

The Influence of CEO Acquisition Experience on Post-Acquisition Performance

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Abstract

Existing literature on the relationship between acquisition experience and performance has produced mixed results and has primarily focused on the firms' own experience, neglecting the experience held by the firms' decision makers. Using the event study methodology, we study the effect of CEOs' prior acquisition experience on post-acquisition performance on a set of US public firms. Also, we study if CEO acquisition experience matters more when the acquiring firm is operating in an industry in which managers have more influence over strategic decisions. We find no significant positive effect of CEO acquisition experience on post-acquisition performance. This result also holds when we account for the degree of managerial discretion of the acquiring firm's primary industry. Our study indicates that there is no significant linear relationship between CEO acquisition experience and post-acquisition performance. Research on this link is limited and with regard to the many uncertainties involved in measuring acquisition experience we encourage more research to be done on this topic.

Keywords: acquisition experience, acquisition performance, CEO experience, managerial discretion, mergers and acquisitions.

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1. Introduction

The value of worldwide completed mergers and acquisitions (M&As) reached \$2,4 trillion in 2014, of which \$1,1 trillion were attributed to the US market (Thomson Reuters, 2015). Although M&As continue to be a popular strategy for creating value for firm stakeholders (Hitt et al., 2012), only a minority of firms are significantly successful in this field and research has shown that the value created through M&As is on average close to zero (King et al., 2004). One company that has been recognized as significantly successful in this field is General Electric, who have been able to routinize their acquisition process so that acquisitions are fully integrated within 100 days (Ashkenas et al., 1998). Research exploring the determinants of post-acquisition performance have found that it is contingent on the success of synergy realization (Larsson and Finkelstein, 1999). In turn, synergy realization has been found to be highly dependent on prudent target selection, negotiation and the success of the post-acquisition integration (Chatterjee et al., 1992; Larsson and Finkelstein, 1999; Custódio and Metzger, 2013). Given the apparent low degree of success among historical M&As, the continuous high M&A activity is questionable. What is more, research has increasingly moved towards attempting to identify the underlying factors explaining acquisition performance and acquisition experience has been given considerable attention in this context (Hitt et al., 2012).

The results of the growing literature on the relationship between acquisition experience and performance have been mixed and a generally accepted conceptualization of the relationship has not yet evolved. For example, scholars have been able to show a positive (Fowler & Schmidt, 1989), a negative (Kusewitt, 1985), an insignificant (Lubatkin, 1982; Hayward, 2002; Zollo & Singh, 2004) and a U-shaped (Haleblian & Finkelstein, 1999) relationship between acquisition experience and performance. Barkema and Schijven (2008) argued that a reason why it could be difficult for firms to learn how to acquire successfully is because acquisitions are highly complex tasks, consisting of several interdependent and individually complex sub-activities including due diligence, negotiation, financing and integration. The existing literature has principally focused on studying how a

firm's acquisition performance is affected by the firm's own M&A experience, neglecting the effect of experience held by the managers. Reus (2012) argued that undertaking multiple acquisitions may only result in an improved acquisition performance for firms to a certain extent since much of the knowledge gained from these acquisitions resides within the firms' decision makers, who may leave the firm. Against this background, one could argue that research only accounting for the firm's own M&A experience is to some extent flawed.

Hambrick and Mason (1984) presented a general upper echelons perspective on the relevance of managers stating that "*organizational outcomes – strategic choices and performance levels – are partially predicted by managerial background characteristics*". With this perception in mind, we argue that CEO M&A experience should be an important factor for explaining organizational outcome, including acquisition performance. Independent of the organizational M&A experience, the CEO's experience from dealing with acquisitions at the current firm and at other firms should result in improved expertise in the process of identifying acquisition targets, negotiating the deal and handle the post-acquisition integration. Therefore, compared to measuring M&A experience on the firm-level, we argue that M&A experience is more accurately measured by incorporating the experience gained by the CEO while holding a position at the acquiring firm and at other firms. We extend existing research by incorporating domestic and cross-border acquisition experience of CEOs, obtained at the acquiring firm and at other firms, into the analysis of the relationship between acquisition experience and performance.

Our study is based on US domestic deals undertaken between 2003 and 2007 by public firms. By matching each deal with the CEO at the time and observing the CEOs employment history, we are able to identify transactions that the CEO has experienced prior to the focal acquisition while being employed at the acquiring firm and other firms. We test the hypothesis that a CEO's M&A experience, obtained while holding a top management position within the acquiring firm and

at other firms, should have a positive impact on post-M&A performance of the focal acquisition for the acquiring firm.

