

Discussion of “Mergers and Managers: Manager-Specific Wage Premiums and Rent Extraction in M&As”

David A. Matsa

Northwestern University and NBER

Northwestern | Kellogg



Motives for M&A

- Value creation
 - Restructuring operations
 - Exploiting economies of scale/scope
 - Providing internal capital market
 - Aligning management incentives
- Wealth transfer
 - Developing market power
 - Reducing tax liability
 - Reducing payments to workers and other stakeholders
 - Purchasing undervalued assets

Motives for M&A

- Value creation

- Restructuring
- Exploiting synergies
- Providing new products
- Aligning management

The paper shows that reducing costs by replacing managers that pay above-average wages explains up to **72%** of the value “unlocked” by Danish acquisitions in 1995–2011

- Wealth transfer

- Developing new products
- Reducing tax liability

- Reducing payments to workers and other stakeholders
- Purchasing undervalued assets

Workers and investors combine to create economic value

Workers
("labor")



+

Investors
("capital")



=

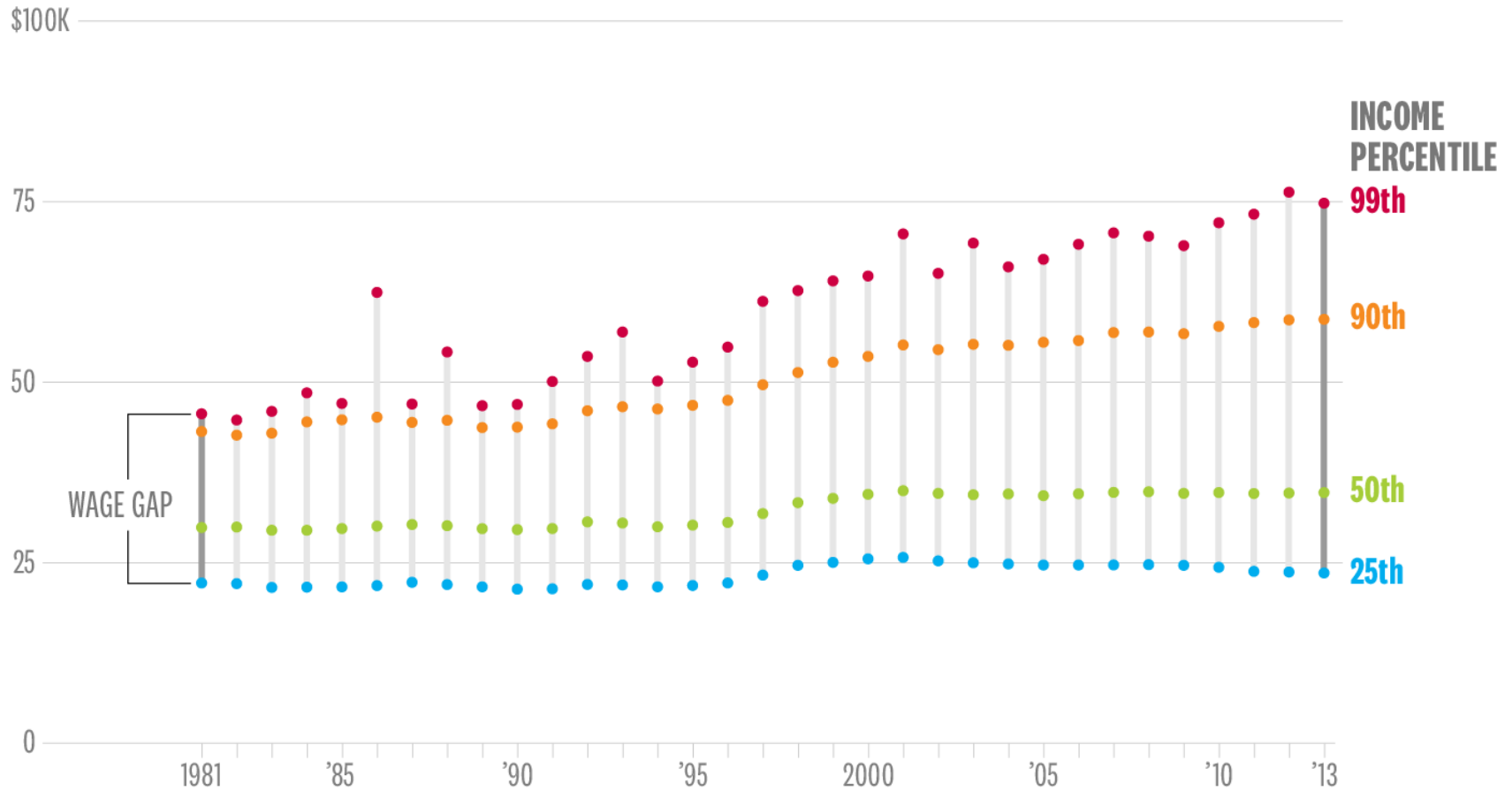
Corporate
profits



How should they divide that value?

