whether the five-year post-merger rates were the results of transitions to new operations or were indeed secular in nature.

A second recommendation is that the Nebraska Economic Development Commission take an active interest in the merger problem. Legislation requiring the reporting of all mergers or acquisitions involving Nebraska firms would be extremely beneficial. A complete merger list is absolutely essential to further research.

The Economic Development Commission should establish committees composed of Nebraska businessmen and local and state governmental officials to visit the new executives of recently merged firms. These committees could welcome the new corporations to Nebraska and encourage future internal expansion of the Nebraska operations. These committees might include representatives of local suppliers of raw materials and officials of local banking and other financial institutions.

A third recommendation is directed toward potential acquirees. In many instances mergers are undertaken without sufficient pre-merger investigation. Executives and stockholders of Nebraska corporations should study carefully the post-merger histories of other firms acquired by the potential acquirer. Furthermore, the question of potential adverse local economic effects should be raised by stockholders and management of local firms during merger negotiations.

Finally, a greater awareness of potential adverse local consequences of the acquisitions must be brought about. The basic findings of the Nebraska merger study should receive state-wide dissemination. A re-examination of the conventional wisdom is required. An awareness of the Nebraska findings is essential to the implementation of actions designed to reduce the adverse local impacts of corporate mergers.

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Appendix

APPENDIX TABLE I

SELECTED LISTING OF NEBRASKA-OUTSTATE ACQUISITION, 1964–1968[a]

Year	Acquirer	Acquiree
1964	Rohm-Haas Co. Philadelphia, Pa.	Grain Belt Supply Co. Omaha
1964	Needham Packing Co. Sioux City, Ia.	Ross Packing Co. Omaha
1964	Blaustein Industries Baltimore, Maryland	KBON Radio Omaha
1964	Rayette, Inc. New York, N.Y.	Tip Top Products Co. Omaha
1964	Mobil Oil Corp. New York, N.Y.	Northern Natural Gas Producing Co. Omaha
1964	Gas and Chemical, Inc. Miami, Okla.	Blu Flame Gas Omaha
1965	Allied Mutual Ins. Co. Des Moines, Ia.	Standard Reliance Lincoln
1965	Northwest Bankcorporation Minneapolis, Minn.	Center Bank Omaha
1965	Custom Farm Service, Inc. div. of City Services New York, N.Y.	Martson Ag-Service Central City
1965	Avco Delta Corp. subs. of Avco Corp. New York, N.Y.	Iowa Finance Co. Omaha
1965	Gamble-Robinson Minneapolis, Minn.	Ulry Talbert Co. Grand Island
1966	Yellow-Transit Freight Kansas City, Mo.	Watson-Wilson Trans. Omaha
1966	Beatrice Foods Chicago, Ill.	Sunglow Dairy Products Holdrege
1966	CIBA Corporation Summit, N.J.	Gland-O-Lac Co. Omaha
1966	Speidel Newspapers, Inc. Reno, Nevada	Fremont Newspapers, Inc. Fremont
1966	Fuqua Industries Atlanta, Georgia	Nebraska Crib and Silo Co. Fremont
1966	Hoover Ball and Bearing Co. Ann Arbor, Michigan	Tractor Stilts Co. (Tote Systems) Beatrice

[a] Only 56 of the 83 Nebraska-Outstate acquisitions, 1964–1968, are listed owing to the fact that confidential records were utilized in identifying many of the mergers. No listing of Nebraska-Nebraska mergers is given since nearly all of these mergers were identified through these confidential sources.

