EAST AFRICAN FINANCE JOURNAL (EAFJ)
Volume 5 Issue 3 |2026 | pp 87- 97
E-ISSN: 2959-9121

Mergers and Acquisitions and Economic Development: A Theoretical and Empirical Review of Productivity, Innovation, Employment and Market Structure

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Article DOI: *10.59413/eafj/v5.i3.6*

Abstract:

Mergers and acquisitions (M&A) are important mechanisms of corporate restructuring and resource reallocation, with potential implications for economic development through productivity, innovation, employment, market structure, investment, and knowledge transfer. This paper provides a theoretical and empirical review of the relationship between M&A and economic development, focusing particularly on productivity, innovation, employment, and market structure. The analysis is anchored on Neoclassical Efficiency (Synergy) Theory, Schumpeterian Creative Destruction Theory, Dunning's Eclectic (OLI) Paradigm, and Agency Theory. The review shows that M&A can enhance economic development by generating economies of scale, improving resource allocation, transferring managerial and technological capabilities, facilitating innovation, and supporting capital and knowledge flows, particularly through cross-border acquisitions. However, the evidence also indicates that M&A may produce employment displacement, organizational disruption, and excessive market concentration. The developmental effects are therefore conditional on the nature and motivation of transactions, post-merger resource allocation, technological capabilities, labour-market effects, and the regulatory and competitive environment. The paper concludes that M&A should be assessed not merely by transaction size or firm-level financial performance, but by its contribution to productivity, innovation, employment, technological upgrading, consumer welfare, and competitive market structures.

Keywords: Mergers and Acquisitions; Economic Development; Productivity; Innovation; Employment; Market Structure; Technology Transfer; Foreign Direct Investment

1. Introduction

Mergers and acquisitions (M&A) refer to the consolidation of companies or assets through financial transactions and constitute an important mechanism for reallocating capital and productive resources within and across economies (Yaghoubi et al., 2016). Unlike Greenfield investment, which creates new productive capacity, M&A restructures existing ownership and control of assets, with potential implications for productivity, innovation, employment, market structure, and cross-border capital flows

(Chapman, 2003).

M&A activity has occurred in successive waves, including the conglomerate wave of the 1960s, leveraged buyouts in the 1980s, cross-border acquisitions in the 1990s, and the private-equity- and technology-driven waves of the 2010s and 2020s. These developments demonstrate the continuing importance of M&A as a mechanism of corporate restructuring and economic transformation.

The relationship between M&A and economic development is, however, complex. M&A can generate economies of scale, improve resource allocation, facilitate technology and managerial knowledge transfer, and promote productivity and innovation (Wang, M., & Sunny Wong, 2009). Patrick et al. (2022) found that M&A positively affects financial institutions' net income through increased wealth, reduced effective spending, and revenue growth. Conversely, M&A may result in employee displacement, organizational disruption, and other adjustment costs. Sogomi et al. (2022) found no significant short-run impact of M&A on shareholders' wealth despite potential benefits such as increased market share, economies of scale, reduced operating costs, and portfolio diversification. The study also highlights employee resistance arising from uncertainty and organizational-cultural differences.

These contrasting outcomes suggest that M&A does not automatically translate into economic development. Its effects depend on how transactions influence productivity, innovation, employment, and market structure, as well as the institutional and competitive environment in which they occur. M&A may enhance productive efficiency and technological capabilities, but excessive consolidation may also increase market concentration, weaken competition, and contribute to employment displacement.

Against this background, this paper provides a theoretical and empirical review of the relationship between M&A and economic development, focusing specifically on productivity, innovation, employment, and market structure. It integrates efficiency-based, evolutionary, and agency perspectives to explain how M&A can generate both developmental benefits and potential economic costs.

2. Theoretical Foundation

The relationship between mergers and acquisitions (M&A) and economic development can be understood through theoretical perspectives that explain why firms undertake M&A and how such transactions influence productivity, innovation, employment, and market structure. This study is anchored on four complementary perspectives: Neoclassical Efficiency (Synergy) Theory, Schumpeterian Creative Destruction Theory, Dunning's Eclectic (OLI) Paradigm, and Agency Theory. Together, these perspectives provide a balanced framework for examining both the potential benefits and adverse consequences of M&A for economic development.