Custódio and Metzger (2009 and 2010) found that CEO industry experience is more important for acquisition performance in industries where managers have more influence over strategic decisions. Following their approach, we extend our study to test whether this condition also holds for acquisition experience. If an acquiring firm is operating in an industry characterized by high managerial discretion, the outcome of that acquisition should be more dependent on the experience of the CEO compared to if that firm is operating in a low discretion-industry.

We are unable to find a significant relationship between neither CEO nor firm acquisition experience on post-acquisition performance, indicating that (for the observations included in our sample) there is not a significant positive relationship between CEO acquisition experience and post-acquisition performance. When accounting for managerial discretion with respect to the acquiring firm's primary industry, our results indicate a stronger positive effect of CEO acquisition experience on post-acquisition performance for firms operating in high-discretion industries compared to firms operating in low-discretion industries, but the coefficients are not significant. While these results may represent the true causal effect of CEO acquisition experience on acquisition performance, they should be interpreted in light of a number of limitations and uncertainties related to our study (which are explained in detail in section six) that could potentially drive our results to the extent that we are unable to show a relationship that is in fact significant.

This paper is organized as follows: section two summarize the relevant literature and outlines the logic behind our hypotheses, section three describes the data set and our approach for obtaining it, section four specifies the empirical methodology applied, section five outlines the results of our study, section six discusses the interpretation of our results and section seven concludes.

2. Previous studies and theory development

2.1 Previous studies

Since the early 1980s, several studies have been conducted on the relationship between acquisition experience and post-acquisition performance and over the years findings have been somewhat inconsistent. The first wave of studies were based on the basic learning curve theory implying that as firms undertake more acquisitions, they should perform better in subsequent acquisitions. In line with this perception, Lubatkin (1982) were unable to find a significant relationship between acquisition experience and performance when studying firms listed on the Federal Trade Commission's Large Merger Series between 1948 and 1979. However, this study relied on monthly market returns instead of daily market returns as a measure of post-acquisition performance. However, as the monthly market returns are prone to capture information that is unrelated to the acquisitions, this study may have failed to isolate the effect of acquisition experience on performance. In another study, Kusewitt (1985) found a significant negative relationship between the number of previous acquisition and long run performance of focal acquisitions and suggested that high acquisition rates can lead to corporate indigestion, i.e. difficulties for the acquirer associated with the integrating process of the acquired firm.

Applying a more detailed approach for studying the link between M&A experience and performance, Fowler and Schmidt (1989) were able to prove a significant positive relationship between acquisition experience and long run abnormal return in a sample restricted to industrial manufacturing firms. The authors argued that successive acquisition experience makes management more adept at avoiding administrative issues that may have a negative effect on performance. In another industry focused study, Li (1995) found that the effect of M&A experience on performance is not homogeneous across industries. More specifically, the author found that M&A experience matters more for acquisition performance in the computer industry and less in the pharmaceuticals industry.

Following the first wave of research on this area, studies evolved from the simple concept of M&A experience suggesting that firms are better acquirers as they perform more acquisitions, to treat this link on a more complex level. Halebian and Finkelstein (1999) showed evidence of a non-linear U-shaped relationship. Their finding suggests that acquisition experience can have negative effects on the first few acquisitions, for which the acquirer tend to inappropriately apply past experiences on current acquisitions that seem to be similar but are in fact not. However, as acquirers obtain sufficient experience, they can determine the actual differences between acquisitions and favorably use knowledge gained from past acquisitions on subsequent acquisitions. Continuing on the non-linear perception of the relationship between firm-level M&A experience and performance, Hayward (2002) studied the interlinkage of past acquisition similarity, performance and timing in the context of experience effects on acquisition performance. The author found that experience is a necessary but not sufficient condition for acquirer learning and that focal acquisition performance is positively related to prior acquisitions that are not too similar or dissimilar to the focal acquisition, are associated with small losses and are not too close or distant in time from the focal acquisition.

Returning to the basic learning curve conceptualization of M&A experience and performance, Zollo and Singh (2004) studied the post-acquisition effects of integration decisions and capability-building mechanisms using a sample of 228 acquisitions in the US banking industry. The authors argued that the accumulation of acquisition experience will make the acquirer better at managing the integration process. However, by measuring acquisition experience as the number of acquisitions made by a firm prior to the current acquisition, they do not find a significant relationship between acquisition experience and performance.