TABLE I—Continued

Year	Acquirer	Acquiree
1966	Lady Baltimore Foods Kansas City, Mo.	Harry Rubenstein Foods Omaha
1966	Eli Lilly and Co. Indianapolis, Ind.	Corvel, Inc. Omaha
1966	Metz Baking Co. Sioux City, Ia.	Peter Pan Bakers, Inc. Omaha
1966	Liberty Records, Inc. (Liberty/UA, Inc.) Los Angeles, Cal.	TDC Electronic, Inc. Omaha
1967	Gamble-Robinson Minneapolis, Minn.	Brown Fruit Co. Grand Island
1967	Fidelity Bankers Life Richmond, Va.	Central National Insurance Group Omaha
1967	International Funeral Services Des Moines, Ia.	Crosby-Kunold, Inc. Omaha
1967	Imperial Eastman Corp. (ITE Imperial) Chicago, Ill.	Brunning Co. Lincoln
1967	Ruben H. Donnelley Corp. Chicago, Ill.	Direct Mail Service, Inc. Omaha
1967	Moore (Samuel) and Co. Mantua, Ohio	Couplematic, Inc. Lyman
1967	Allegheny Ludlum Steel Corp. Pittsburgh, Pa.	Ogallala Electronics Ogallala
1967	Edward Hines Lumber Co. Chicago, Ill.	Nebraska Bridge Supply and Lumber Co. Omaha
1967	Biedarman National Stores div. of American Investment Co. St. Louis, Mo.	Orchard and Wilhelm Omaha
1967	Diamond Shamrock Cleveland, Ohio	Clarks Products Ralston
1967	Chesebrough Ponds, Inc. Clinton, Conn.	U.S. Brush Co. Omaha
1967	Berkshire Hathaway, Inc. New Bedford, Mass.	National Indemnity Co. Omaha
1967	Grain Belt Breweries Minneapolis, Minn.	Storz Brewing Co. Omaha
1967	Berkshire Hathaway, Inc. New Bedford, Mass.	National Fire and Marine, Inc. Omaha
1967	W. R. Grace and Co. New York, N.Y.	Norfolk Grain and Feed Co. Norfolk
1968	Mid-Continent Bottlers Des Moines, Ia.	Royal Crown Bottlers Omaha
1968	Briggs Transportation Co. St. Paul, Minn.	Peterson and Peterson Grand Island
1968	Benjamin Moore Corp. New York, N.Y.	Pioneer Glass and Paint Omaha

TABLE I—Continued

Year	Acquirer	Acquiree
1968	Minnesota Paints, Inc. Minneapolis, Minn.	Omaha Paint and Glass Omaha
1968	Midland National Life Watertown, S.D.	Investors Life of Nebraska Omaha
1968	Actronics, Inc. Waltham, Mass.	Glauber Valve Co. Omaha
1968	Dravo Corp. Pittsburgh, Pa.	Hastings, Ind. Omaha and Hastings
1968	Harcourt, Brace, and World, Inc. New York, N.Y.	Nebraska Farmer Co. Lincoln
1968	Maremount Corp. Chicago, Ill.	Sidles Co., Auto Div. Omaha
1968	Josten's, Inc. Owatonna, Minn.	Craft Guild Products, Inc. Omaha
1968	AirKaman Corp. Bloomfield, Conn.	Duncan Beechcraft of Omaha Omaha
1968	Emhart Corp. Hartford, Conn.	Notifier Corporation Lincoln
1968	C. J. Patterson Co. Kansas City, Mo.	House of Bauer Chocolates, Inc. Lincoln
1968	Guerden Industries Louisville, Ky.	Magnolia Homes Mfr. Co. Scottsbluff
1968	Berkshire Hathaway, Inc. New Bedford, Mass.	The Sun Newspapers Omaha
1968	Wells Fargo, Inc. subs. of Baker Industries Los Angeles, Cal.	Samardick Enterprises Omaha
1968	Ogden Food Corp. Toledo, Ohio	Hayden House, Inc. Omaha
1968	Denver Midwest Motor Freight Denver, Colo.	Lincoln Motor Freight Lincoln
1968	Premium Service Corp. Minneapolis, Minn.	Blackstone Hotel Omaha
1968	Sunray DX Oil Co. Tulsa, Okla.	Schaeffer Oil Co. Omaha