2.1 Neoclassical Efficiency (Synergy) Theory

The Neoclassical Efficiency or Synergy Theory is associated with Jensen and Ruback (1983) and Bradley, Desai and Kim (1988). The theory proposes that mergers and acquisitions can create value when the combined firm is able to achieve efficiencies or benefits that the individual firms could not achieve independently. These benefits may arise from economies of scale, economies of scope, elimination of duplicated activities, complementary resources, improved managerial capabilities, and more efficient allocation of capital.

The theory is particularly relevant to productivity, because combining complementary resources and eliminating inefficiencies can reduce production costs and increase output from existing resources. M&A may therefore improve total factor productivity by transferring assets and resources from less efficient to more efficient uses. The theory is also relevant to innovation, where the combination of technological capabilities, research and development resources, intellectual property, and skilled employees may enhance a firm's capacity to develop and commercialize new products and processes.

With regard to employment, efficiency gains may reduce employment in the short term where overlapping positions and operations are eliminated. However, if efficiency improvements generate increased production, investment and competitiveness, employment may expand over the longer term. The employment outcome therefore depends on whether efficiency gains are reinvested in productive activities.

The theory also provides an important explanation of market structure. M&A can produce larger and more efficient firms capable of competing more effectively and achieving economies of scale. However, excessive consolidation may reduce the number of competitors and increase market concentration. Consequently, the efficiency benefits predicted by the theory must be considered alongside competition concerns.

2.2 Schumpeterian Creative Destruction Theory

Joseph Schumpeter (1942) is the principal proponent of the Creative Destruction Theory, which explains economic development as a continuous process in which innovation transforms existing economic structures. According to Schumpeter, new technologies, products, production methods and business models create new sources of economic value while simultaneously making some existing firms, technologies and activities obsolete. The theory is highly relevant to innovation because M&A can facilitate the acquisition and diffusion of new technologies, intellectual property, managerial capabilities and innovative business models. Acquiring firms may use M&A to obtain technological capabilities more rapidly than would be possible through internal development. Consequently, acquisitions can accelerate technological transformation and contribute to productivity growth.

Creative destruction also provides an important explanation of productivity. Resources may move from declining or less productive firms and industries towards firms and activities with greater growth potential. Such reallocation can increase economic efficiency and productive capacity. However, the theory also recognizes the disruptive consequences of economic transformation. M&A may lead to employment losses when redundant activities, outdated technologies, or inefficient production facilities are eliminated. Although new employment opportunities may emerge in expanding firms and industries, displaced workers may experience adjustment costs, particularly where they lack the skills required by emerging industries.

In relation to market structure, creative destruction implies that established firms may be challenged or replaced by more innovative competitors. M&A can therefore contribute to industrial restructuring. However, acquisitions by dominant firms may also eliminate emerging competitors and potentially weaken the competitive process. The theory therefore provides a basis for examining both the transformative and disruptive effects of M&A on economic development.

2.3 Dunning's Eclectic (OLI) Paradigm

The Eclectic Paradigm, commonly referred to as the OLI Paradigm, was developed by John H. Dunning (1980). It explains why firms engage in foreign direct investment (FDI), including cross-border mergers and acquisitions. The paradigm identifies three conditions that influence international investment: Ownership (O), Location (L), and Internalization (I) advantages. Ownership advantages refer to firm-specific assets such as proprietary technology, brands, managerial expertise, patents and organizational capabilities. Location advantages arise from characteristics of the host economy, including market access, natural resources, skilled labor, infrastructure and favorable institutional conditions. Internalization advantages arise when firms benefit from controlling foreign assets directly rather than relying on licensing, contracting or other arm's-length arrangements.

The OLI Paradigm is relevant to productivity because cross-border M&A can transfer capital, managerial expertise, technology and organizational capabilities from acquiring firms to firms in host economies. These transfers may improve the productivity and competitiveness of acquired firms.

The theory is particularly important for innovation, as foreign acquisitions can facilitate the transfer of technology, knowledge, research capabilities and managerial practices across national boundaries. Such transfers can strengthen the technological capabilities of firms in developing and emerging economies. With respect to employment, cross-border M&A can generate employment through expansion, investment and integration into global value chains. However, employment may also decline where multinational firms restructure acquired operations or consolidate activities across countries.