Growing inequality across companies

AVERAGE COMPANY SALARY (IN 2013 DOLLARS)



SOURCE U.S. SOCIAL SECURITY ADMINISTRATION MASTER EARNINGS FILE

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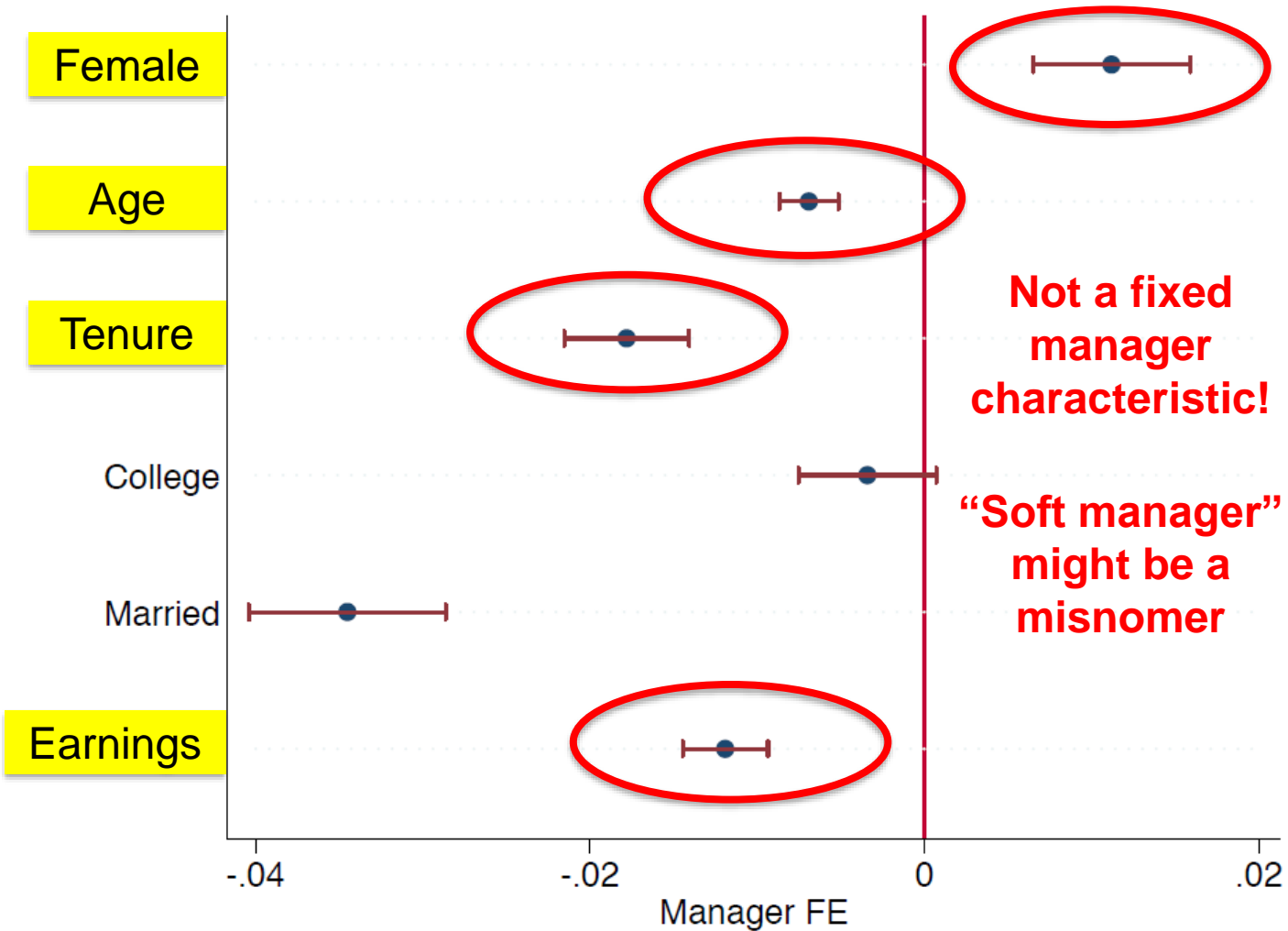
Managers play an important role

- Managers explain more than 30% of the cross-establishment variation in wages
- Moving from the 10th to 90th percentile manager increases workers wages by 21%

What drives this variation in “style”?