In a way combining the view of Halebian and Finkelstein (1999) and Hayward (2002), Schijven and Barkema (2007) suggest the relationship between M&A experience and performance to be dynamic. They argue that, ideally, acquirers should initially focus on making acquisitions in similar industries in order to

facilitate learning. Then, as expertise builds up, the firm can learn from a broader variation of acquisitions and effectively develop a more diverse acquisition capability. Their results confirm these arguments.

The existing literature has principally focused on studying how a firm's acquisition performance is affected by the firm's own M&A experience, overall arguing that prior experience, in one way or the other, eventually results in the development of routines that help acquiring firms and their managers perform better in the different facets of the acquisition process. Zollo and Singh (2004) argued that in the context of managing M&A, aside from the underlying knowledge being accumulated in explicit forms, such as manuals and information systems, it is likely that it is also accumulated in the form of tacit knowledge, residing in the memory of individuals. It may be the case that a reason why the existing literature have not reached consistent results is that it has focused exclusively on firm-level experience, neglecting the possible impact of individual-level experience (independent of the firm) on post-acquisition performance. Drawing on the psychological literature on how individuals develop skills in knowledge-rich fields, McDonald et al. (2008) studied the influence of outside board directors' acquisition experience on acquisition performance and found evidence suggesting that outside directors' acquisition experience in the same industry as the target firm was positively related to acquisition performance. These findings are in support of the perception that the link between M&A experience and performance should be studied not only on an organizational basis but also on an individual basis.

2.2.1 Development of theory

Studying the link between acquisition experience and performance on an organizational level may capture an important aspect of learning to perform acquisitions by assuming that acquisition performance improves as acquisitions are repeatedly performed. However, such perspective is based on the assumption about the learning process that firms can only benefit from their own experience in undertaking acquisitions (Barkema and Schijven, 2008). McDonald et al. (2008)

argued that executives with relatively more experience in making acquisition decisions will be better at handling the large quantities of information that are inherent in acquisition decisions, enabling them to more accurately focus on what information is relevant and what is not. This suggests that a firm's acquisition performance should not only be dependent on the firm's own acquisition experience but also on the past acquisition experience of the decision makers. In that sense, studies on the relationship between M&A experience and performance that do not account for M&A experience on an individual level may to some extent be flawed.

As a firm performs multiple acquisitions, it may only result in a sustained improved capability of undertaking acquisitions to a certain extent, since part of the expertise accumulated from these acquisitions resides within the decision makers of the acquiring firm (Reus, 2012). As such, part of the expertise gained from past acquisitions is lost when these decision makers leave the firm. On the contrary, for example, should Firm A hire a CEO who has previously been involved in acquisitions undertaken by Firm B, this should be regarded as increased acquisition expertise for Firm A since the CEO would be able to use the knowledge gained from acquisitions undertaken by Firm B (during his or her tenure at Firm B) in acquisitions performed by Firm A. On this basis, we argue that, compared to only studying the link between M&A experience and performance on an organizational level, accounting for the M&A experience obtained by the CEO in addition to that obtained by the firm should capture the real effect of M&A experience on performance more accurately.

Since CEOs have been proven to have a large impact on central corporate decisions, especially in M&A decision-making processes (Davis et al., 1997; Hayward and Hambrick, 1997; Bertrand and Schoar, 2003), we will limit our study to focus on the M&A experience of the CEO. Independent of the organizational M&A experience, the CEO's experience from dealing with acquisitions at the current firm and at other firms should result in improved expertise in the process of identifying acquisition targets, and/or negotiating the agreement, and/or to decide

how to manage the post-acquisition integration and implement it. This is the first hypothesis that we will test and it is formally stated as follows:

Hypothesis one: The post-acquisition performance of an acquiring firm is positively related to the acquisition experience of the CEO, obtained while working for the acquiring firm and/or during prior employments at other firms.