The OLI Paradigm also has implications for market structure. Foreign acquisitions can increase competition by introducing firms with superior technologies, capital and managerial capabilities. Conversely, acquisitions by large multinational corporations may increase concentration and give foreign firms significant control over strategic sectors of host economies. The developmental outcome therefore depends on host-country institutions, competition policy and the capacity of domestic firms to absorb transferred knowledge and capabilities.

2.4 Agency Theory

Agency Theory was developed principally by Jensen and Meckling (1976) and further applied to corporate takeovers by Jensen (1986). The theory is based on the potential conflict of interests between managers and shareholders arising from the separation of ownership and control. Managers may pursue strategies that increase their own power, compensation, prestige or job security rather than maximizing shareholder or broader economic value. Agency Theory provides a critical perspective on M&A because not all acquisitions are necessarily undertaken for genuine efficiency or economic-development purposes. Managers may engage in empire-building, pursue excessive diversification, or undertake acquisitions that increase the size and complexity of the organization without generating corresponding economic benefits.

In relation to productivity, agency-driven acquisitions may fail to generate anticipated synergies and may instead increase costs and managerial inefficiencies. This contrasts with the predictions of Neoclassical Efficiency Theory. The theory also has implications for innovation. Acquisitions motivated primarily by managerial interests may divert resources from research, development and productive investment. Conversely, well-governed acquisitions may provide resources for innovation where managerial incentives are aligned with long-term organizational performance.

Agency Theory is particularly relevant to employment, since managers seeking to demonstrate short-term financial performance may implement aggressive cost-cutting, restructuring and workforce reductions. Such actions may improve short-term profitability but potentially undermine long-term productive capacity and employment. Regarding market structure, agency-driven acquisitions may contribute to unnecessary consolidation and increased market concentration. Large firms may pursue acquisitions to increase market power rather than to achieve genuine productive efficiencies. This creates a potential conflict between private corporate objectives and broader economic-development objectives.

2.5 Synthesis of the Theoretical Perspectives

The four theoretical perspectives provide complementary explanations of the relationship between M&A and economic development. Neoclassical Efficiency Theory emphasizes productivity and value creation through synergies and efficient resource allocation. Schumpeterian Creative Destruction Theory explains how M&A can facilitate innovation, technological transformation and the reallocation of resources while generating employment displacement. Dunning's OLI Paradigm explains the role of cross-border M&A in transferring capital, technology and managerial capabilities between countries. Agency Theory provides a critical perspective by highlighting situations in which managerial incentives may result in value-destroying acquisitions and excessive market concentration. Accordingly, the net effect of M&A on economic development cannot be assumed to be universally positive or negative. Rather, its outcomes depend on the extent to which transactions generate genuine productivity improvements, stimulate innovation, support sustainable employment, and maintain competitive market structures. Institutional factors such as competition policy, corporate governance, labor-market institutions and the regulatory environment can influence whether the potential benefits of M&A are realized or whether consolidation produces adverse developmental outcomes.

3. M&A and the Channels of Economic Development

Economic development is understood in a broad sense to include not only sustained growth in gross domestic product (GDP), but also improvements in productive capacity, productivity, the quality of employment, technological capabilities, and the strength of economic institutions. From this perspective, mergers and acquisitions (M&A) can play an important role in shaping the process of economic development because they influence how capital, technology, labor, and productive resources are distributed across firms and industries. The effects of M&A on economic development can be understood through five closely related channels: capital formation and investment, productivity and allocative efficiency, innovation and technology diffusion, employment and labor markets, and market structure and competition.

First, M&A can contribute to capital formation and investment. This is particularly important in the case of cross-border acquisitions, which represent a significant channel through which foreign direct investment (FDI) enters developing and emerging economies. When a foreign firm acquires a domestic firm, the transaction can provide the acquired company with additional financial resources, modern technologies, managerial knowledge, and access to international markets. These resources may improve the capabilities of the acquired firm and can also generate wider spillover effects within the surrounding industrial ecosystem. For example, domestic suppliers, competitors, and employees may benefit indirectly from the new technologies, management practices, and skills introduced by the acquiring company. In this way, M&A can contribute not only to firm-level investment but also to broader economic development through the transmission of capital and knowledge across firms and industries (Gopalan et al 2018).

