Report on “Essays on Access to External Finance, Acquisitions and Productivity,” by Peter Ondko

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This is an excellent thesis and my comments are quite minor, mainly suggesting things that one may do in the future.

Ch. 1.

It all looks well done, perhaps one might mention that there are cyclical issues. This is probably covered by the treatment of growth opportunities which this chapter is careful to control for; but how temporary is the fall in targets’ performance? A temporary fall in demand or a temporary shock to productivity does not call for a reallocation of capital. Even present value and Tobin’s Q can reflect temporary shocks. How much of a low-q firm is an indication of inefficiency and how much does it signal an unforeseen low demand? Irreversible investment can produce $q < 1$. Sargent (1980) has only one type investment, but if irreversibility operates in each industry, then industries that are hit by bad shocks can have $q < 1$ with no implications about inefficiency. Could it be that firms in countries less-developed financially also find themselves operating more volatile technologies? Koren and Tenreyro had a paper relating to this question, and the same issue arises with Ch. 2. Finally, Shourideh and Zeitlin-Jones have a new paper with cyclical implications of financial frictions, but no cross-country analysis, they focus on the time series.

Ch. 2.

In less developed countries targets have to have something very bad happen to their productivity before some other firm acquires them. What is the social value of a frictionless used-asset market? Some countries have no financial markets where purchases of firms can take place. For small business deals, Pavel Sevcik (U. Montreal thesis 2 years ago) and Gabriel Bassaluzzo (U. Penn Ph.D. thesis 8-10 years ago) have written papers on financing via random meetings – person with idea meets a possible financier and they strike a deal.

On the horizontal vs. vertical merger issue, the recent UCLA Thesis by Joel David is on the finding by Rhodes-Kropf and others that there is some positive sorting on productivity between acquirers and targets.

Ch. 3.

Relating to the Klette-Griliches (96) discussion on p. 125, a firm may be a target not just because it is unproductive but because it has a product that few people want to buy. Both are invitations to a takeover. The acquirer may be more productive,
but he may also have a better product line which he can sell using the infrastructure available via the target’s outlets, and even factories. I cannot think of individual examples now, but maybe Banks post-deregulation – are they an example of merging for complementary assets or just horizontally? Florida banks had the deposits, the north-east and northwest banks knew where to invest such deposits. I guess it’s horizontal because deposits are perfect substitutes.

The Klette-Griliches point – the identification problem – is mentioned by Spence (Econometrica 84) in an early footnote. He says it does not matter which one considers, the two are isomorphic. But the IO literature (Syverson, Foster, Haltiwanger) has tried hard to disentangle the two. Maybe the horizontal/conglomerate merger distinction has something to do with it, with conglomerate mergers being more about products and horizontal ones being more about processes.

Incidentally, I would hope to see a citation to my 2008 REStat paper with Rousseau perhaps on p. 2 near the 2002 reference, and almost certainly at the bottom of p. 62 with the discussion of reallocation and merger waves. Then on p. 63 there is some discussion of micro evidence that compromises Rousseau’s and my q-theory but really no discussion of what our 2002 empirics showed, namely that high q firms are more likely to be acquirers. Rousseau has a cross-border paper listed on google scholar and that one may also be good to include.