To our best knowledge, Custódio and Metzger (2010) are the only ones that has studied the link between CEO M&A experience, gained at the current firm and during prior employment, and post-acquisition performance. They studied the effect of CEO industry-specific work experience on performance of diversifying mergers on a set of listed US firms during 1990-2007. The results of this study showed that CEOs with experience in the same industry as the target firm have a significantly positive effect on post-acquisition performance when performing diversifying mergers. The authors controlled for CEO M&A experience in order to prevent their results from being affected by the possibility of a general talent for performing acquisitions. They did not find a significant relationship between CEO M&A experience and post-acquisition performance of diversifying acquisitions. In this study, CEO M&A experience was measured as the number of US domestic deals each CEO has experienced between the years 1990 and 2008 (up to each focal acquisition), regardless of the position he or she held at the firm. Furthermore, their sample was restricted to CEOs who had performed at least two diversifying acquisitions and had industry experience in the same industry as one of them but not the other. The results of Custódio and Metzger (2010) shed some light on the relationship between CEO M&A experience and post-acquisition performance and suggests no significant relationship. However we argue that based on these results, due to the restrictions applied in their sample, one cannot reject the hypothesis that a CEO's experience in performing acquisitions in general, regardless of the degree of diversification, has a positive effect on post-acquisition performance. Furthermore, since experience has been proven to diminish over time (Huber, 1991), one can argue that experience gained from an acquisition undertaken in the beginning of the 1990s is less relevant for an acquisition made in 2008 for at least

two reasons. First, it is likely that the CEO does not remember all the critical components of the acquisition that he or she was exposed to in the beginning of the 1990s when being involved in an acquisition many years later. Consequently, one can argue that experience becomes less valuable with time. Second, it is likely that any experience gained from an acquisition diminishes with time since industries and businesses change; general critical components of acquisitions undertaken in the year 1990 may not be relevant 18 years later. Based on these arguments, we expect CEO M&A experience to be more accurately quantified by only accounting for experience gained during a relatively recent period prior to a focal acquisition. Also, we expect experience gained from both cross-border and domestic acquisitions to matter for post-acquisition performance and therefore we will account for both domestic and cross-border acquisition when constructing our measure for M&A experience. Although cross-border acquisitions tend to be more complex compared to domestic acquisitions (Vermeulen and Barkema, 2001; Collins et al., 2009), they clearly share commonalities with domestic acquisitions in the various aspects of the acquisition process.

2.2.2 Extension of study

Hambrick and Finkelstein (1987) introduced the concept of managerial discretion as a way of trying to determine how much influence managers have on organizational outcomes. The authors argue that managerial discretion vary widely across firms and, if high discretion exists, executive values and experiences become reflected in organizational outcome and vice versa. Based on this perception, Custódio and Metzger (2010) study the potential existence of heterogeneous effects of CEO experience across industries, depending on the level of managerial discretion. They find that having industry experience in the target firm's industry is more important if that industry is characterized as a high-discretion-industry, while having experience in the target firm's industry is not distinguishable from zero if the target is operating in a low discretion-industry.

With regard to the concept of managerial discretion, we reason that CEO acquisition experience should matter more in high discretion-industries, since the

decisions made by CEOs of firms operating in such industries are more dependent on the CEOs previous experience, including acquisition experience. Therefore, inspired by Custódio and Metzger (2010), we extend our analysis by studying the impact of CEO acquisition experience across industries with regard to managerial discretion. We use an industry index of managerial discretion originally developed by Hambrick and Abrahamson (1995) which measures how much influence managers have on organisational decisions. This forms our second hypothesis, which can be formally stated as follows:

Hypothesis two: CEO acquisition experience will have a greater positive effect on post-acquisition performance in industries where managers have more influence on strategic decisions.

3. Data

3.1 Deal samples

We collect deal specific information from the Thompson Financial SDC Platinum database. We use separate deal data for collecting our deal sample and for constructing measures of acquisition experience. For our deal sample, we only include transactions that meet the following criteria:

1. The deal must be completed.
2. The acquirers' share in the target company must be below 50% before the announcement of the deal and above 50% after, or the acquirer must purchase at least 50% of the shares of the target company.
3. The transaction value has to be at least \$100 million.
4. The acquirer and target are both US companies and the acquirer is listed on a US stock exchange.
5. The acquirer must have accounting data available on Center for Research in Security Prices and in COMPUSTAT for the fiscal year ending prior to the announcement of the acquisition.

6. The acquirer must have daily stock price data available on Center for Research in Security Prices for the 250 days prior to the announcement date.
7. We exclude any deals that occurred within 250 days following another deal in the sample as the stock prices used to estimate the expected returns can be significantly affected by such events and thus not appropriate to use for estimation.

