

Conclusion: Firms Buy Efficient Plants and Improve Their Labor Productivity

This study used plant-level data consisting of all plants surveyed in the Census of Manufacturers to examine whether mergers and acquisitions in food manufacturing were efficient and, if so, whether the resulting combinations yielded synergies. We evaluated labor productivity, a measure of efficiency, before and after M&As over two merger periods and found that acquired plants were highly productive before their mergers and became more productive afterward. These results lead us to conclude that since labor productivity grew, M&As were efficient, and, since acquired plants had high labor productivity before their mergers, M&As yielded synergies.

The finding that M&As yielded synergies is important. If plants had low labor productivity prior to their mergers and improved their labor productivity afterwards, then they could have just average labor productivity after the merger and may not exert pressure on competitors to improve their own performances.¹⁰ However, since acquired plants were efficient prior to their acquisition and improved their labor productivity afterward, acquired plants had to have better-than-average labor productivity afterward and could force other plants to either improve their own labor productivity or exit the industry. The resulting industrywide labor productivity gains likely contributed to the sharp improvement in labor productivity in the food industry over 1976-92. Ollinger et al. (April 2005) indicate that labor productivity rose by 50 percent to 300 percent in seven food industries: meat packing, cheese making, fluid milk processing, flour milling, feed processing, wet corn milling and soybean processing. Only two—meat processing and poultry slaughtering and processing—of the nine industries examined by Ollinger et al. (April 2005) showed no apparent improvement in labor productivity. But poultry slaughtering and processing actually had a substantial increase in labor productivity that is obscured in the labor productivity data. That is because production in poultry plants was shifted from less-processed products (whole fryers) to value-added products (chicken parts, boneless chicken cuts, and chicken nuggets).

The finding that meat, dairy, grain, and oilseed processors were highly productive before mergers is consistent with McGuckin and Nguyen's (1995) findings for small plants but not large plants for the entire food and beverage sector. McGuckin and Nguyen (1995) found that large acquired plants had below-average productivity, but our results indicate that both large and small plants had above-average labor productivity prior to their acquisitions. Additionally, we found that all poultry slaughtering and processing plants, except for very small ones, acquired over 1977-82, and all fluid milk processing plants acquired over 1982-87 had above-average labor productivity growth after their acquisitions. No feed processing plants acquired over 1982-87, however, had above-average labor productivity growth after their acquisitions. These differences and substantial variation in parameter estimates across the eight industries suggest that conduct and performance of an individual industry differs from that of a broadly defined sector such as the entire food industry. Thus, studies at the individual industry level, where industry-specific variables can be employed as control

¹⁰Plants with low labor productivity before their acquisition that improved their labor productivity afterward could have above-average productivity, but we cannot say that for sure. We can only say that labor productivity improved.

variables and a more focused analysis can be conducted, are necessary to evaluate the impact of certain types of economic activity, such as M&As.

Overall, M&As facilitated the transfers of plants to firms that valued them more highly and were, in general, better able to improve their operations (raise labor productivity). The resulting combinations had higher labor productivity than their predecessors. Data show that plants that closed had very low labor productivity and could not compete in a changed competitive environment.