Second, M&A can affect economic development through productivity and allocative efficiency. The theoretical synergy perspective suggests that mergers can create value when firms are able to combine complementary resources, reduce unnecessary duplication, and improve the use of existing assets. An acquisition may also transfer productive assets from less efficient managers to firms with stronger managerial capabilities, thereby increasing the productivity of those assets. When such improvements occur across an economy, M&A can contribute to higher output from the same quantity of labour and capital. In this sense, well-managed and economically justified mergers can improve allocative efficiency by directing resources towards firms and activities where they can generate greater economic value. Recent evidence further supports the importance of management and resource allocation in explaining productivity effects associated with mergers (Demirer & Karaduman, 2026).

Third, M&A represents an important mechanism for innovation and technology diffusion. This channel has become increasingly significant as firms compete in technology-intensive industries and as the global economy becomes more dependent on digital technologies and artificial intelligence. Acquisitions of technology-oriented firms can allow acquiring companies to obtain intellectual property, research and development capabilities, specialized knowledge, and highly skilled employees more quickly than would be possible through internal development alone. In cross-border transactions, these resources may also move across national boundaries, allowing technologies and technical expertise developed in one country to be introduced into another. M&A can therefore support technological upgrading by connecting firms to new sources of knowledge and innovation. This is particularly relevant in the current AI-driven wave of corporate acquisitions, where access to advanced technologies, data, intellectual property, and specialized human capital has become an important strategic objective (Wei et al, 2025).

Fourth, M&A has important consequences for employment and labor markets. Unlike the potential benefits associated with investment, productivity, and innovation, the employment effects of M&A are often more complex and uncertain. Following a merger or acquisition, firms may restructure their operations to eliminate duplication and reduce costs. This process can result in redundancies, plant closures, changes in working arrangements, or the relocation of production. Consequently, workers in acquired firms may experience job losses, particularly where the merged entity seeks to achieve efficiency through workforce reductions. However, M&A can also create employment when the combined firm becomes more competitive and expands its production, investment, and market activities. The overall developmental effect therefore depends on the balance between jobs lost through restructuring and jobs created through subsequent growth. Importantly, these effects are not necessarily distributed equally. Lower-skilled workers, particular regions, or communities that depend heavily on a single employer may experience a greater share of the costs, even when the merger produces positive aggregate economic effects (Arnold et al, 2023).

Finally, M&A can significantly influence market structure and competition. By combining previously independent firms, mergers and acquisitions can increase market concentration and reduce the number of competing firms within an industry. The consequences of such consolidation depend largely on whether the increased concentration results from genuine efficiency improvements or from the accumulation and exercise of market power. Where consolidation allows firms to achieve economies of scale, reduce production costs, improve investment, or provide better products and services, it may generate benefits for consumers and support further investment. However, excessive concentration can also allow firms to exercise greater market power. This may result in higher prices, weaker competitive pressure, reduced incentives to innovate, and a greater concentration of economic rents among dominant firms. Such outcomes can undermine the broad-based nature of economic development by limiting the extent to which productivity gains and economic opportunities are shared across the economy (Singh 2022).

The relationship between M&A and economic development is therefore neither inherently positive nor negative. M&A can promote development by mobilizing capital, improving productivity, facilitating technological diffusion, and strengthening the competitiveness of firms. At the same time, it can generate significant social and economic costs through employment displacement and excessive market concentration. The developmental impact of M&A ultimately depends on the characteristics of the transaction, the efficiency of the firms involved, the sector in which the transaction occurs, and the institutional and regulatory environment governing the process. Consequently, understanding M&A as a component of economic development requires consideration of both its capacity to generate productive and technological gains and its potential to create distributional and competitive challenges.