The deal data used to create measures of M&A experience for the CEO and the firm only follow the first two criteria outlined above. Since we only need to count the number of transactions a specific CEO or firm has made in the past, accounting data and stock price data availability does not need to be a criteria for such deals to be included in the sample. Therefore, we include deals regardless if they meet criteria number 5 and/or 6 as outlined above or not. Also, we reason that firms and CEOs should be able to obtain M&A experience from both domestic and cross-border deals and therefore we include all deals made by US and non-US firms domestically and globally. Finally, we decrease the lower bound of the minimum transaction value criteria to \$50 million under the reasoning that experience gained from such deals is relevant for the performance of the deals in our sample.

All accounting data is collected from the COMPUSTAT database, which provides U.S. and Canadian fundamental and market information on active and inactive publicly held companies. Daily stock price data is collected from the Center for Research in Security Prices as it is the most complete collection of security price data for the NYSE, AMEX and NASDAQ stock markets. Occasionally the company names are spelled differently in the different database files (for example “3M Co” and “3 M Co” or “Suntrust Banks” and “Suntrust Banks Inc”). We handle this matter by using an approximate match function¹ to search for inexact matches among the company names and manually verify each match. Our final deal sample

¹ We use the Fuzzy Lookup add-in in Excel and set the matching threshold to 85%.

consists of 875 deals conducted by 641 companies employing 667 CEOs from January 1st 2003 until December 31st 2007.

3.2 CEO and deal matching

We use the COMPUSTAT ExecuComp file obtained from the Wharton Research Data Services to identify companies' CEO at the time of the acquisition, and to observe CEOs' employment history. This database covers the S&P 1500 companies that were once part of the 1500 and companies removed from the index that are still trading, stretching as far back as to 1992 and comprising over 2500 companies in total. The ExecuComp file collects data on up to 9 executives per firm for a given year including starting and ending dates of employment, allowing us to identify previous employments at top management level for each CEO. We match the date of the acquisition announcement with the CEO of the time and map his or her employment history at top management level during the five years prior to the announcement date. Subsequently, we simply count the number of deals completed by the associated firms in order to determine the CEO's M&A experience at the time of the acquisition.

4. Empirical methodology

4.1.1 Testable implications

In order to study the link between M&A experience and post-M&A performance, we conduct an event study analysis of the valuation effects on the acquiring firm around the announcement date of the focal acquisition. We compute the cumulative abnormal return over a symmetric event window stretching from three days before to three days after the announcement. Although it may appear inaccurate to use short-term stock returns instead of actual acquisition performance in terms of long-term accounting measures when studying the performance of acquisitions, this methodology has been widely used for such purpose (Kroll et al., 1997). Caves (1989) argued that this methodology is theoretically well-grounded and that it enables evading the problems associated

with holding constant other factors that can affect ex-post studies on M&A performance. Consistent with the efficient market hypothesis, Sirower (1997) found that returns at the time of the acquisition announcement were representative of long-term performance. Also, Healy et al. (1992) found a strong positive and significant relationship between abnormal stock returns around merger announcements and post-M&A increases in operating cash flows, indicating the validity of substituting stock market returns for accounting measures when quantifying post-M&A performance.

We intend to estimate the following regression model:

$$CAR_{ijk} = \alpha_1 + \alpha_2 CEOExp_i + \alpha_3 Y_j + \alpha_4 X_k + \varepsilon_{ijk} \quad (1)$$

where CAR_{ijk} represents the cumulative abnormal return around the announcement of merger k conducted by CEO i while working for company j . $CEOExp_i$ represents M&A experience of CEO i and Y_j and X_k represent firm and deal specific controls respectively. We expect that the more M&A experience a CEO has (i.e. the higher number of M&A deals he or she has previously been exposed to) the better the CEO will be at picking the appropriate target, negotiating the deal and handling the post-acquisition integration process. As such, more M&A experience will generate increased post-M&A performance (i.e. higher cumulative abnormal return around the announcement of the deal) and therefore we expect the coefficient for $CEOExp_i$ to be positive.

