

Mergers and Acquisitions in the United States Defense Industrial Base

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Abstract

We examine mergers and acquisitions (M&A) in the post-Cold War US Defense Industrial Base (DIB). As the sole super-power, the US maintains substantial military expenditures which are subject to greater M&A regulation than other industries. Since the 1988 Exon-Florio Amendment, foreign M&A activity that could impact US national security is subject to approval under Defense Production Act (DPA) regulations. This analysis employs data from five sources: arms producing and military service companies from the Stockholm International Peace Research Institute (SIPRI), corporate lobby expenditures from the Center for Responsive Politics (CRP), corporate performance from COMPUSTAT, historical stock price data from the Center for Research in Security Prices (CRSP), and M&A characteristics from the Securities Data Company (SDC). With this rich data set, we illustrate how M&A activity in the US DIB is more volatile than in other industries. Since supply and demand in the US DIB is driven by an oligopoly-monopsony competitive environment with DPA limitations on foreign investment, corporate lobby expenditures which influence political leaders yield more favorable M&A deals.

Key words: Mergers and Acquisitions, Regulation, Lobbying, Politico Economic, Military Industrial
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