4. Implications for Economic Development: Applying the Theoretical Lens

Economic development extends beyond sustained increases in gross domestic product (GDP) to encompass improvements in productive capacity, productivity, technological capabilities, employment opportunities, institutional quality, and the efficient allocation of economic resources. From this broader perspective, mergers and acquisitions (M&A) constitute an important mechanism through which resources are reorganized within and across economies. The implications of M&A for economic development can be examined through the theoretical lenses of synergy theory, resource-based theory, allocative efficiency, technological diffusion, labor-market adjustment, and market power theory. These perspectives provide a basis for understanding how M&A may simultaneously generate productivity and innovation gains while producing employment and competition-related challenges.

4.1 Productivity and Allocative Efficiency

A central implication of M&A for economic development concerns productivity improvement and allocative efficiency. The synergy perspective argues that mergers can create economic value when combining firms enables them to exploit complementary resources, eliminate duplication, achieve economies of scale, and utilize productive assets more efficiently. Similarly, the resource-based view suggests that acquisitions can provide firms with access to valuable and complementary resources that would otherwise be costly or time-consuming to develop internally.

At the economy-wide level, these firm-level efficiency improvements may contribute to economic development when resources such as capital, technology, managerial expertise, and labor are transferred from relatively less productive uses to more productive activities. An acquisition may, for example, place poorly managed assets under the control of firms with stronger managerial capabilities, superior technologies, or better organizational systems. The resulting improvement in resource utilization can increase output without requiring a proportional increase in factor inputs. Consequently, M&A may contribute to total factor productivity and broader economic efficiency.

Empirically, the importance of management practices and resource allocation is increasingly recognized in explaining productivity differences between firms. Demirer and Karaduman (2026) provide evidence that resource allocation and managerial factors are important in understanding productivity outcomes associated with corporate restructuring and firm-level reorganization. This supports the theoretical argument that the developmental value of M&A does not arise simply from combining firms, but from whether the post-merger organization is capable of allocating resources more effectively. Thus, M&A is more likely to contribute positively to economic development where restructuring improves productive efficiency rather than merely increasing firm size.

4.2 Innovation and Technological Development

Innovation constitutes a second major pathway through which M&A can influence economic development. From a resource-based and dynamic-capabilities perspective, firms may undertake acquisitions to obtain technological capabilities, intellectual property, research and development (R&D) capacity, data, specialized knowledge, and highly skilled human capital. Acquisition can therefore provide a faster mechanism for accessing technological capabilities than developing equivalent resources internally.

This mechanism is particularly important in technology-intensive sectors, where competitive advantage increasingly depends on access to advanced digital technologies, artificial intelligence (AI), data infrastructure, patents, and specialized expertise. Acquiring technology-oriented firms can facilitate the integration of new technologies into established production systems and potentially accelerate the commercialization of innovations. In cross-border M&A, the process may additionally facilitate international technology transfer, allowing technological capabilities developed in one economy to be introduced into another. Wei et al. (2025) highlight the increasing strategic importance of acquisitions in the contemporary AI-driven corporate environment, where firms seek access to advanced technologies, intellectual property, data, and specialized human capital. This development illustrates how the nature of M&A is evolving from conventional consolidation towards the acquisition of strategic knowledge and technological capabilities. From an economic-development perspective, the potential benefit extends beyond the acquiring firm if acquired technologies and knowledge diffuse to domestic suppliers, employees, competitors, and related industries.

However, the innovation effect of M&A is not automatically positive. Where acquisitions are motivated primarily by the desire to eliminate potential competitors or suppress technologies that threaten incumbent firms, consolidation may reduce rather than enhance innovation. The developmental implication therefore depends on whether M&A promotes innovation creation and diffusion or strengthens incumbent market power at the expense of technological competition.

4.3 Employment and Labor-Market Development

The implications of M&A for employment represent one of the most important dimensions of economic development because employment provides income, supports household welfare, and contributes to human-capital development. The theoretical relationship, however, is ambiguous. From an efficiency perspective, mergers may generate employment losses where firms eliminate overlapping functions, consolidate production facilities, automate activities, or restructure their operations. Such restructuring may be economically rational from the perspective of the merged entity but socially costly to affected workers and communities.

Arnold et al. (2023) demonstrate the importance of considering the distributional consequences of corporate restructuring, particularly because the costs and benefits of M&A may not be evenly distributed across workers, sectors, or geographical regions. Workers in routine or lower-skilled occupations may be particularly vulnerable where restructuring involves technological substitution or workforce rationalization. Similarly, regions that depend heavily on a single major employer may experience substantial economic disruption following plant closures or employment reductions.

