Impact of Intellectual Property Rights on Activity of Cross-Border Mergers and Acquisitions

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Extended Abstract

Economies are getting more innovative, the importance of intellectual capital is increasing, and cross-border mergers and acquisitions (M&A) are becoming more tied with intellectual property each year. In modern economy acquirers are usually interested as in exporting their intellectual property (technologies, patents, trademarks and others) to foreign target companies, as in importing it from target firms. Thus, acquirers specifically care about intellectual property rights (IPR) protection in target countries when they enter foreign markets.

The issue of IPR protection is in the center of the policy and free-trade agreements discussion around the world due to the complexity of its influence on national economies. While some authors state that strong IPR protection is crucial because it reduces the probability of imitation or theft and encourages companies to invest in research and innovation (Branstetter et al., 2006; Allred & Park, 2007; Fan et al., 2013; Ilie, 2014), the others think that strong IPR protection discourages innovation and decreases the economic growth (Chaudhuri et al., 2006; Stiglitz, 2008; Bilir, 2014; Dosi & Stiglitz, 2014).

Some aspects about IPR and M&A connection were covered in only two papers by Alimov and Officer (2017) and Campi et al. (2019). Based on the sample of domestic and cross-border M&A deals in different developed and emerging capital markets, the authors found positive influence of IPR protection on cross-border inbound M&A activity in target countries. Alimov and Officer (2017) also noticed that IPR protection has a higher influence on M&A activity in the industries, which are more intellectual-capital intensive and where IPR are more necessary in production. This influence is stronger when the target country has weaker IPR protection than the acquirer country. Besides, the increase in the Patent Index of a target country is positively associated with the synergy gains of cross-border M&A.

This research brings several contributions to the existing academic literature. First, we compare the impact of IPR protection on inward M&As for developed and emerging countries. Second, we check whether the optimal level of IPR protection in terms of inward M&As exists for

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different target countries. Third, we try to reveal the impact of IPR protection on international M&A activity not only at the level of target countries, but also at the level of acquirer countries. Finally, our empirical analysis covers the newest period until 2017, meaning that we examine the most recent period in contrast to the existing studies.

This research is interdisciplinary and unites macroeconomics, international trade, and corporate finance. To test the proposed hypotheses about the relationship between the strength of IPR protection in the countries and the intensity of inbound cross-border M&As we used the regression analysis in form of panel data with fixed effects, build on the basis of ordinary least squares. We suggested two models and gathered two datasets of more than 500 thousand M&A deals in 64 countries at the period from 1985 to 2017. In the first model M&A activity is studied at the level of the target countries in general, where one observation is the number (or volume) of inbound M&A deals into the specific country and in the specific year. In the other model one observation is the number (or volume) of M&A deals between a specific country-pair in the specific year. The second model allows to consider the impact of the factors, which can exist only for county-pairs, such as cultural and language difference, distance, economic development difference and others.

The results of this study show that better IPR protection in a target county attracts international M&A activity and this effect is higher if the target company is from a less developed country than the acquiring firm. On the contrary, this impact is negative if the target and acquiring firms are both from the developed countries. Stronger IPR protection in the developed acquirers’ countries discourage international M&A activity, while this protection in the emerging acquirer countries stimulates it. Also, there is a U-shaped relationship between the IPR protection in a target county and international M&A activity at the post-TRIPS (Agreement on Trade-Related Aspects of Intellectual Property Rights) period after the global increase in IPR protection.

There is an ongoing debate around the world about the extent to which the countries should protect the intellectual property rights. The right choice of IPR protection can significantly influence the economy of the countries and create a way of technology and knowledge transfer to the developing countries through the dramatically growing amount of cross-border M&A. It can result in the economic development of poor countries and a drop of global inequality.