- Long-run profit maximizing strategy?
 - Encourage firm-specific investments
 - Efficiency wages to elicit effort
- Compensating differential for risk-taking?
- Poor negotiator with suppliers?
- A more progressive notion of fairness?

What drives this variation in “style”?

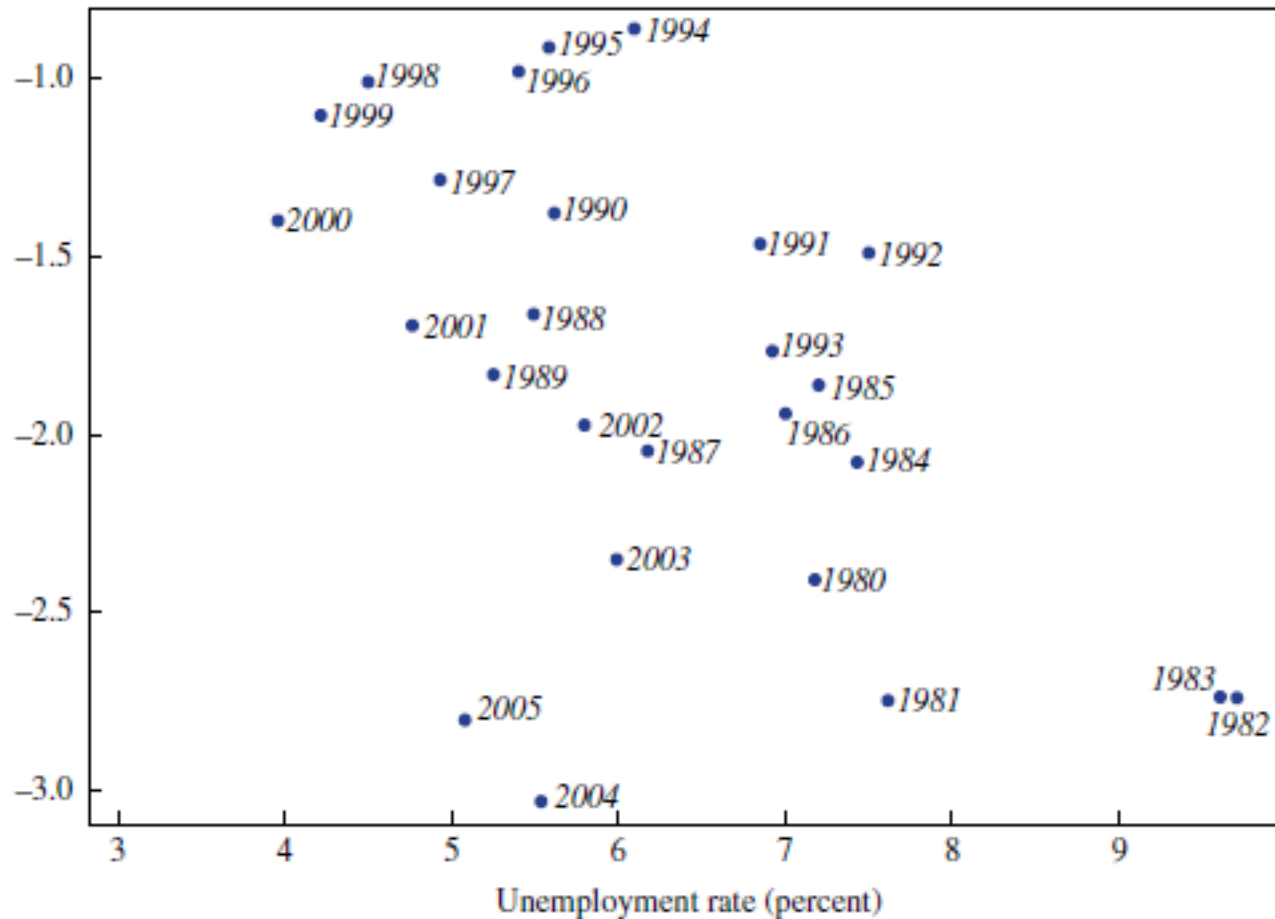


How big is M&A effect?