APPENDIX TABLE II

MERGERS INVOLVING NEBRASKA ACQUIRERS AND OUT-OF-STATE FIRMS, 1967–1968

Nebraska Acquirer	Year	Acquiree
Northern Natural Gas Co. Omaha	1967	Mineral Industries, Inc. Chicago, Ill.
	1967	Varney Chemical Corp. Janesville, Wisc.
	1967	National Poly Products Mankato, Minn.
Fairmont Foods, Co. Omaha	1967	Kitty Clover Potato Chip Co. Wichita, Kans.
	1967	Utotem, Inc. Houston, Texas
	1968	Origena Pizza Crust Co. Toronto, Ont.
	1968	Taylor Biscuit Co. (location unknown)
	1968	Alora Food Products, Ltd. Toronto, Ont.
Nebraska Consolidated Mills Omaha	1968	Birdsey Flour Mills Macon, Ga.
Data Documents, Inc. Omaha	1967	Punch-card div. of Univac, div. of Sperry Rand Corp. Minneapolis, Minn.
	1967	General Computer Forms (location unknown)
	1968	Williams and Marcus Co. Primos, Pa.
Calandra Photo, Inc. Omaha	1967	Don Wright Photo Service Rock Island, Ill.
Lockwood Corp. Gering	1968	Innes Co. Bettendorf, Ia.

SOURCE: National Industrial Conferences Board *Merger Reports, Moody's Industrial Journal, Standard and Poors.*

APPENDIX TABLE III

Classification of Nebraska-Outstate Acquiring Firms by Location, 1964–1968

Location of Acquiring Firm	Total
Neighboring States	
Minnesota	12
Iowa	9
Kansas	5
Missouri	5
Colorado	2
South Dakota	1
Total	34
Northeast	
New York	10
Massachusetts	4
Pennsylvania	4
Connecticut	2
New Jersey	1
Maryland	1
Total	22
Mid-East	
Illinois	11
Ohio	4
Michigan	2
Indiana	1
Kentucky	1
Total	19
Others	
Oklahoma	3
California	2
Virginia	1
Georgia	1
Nevada	1
Total	8

Notes

NOTES TO CHAPTER I

1. For a summary of some of these findings see U.S. Congress, Senate, Commitee on the Judiciary, *Economic Concentration, Hearings,* before the Subcommittee on Antitrust and Monopoly, Senate, on S. Res. 40, Part 2, *Mergers and Other Factors Affecting Industry Concentration.* 89th Cong., 1st sess., 1965.

2. U.S. Congress, Senate, Committee on the Judiciary, *Economic Cencentration, Hearings,* before the Subcommittee on Antitrust and Monopoly, Senate, on S. Res. 40, part 8A, *Federal Trade Commission Staff Report on Corporate Mergers,* 91st Cong., 1st sess., 1969, p. 71. (Hereafter cited as *FTC Staff Merger Report, 1969.*)

3. Willard Mueller, Testimony, U.S. Congress, Senate, Committee on the Judiciary, *Economic Concentration, Hearings,* before the Subcommittee on Antitrust and Monopoly, Senate, on S. Res. 40, part 8, *The Conglomerate Merger Problem,* 91st Cong., 2nd sess., 1970, p. 4570. For the Wisconsin study, see Jon Udell, *Social and Economic Consequences of the Merger Movement in Wisconsin* (Madison: University of Wisconsin Bureau of Business Research and Services, 1969).

4. Ira G. Corn, quoted in U.S. Congress, Senate, Committee on the Judiciary, before the Subcommittee on Antitrust and Monopoly, Senate, on S. Res. 40, part 8, *The Conglomerate Merger Problem,* 91st Cong., 2nd sess., 1970, pp. 4541, 4542. The text quoted was originally delivered to the National Economist's Club, June, 1969.

5. Donald F. Dewey, "Mergers and Cartels, Some Reservations About Policy," *American Economic Review,* Vol. 51 (May, 1969), p. 25.

6. See Henry Manne, "Mergers and the Market for Corporate Control," *Journal of Political Economy,* Vol. 73 (April, 1965), pp. 110–120.

7. Eamon M. Kelly, *The Profitability of Growth Through Mergers* (University Park, Pa.: The Pennsylvania State University Press, 1967), p. 3.

