Terrorist Attacks Damage Local Economies For Up To Two Years When It Comes to M&A

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Do acts of terrorism affect the mergers and acquisitions of the companies close to where they happen? According to a recent study from Durham University Business School (https://www.durham.ac.uk/business/) not only can such events bring current M&A deals to a grinding halt, the repercussions can last for up to two years afterwards, significantly damaging business prospects and local economies.

The research, conducted by Professor Dimitris Petmezas (https://www.durham.ac.uk/business/our-people/dimitris-petmezas/) alongside colleagues from Manchester Alliance Business School and Surrey Business School, sought to explore how exogenous shocks, such as terrorist attacks, can impact local business economy due to the uncertainty they leave in their wake, and to what extent.

Professor Petmezas and his colleagues reviewed the M&A activity of firms located in and around the locations of a sample of terrorist attacks in the USA which were heavily covered by media, between 1995 and 2015. They then used Metropolitan Statistical Area (MSA) information and physical distance to measure each firm's geographic proximity from the attacked locations.

Terrorist attacks were also rated on their severity by considering   the number of human casualties caused.

Whilst an immediate negative impact of such shocks was to be expected, the study revealed several harmful consequences for firms located near to terrorism-stricken areas when it comes to their long-term M&A prospects.

Firstly, such firms were revealed to become less attractive to potential acquirers and, as a result, were less likely to receive an acquisition bid. Furthermore, this impact was shown to last for as long as two years after the incident occurred.

Furthermore, those firms which had deals outstanding when attacks occurred were far more likely to have those deals withdrawn.

Whilst there was an argument to be made for lower-priced acquisitions becoming more desirable due to the potential to save money, the study's findings did not support this perspective. The researchers say that acts of terrorism instead prompted acquiring firms to show preference for cross-MSA targets, or targets located farther away from where the acquirers were located, supporting the argument that target firms located in areas subject to a terrorist attack become less attractive as a result.

Furthermore, for those few firms which did manage to secure deals, the research revealed they often received a lower acquisition premium, leaving them with less bargaining power. The research detailed how this also translated into lower target firm stock returns and lower overall acquisition synergies.

The result, according to Professor Petmezas, is a significant hit to local economies and their productivity, which can have a domino effect on workers.

Another key element, the researchers say, is human capital, which can potentially stoke the flames of terrorism-induced uncertainty, as labour productivity in firms located in terrorism-stricken areas decreases, increasing the real option value to delay M&A investments.

The researchers believe the study also highlights important lessons to be learned not only by hears on industry when it comes to deciding how to staff, market, and protect their organisations, but beyond that to local and national governments and policymakers.

Professor Petmezas says:

“Our results suggest that personal uncertainty and fear affect the acquirer-CEO’s bid decisions. Our study uncovers a negative link between terrorism intensity and acquisition premium offered which becomes more pronounced when the acquirer CEO is more risk averse or when target firms are more human capital dependent.

“Specifically, our results reveal that terrorism affects corporate investments and value creation, indicating that it has real economic effects. For policymakers, to combat this, greater consideration and expenditures on public security and local-level investment should also be considered to give companies a firmer grounding to bounce back.”

The full study has been accepted for publication in the Management Science journal.

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For further information, or to request an interview with Professor Dimitris Petmezas please contact Kerry Ruffle at BlueSky Education – kerry@bluesky-pr.com / +44(0)1582 790701