- 2 percentage point persistent decline in wages
- PDV of wage loss = 26% of annual earnings

Substantial but much smaller than layoff

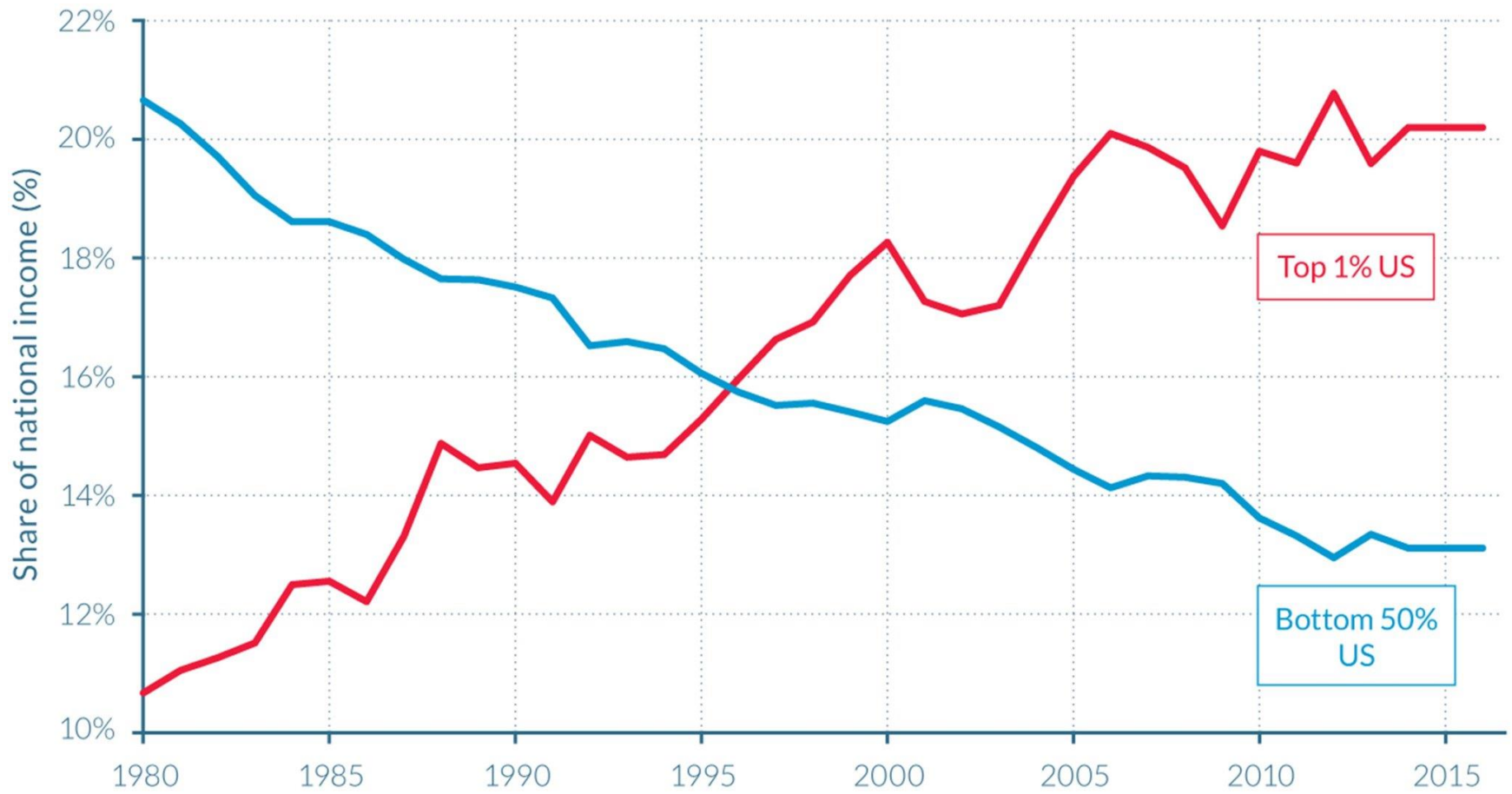
PDV of earnings loss
from displacement



Is cutting wages optimal for firm?

- Significant cost savings in short run
- No immediate benefit in TFP or value added per worker
- But could strategy backfire in the long run?
 - Short run profits \uparrow 6.6%
 - Stock return \uparrow 2.1%

How much of growth in inequity is from removing “soft” managers?



Bottom line

- Authors: “private gains of M&As to the shareholders of target and acquirer firms may exceed the social gains.” (p.35)
- Matsa: It appears much of Danish M&A in recent years was welfare neutral at best
 - In Denmark! How much more so in other countries?
 - Example of how unregulated market enforces shareholder capitalism and drives inequality