Nevertheless, employment effects can also become positive over the longer term. If an M&A transaction generates productivity gains, improves competitiveness, expands investment, or enables entry into new markets, the resulting growth may increase demand for labor. New employment opportunities may consequently emerge in production, marketing, logistics, technology, management, and supporting industries. The net developmental effect therefore depends on the balance between short-term employment displacement and longer-term employment creation.

This distinction is particularly important for developing economies, where labor absorption remains a central component of inclusive economic development. Consequently, evaluating M&A solely according to shareholder value or firm-level productivity may provide an incomplete assessment of its developmental contribution. A broader assessment should consider employment quality, worker displacement, skill development, income effects, and the capacity of affected regions to absorb displaced labor.

4.4 Market Structure and Competition

M&A also has significant implications for economic development through its effects on market structure and competitive dynamics. Market-structure theory suggests that horizontal mergers, particularly those involving major competitors, can increase market concentration and alter the distribution of market power. Increased concentration may generate efficiencies where firms achieve economies of scale, reduce transaction costs, eliminate redundant activities, or improve investment capacity. These benefits can potentially translate into lower costs, improved product quality, and greater productive efficiency. The alternative concern is that excessive consolidation may enable dominant firms to exercise market power. A reduction in the number of independent competitors can weaken competitive constraints and potentially facilitate higher prices, reduced consumer choice, lower quality, and barriers to entry. Singh (2022) emphasizes the importance of considering the relationship between market concentration, competition, and the distribution of economic gains. Where market power becomes excessive, productivity improvements generated by M&A may not necessarily translate into broad-based welfare gains.

The implications are particularly significant in developing economies characterized by relatively small markets and limited numbers of firms in some industries. In such contexts, even a small number of M&A transactions may substantially alter market concentration. Regulatory institutions therefore play a critical role in distinguishing between mergers that generate genuine efficiency gains and those that primarily enhance market power. Effective competition policy can ensure that the productivity benefits of consolidation are not achieved at the expense of consumers, smaller firms, innovation, or long-term market contestability.

4.5 Capital Formation, Investment and Knowledge Spillovers

Beyond the four principal dimensions of productivity, innovation, employment, and market structure, M&A can influence economic development through capital formation and investment, particularly through cross-border acquisitions. Cross-border M&A represents an important mechanism through which foreign direct investment (FDI) enters developing and emerging economies. Foreign acquiring firms may introduce financial resources, advanced technologies, managerial practices, organizational capabilities, and international market linkages into domestic firms.

Gopalan et al. (2018) demonstrate the importance of cross-border acquisitions as a channel through which capital and knowledge can be transferred across economies. The developmental effects may extend beyond the acquired enterprise when domestic suppliers, employees, competitors, and related firms gain access to new technologies, managerial practices, skills, and international business networks. Such spillovers can strengthen domestic productive capabilities and facilitate integration into global value chains.

Nevertheless, these benefits depend substantially on the absorptive capacity of the host economy. Where domestic firms lack adequate human capital, technological capabilities, infrastructure, or institutional support, the potential spillovers from foreign acquisitions may remain limited. Furthermore, if acquisitions result primarily in asset stripping, market foreclosure, or the transfer of profits without corresponding investment in domestic productive capacity, the developmental contribution may be considerably weaker.

4.5 Synthesis of the Theoretical and Empirical Evidence

Taken together, the theoretical and empirical literature indicates that the developmental implications of M&A are multidimensional and conditional rather than uniformly positive or negative. The productivity and synergy perspectives emphasize the possibility of efficiency gains through better resource utilization; the resource-based perspective highlights access to strategic assets and capabilities; technological-diffusion theory explains the potential transmission of knowledge and innovation; labor-market theory draws attention to employment displacement and adjustment; while market-structure theory highlights the tension between efficiency-enhancing consolidation and the accumulation of market power.

