

Killer Acquisitions and Streams of Innovation

Abstract

This thesis focuses on the empirical study of the phenomenon of killer acquisitions, that is to say, acquisitions of innovative firms where the acquirer's strategy is to discontinue the development of the target's innovation projects and, in doing so, pre-empt future competition. This phenomenon was first identified and empirically detected in the "Killer Acquisitions" 2021 paper by Cunningham, Ederer, and Ma, which proved its existence within the limits of the pharmaceutical sector. "Killer Acquisitions", as defined in the paper, are acquisitions of innovative targets made with the sole purpose of stifling the flow of innovation. The relevance of this phenomenon in the field of industrial organization and competition economics comes from the potential harm it could cause to consumers by not only suppressing innovation and reducing its general availability, thus continually hurting their potential well-being, but also by increasing market concentration in exchange for no discernable benefit. In this thesis, we try to extend the analysis of "Killer Acquisitions" outside the limits of the pharmaceutical market, seeking to contribute to the literature in three ways: first, we try to define a generally applicable notion of innovative activities in the form of streams of innovation, sequences of connected (or potentially connected) patents that can be used to identify the medium-to-long term innovation efforts of firms; secondly, we try to offer an operative form of this concept that is directly utilizable to measure the phenomenon in question, we do so through an algorithm that processes an extensive patent database spanning over 50 years; finally, we try to verify the existence and eventual relevance of the phenomenon itself outside of the pharmaceutical sector. Our results, in line with the predictions from the established theoretical framework, show no evidence of killer acquisitions having any significant incidence on streams of innovation in general. This suggests that the phenomenon might be limited to markets where the cost and the uncertainty of development projects are particularly high. These results additionally call for further research focusing on individual markets, where development conditions are more uniform and thresholds for the existence of the phenomenon can possibly be derived.