8. Samuel R. Reid, *Mergers, Managers, and the Economy* (New York: McGraw Hill Book Co., 1968), p. 22.

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1. Ralph L. Nelson, *Merger Movements in American Industry, 1895–1956* (Princeton: Princeton University Press, 1959), p. 9.

2. *Ibid.,* p. 5.

3. *FTC Staff Merger Report, 1969,* p. 666.

4. U.S. Congress, House, Committee on the Judiciary, *The Celler-Kefauver Act: Sixteen Years of Enforcement,* 90th Cong., 1st sess., 1967, p. 34.

5. For an explanation of the estimation procedure see *FTC Staff Merger Report, 1969,* Appendix G, p. 743.

6. *Ibid.,* pp. 674, 54, 47, 49, 51, respectively.

7. U.S. Congress, House, Committee on Banking and Currency, *The Growth of Unregistered Bank Holding Companies—Problems and Prospects*, Staff Report, 91st Cong., 1st sess., 1969.

8. See, for example, John Narver, "Conglomeration in the Food Industries," Leon Garoian, ed., *Economics of Conglomerate Growth*, (Corvalis, Ore.: Agricultural Research Foundation, 1969), pp. 21–41.

NOTES TO CHAPTER III

1. *Hearings on Mergers and Other Factors Affecting Concentration*, p. 507.

2. *Ibid.*, p. 507.

3. *FTC Staff Merger Report*, 1969, p. 142.

4. *Ibid.*, p. 143.

5. American Enterprise Institute, *The Conglomerate Merger Tax Proposal*, May 12, 1969, p. 6.

6. For a discussion of the estate-tax motive see H. W. Sommers, "Estate Taxes and Business Mergers," *Journal of Finance*, Vol. 23 (May, 1968), pp. 201–210.

7. Jon G. Udell, *Social and Economic Consequences of the Merger Movement in Wisconsin*, pp. 21–22.

8. *FTC Staff Merger Report, 1969*, p. 151. Several good examples of this type of merger inducement are cited, pp. 152–155. These examples include Penn Central, Textron, and Studebaker.

9. *Ibid.*, p. 156.

10. Abraham J. Briloff, "Financial Motives for Conglomerate Growth," Leon Garioan, ed., *Economics on Conglomerate Growth*, pp. 82, 83.

11. *FTC Staff Merger Report, 1969*, pp. 122–127.

12. For a good example of this type of manipulation see Abraham J. Briloff, *Hearings on the Conglomerate Merger Problem*, pp. 4776–4777. Briloff's testimony provides an excellent summary of the accounting and stockmarket factors which encourage mergers.

13. *Ibid.*, pp. 4777–4780.

14. The concept of instantaneous merger profit is developed in detail by Walter J. Mead, "Instantaneous Merger Profit as a Conglomerate Merger Motive," *Western Economic Journal*, Vol. 7 (December, 1969), pp. 295–306.

15. This example is taken nearly intact from the testimony of Abraham Briloff, *Hearings on the Conglomerate Merger Problem*, p. 4775.

16. Dean E. Graber, "Real and Illusory Earnings Growth," *Financial Analysts Journal* (March, April, 1969), pp. 52–54.

17. See for example Joseph S. Bain, "Economies of Scale, Concentration, and the Condition of Entry in Twenty Manufacturing Industries," *American Economic Review*, Vol. 44 (March, 1954), pp. 15–39; T. R. Saving, "Estimation of Optimum Size by the Survivor Technique," *Quarterly Journal of Economics*, Vol. 75 (November, 1961), pp. 569–607; William S. Comanor and Thomas A. Wilson, "Advertising and the Advantages of Size," *American Economic Review*, Vol. 54 (May, 1969), pp. 87–98; J. R. Monroney, "Cobb-Douglas Production Function and Returns to Scale in U.S. Manufacturing," *Western Economic Journal*, Vol. 5 (December, 1967), pp. 39–51; George J. Stigler, "The Economics of Scale," *Journal of Law and Economics*, Vol. 1 (October, 1958), pp. 54–71.

18. *FTC Staff Merger Report, 1969*, p. 86.

19. *Ibid.*, p. 88.