The evidence from Gopalan et al. (2018), Demirer and Karaduman (2026), Wei et al. (2025), Arnold et al. (2023), and Singh (2022) collectively suggests that the economic-development effect of M&A depends on what resources are combined, how they are subsequently deployed, how workers are affected, whether innovation is strengthened or suppressed, and how market power

changes after consolidation. Accordingly, M&A should not be evaluated solely on the basis of transaction value, profitability, or post-merger firm performance. Its wider developmental contribution should also be assessed in terms of productivity growth, innovation capacity, employment outcomes, technological upgrading, consumer welfare, and competitive market structures.
Overall, the theoretical lens suggests that M&A can function as an important mechanism for economic transformation when it facilitates the movement of capital and capabilities towards more productive uses. However, the same transactions can generate developmental costs where efficiency gains are accompanied by significant employment displacement, technological exclusion, or excessive market concentration. The role of institutions and competition-policy frameworks is therefore critical in determining whether private gains from M&A translate into broader social and economic benefits. This provides an important basis for examining M&A not simply as a corporate restructuring strategy, but as a mechanism whose outcomes can influence the productivity, innovation capacity, employment structure, and competitive architecture of an economy.

5 Conclusion and Recommendations

5.1 Conclusion

Mergers and acquisitions (M&A) have significant but conditional implications for economic development. The theoretical and empirical evidence reviewed in this paper demonstrates that M&A can contribute to economic development by improving productivity and allocative efficiency, facilitating innovation and technology transfer, mobilizing capital, and strengthening firms' competitiveness. These benefits are particularly evident where mergers combine complementary resources, improve managerial capabilities, transfer technology and knowledge, and enable firms to access new markets and investment opportunities. Cross-border M&A can further contribute to development by facilitating the transfer of financial resources, technological capabilities, managerial expertise and international business networks to host economies.
However, the review also establishes that M&A does not automatically generate positive development outcomes. Restructuring may result in employment displacement, particularly where firms eliminate duplicated functions, consolidate operations or introduce labor-saving technologies. Similarly, acquisitions undertaken primarily to eliminate competitors or strengthen market power may weaken competition, reduce incentives for innovation and limit consumer welfare. The distribution of M&A benefits and costs may also vary across workers, firms, sectors and regions.
The four theoretical perspectives considered in the paper—Neoclassical Efficiency Theory, Schumpeterian Creative Destruction Theory, Dunning's OLI Paradigm and Agency Theory—therefore provide a complementary explanation of why the developmental effects of M&A differ across transactions and contexts. While efficiency and creative-destruction perspectives highlight productivity, innovation and resource reallocation, the OLI paradigm emphasizes cross-border capital and knowledge flows, whereas Agency Theory draws attention to managerial incentives and potentially value-destroying acquisitions.
The developmental contribution of M&A depends less on the volume or financial value of transactions than on how resources are reallocated and utilized after consolidation. M&A is more likely to support sustainable and broad-based economic development when it generates genuine productivity improvements, strengthens innovation and technological capabilities, supports productive employment, facilitates investment and knowledge spillovers, and preserves effective competition. Consequently, M&A should be evaluated not only in terms of shareholder value and firm performance but also according to its wider effects on productivity, technological upgrading, employment, consumer welfare and market competitiveness. Effective corporate governance, labor-market institutions and competition regulation are therefore essential for ensuring that the potential economic benefits of M&A are realized while limiting its adverse social and competitive consequences.

5.2 Recommendations

Policymakers and competition authorities should strengthen M&A regulatory frameworks to ensure that transactions generating genuine efficiency, productivity, innovation, and investment benefits are facilitated while excessive market concentration and anti-competitive acquisitions are effectively controlled. In evaluating M&A, greater attention should be given to employment effects, technology transfer, domestic productive capacity, and consumer welfare rather than relying solely on transaction value or firm-level financial performance. Cross-border acquisitions should be encouraged where they facilitate capital, technology, managerial knowledge, skills development, and integration into global value chains, while strengthening the absorptive capacity of domestic firms through investment in human capital, technological infrastructure, and innovation capabilities. Corporate governance mechanisms should also be strengthened to minimise agency-driven acquisitions that may pursue managerial expansion or market power rather than genuine economic value. Finally, significant M&A transactions should be subject to appropriate post-merger monitoring to determine whether anticipated productivity, innovation, employment, and competition benefits are realised. These measures would help ensure that M&A contributes to broad-based economic development rather than concentrating its benefits among dominant firms.

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