20. See, for example, John Jewkes, David Sawers, and Richard Stillerman, *The Sources of Invention* (New York: St. Martins Press, 1958).

21. See, for example, Jacob Schmookler, "Bigness, Fewness and Research," *Journal of Political Economy*, Vol. 67 (December, 1959), pp. 628–631; and Edwin Mansfield, "Industrial Research and Development Expenditures, Determinants, Prospects and Relation to Size of Firm and Inventive Output," *Journal of Political Economy*, Vol. 72 (August, 1964), pp. 319–340.

22. Donald Watson and Mary Holman, "Concentration of Patents from Government Financed Research in Industry," *The Review of Economics and Statistics*, Vol. 49 (August, 1967), pp. 375–381; Walter Adams and Joel Dirlam, "Big Steel, Inventions, and Innovation," *Quarterly Journal of Economics*, Vol. 80 (May, 1966), pp. 167–189.

23. See in particular Eamon M. Kelly, *Profitability of Growth Through Mergers*; and Thomas F. Hogarty, "The Success of Industrial Mergers," Unpublished Doctoral Dissertation, State University of New York at Buffalo, 1969. Also see testimony by Donald F. Eslick and Richard J. Arnould, *Hearings on the Conglomerate Merger Problem*, pp. 4702–4711 and 4679–4702, respectively.

24. Thomas M. Kelly, "The Influence of Size and Market Structure on the Research Efforts of Large Multiple-Product Firms," Unpublished Doctoral Dissertation, Oklahoma State University, 1969.

25. F. M. Scherer, "Firm Size, Market Structure, Opportunity, and the Output of Patented Inventions," *American Economic Review*, Vol. 55 (December, 1965), pp. 1097–1125.

26. *FTC Staff Merger Report, 1969*, p. 159.

27. Samuel R. Reid, *Hearings on the Conglomerate Merger Problem*, p. 4606.

28. *Ibid.*, p. 4605. The complete results of Reid's research effort are reported in full in *Mergers, Managers, and the Economy* (New York: McGraw-Hill, 1968).

29. *Ibid.*, p. 4606.

30. William J. Baumol, *Economic Theory and Operations Analysis* (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1965), pp. 301–303.

31. This explanation is offered by many observers including Joel Dean, "Some Causes and Consequences of Conglomerate Mergers," *Hearings on the Conglomerate Merger Problem*, pp. 5253, 5254. Dean, in offering several possible explanations for growing conglomerate merger activity, stated: "Hence growth by merger was driven into conglomerates by the Courts (or perhaps by executives' misconstruction of Court decision)."

NOTES TO CHAPTER IV

1. Jon G. Udell, *Social and Economic Consequences of the Merger Movement in Wisconsin*.

2. *Ibid.*, p. 44.

NOTES TO CHAPTER V

1. Samuel R. Reid, *Economics of Conglomerate Growth*, p. 54.

2. Randall Klemme, Vice-President and corporate economist for Northern Natural Gas Co. of Omaha, quoted by Robert Dorr, "Omaha Business Losing Its Home Grown Flavor," *Omaha World Herald*, January 26, 1969.

3. Robert Dorr, "Omaha Business Losing Its Home Grown Flavor," *Omaha World Herald*, January 26, 1969.

4. Jon G. Udell, *Social and Economic Consequences of the Merger Movement in Wisconsin*, Ch. VII, pp. 57–65.

5. *Ibid.*, p. 65.

6. *Ibid.*, p. 26.

7. Senator Estes Kefauver, U.S. Congress, House of Representatives, Committee on the Judiciary, before subcommittee No. 2, House of Representatives, *Hearings on Amending Section 7 and 11 of the Clayton Act*, 80th Cong., 1st sess., 1947, p. 7.

8. Senator Gaylord Nelson, *Hearings on the Conglomerate Merger Problem*, pp. 4599, 4600.

NOTES TO CHAPTER VI

1. The case for internal growth is summarized succinctly in R. M. Cyert and K. D. George, "Competition, Growth, and Efficiency," *The Economic Journal*, Vol. 79 (March, 1969).

A Note About the Author

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