4.1.2 Managerial discretion

In order to study whether M&A experience matters more in industries where managers have more influence on strategic decisions we use an industry index developed by Hambrick and Abrahamson (1995) to assign discretion ratings to the acquiring firms in our sample. This index is based on seven industry factors², specified by Hambrick and Finkelstein (1987) to be the main determinants for managerial discretion. It was constructed using a panel of academic experts that

² These include the following factors: Capital intensity, demand instability, industry structure, market growth, powerful outside forces, product differentiability and quasi-legal constraints.

rated 17 diverse industries at the four-digit SIC code³ level according to their view on managerial discretion for each industry. The panel showed a high degree of agreement among each other and with an external group of security analysts, indicating the reliability of the ratings. Also, the ratings were consistent with the managerial discretion factors identified by Hambrick and Finkelstein (1987), further confirming the validity of the index. By using the coefficients from a regression of the ratings on these discretion factors, Abrahamson and Hambrick (1995) were able to extrapolate the discretion ratings to 53 other industries. We use the extended ratings index including all 70 industries when assigning discretion scores for the acquiring firms. Since some SIC codes are not covered by the discretion index, we follow Custódio and Metzger (2010) and average the discretion ratings on the Fama-French 12-industries classification level⁴ in order to minimize missing values. Then we divide our sample into two sub groups, high-discretion industry and low-discretion industry, by splitting the sample along the median value of the discretion ratings in our sample. We run regression model (1) on both samples to identify the implication of managerial discretion on the link between M&A experience and post-M&A performance.

4.2 Dependent variable

Our dependent variable, post-M&A performance, is defined as the cumulative abnormal stock return over a benchmark market portfolio based on the absence of the deal event starting from three days before the announcement of the deal until three days after. We use the Fama-French three-factor model to compute the expected return for firm j around the announcement of merger k . This model is more appropriate to use to compute expected returns for the acquirers compared to the CAPM as potential validity problems regarding firm betas are eliminated (Laamanen and Keil, 2008). In order to compute the expected return for firm j at day t , we first estimate the coefficients for the Fama-French three-factor model:

³ Standard Industrial Classification codes are four-digit numerical codes assigned to companies to identify their primary line of business. (Siccode.com, 2015)

⁴ This classification groups all industries into 12 industry groups. (Mba.tuck.dartmouth.edu, 2015)

$$E[R_{jt}] = \hat{\alpha}_j + \hat{\beta}_j R_{mt} + \hat{\delta}_j SMB_t + \hat{h}_j HML_t + \hat{\varepsilon}_{jt} \quad (2)$$

where $E[R_{jt}]$ denotes the expected return of the firm j at day t . $\hat{\beta}$, $\hat{\delta}$ and \hat{h} denote the coefficient estimates for the Fama-French portfolios. R_{mt} is the excess return of the market portfolio over the risk free return. SMB_t is the average return of small market-capitalization portfolios minus the average return of three large market-capitalization portfolios (“small minus big”); HML_t is the average return of two high book-to-market portfolios minus the average return of two low book-to-market portfolios (“high minus low”). We run the regression for the Fama-French model on the daily stock returns for firm j over an estimation window of 230 trading days ending 20 days before the announcement date to obtain the expected return for firm j for each day t within the event window. We obtain the abnormal return AR_{jt} for firm j at day t by computing the difference between the realized return R_{jt} and the corresponding expected return $E[R_{jt}]$ according to the following equation:

$$AR_{jt} = R_{jt} - E[R_{jt}] \quad (3)$$

The cumulative abnormal return for firm j around the announcement of merger k is computed as the sum of the daily abnormal returns AR_{jt} over the days within the event window $(T1, T2)$ according to the following equation:

$$CAR_{jk(T1,T2)} = \sum_{t=T1}^{T2} AR_{jt} \quad (4)$$

4.3 Explanatory variable

We measure CEO acquisition experience as the number of deals the CEO has been exposed to from five years until one year prior to each specific acquisition in our deal sample. We count all the domestic and cross-border deals completed by the firms at which the CEO has held a top management position within this period. There is no generally accepted definition of top management; we follow Custódio and Metzger (2010) and define top management positions as CEO, CFO, COO,

Chairman, President, Division CEO, Division CFO, Division COO, Division Chairman, Division President, Head of Division, Regional CEO, Regional CFO, Regional COO and Regional President. Our intention is to include the positions that we expect are exposed to all of the various aspects of the acquisition process. However, these positions most likely differ across companies which may make us overestimate or underestimate the CEO acquisition experience. For example, if a CEO previously held a position that we have defined as top management that was, in fact, not exposed to any acquisitions undertaken by the firm at which the CEO worked we will overestimate that CEO's acquisition experience by accounting for those acquisitions. However, the presence of this validity problem is difficult to avoid as it would require studying closely which positions were involved and/or exposed to the various aspects of each M&A deal used in our measure for M&A experience which would be difficult given our sample size and the fact that such information could be hard to retrieve.

We restrict the experience period to begin five years before the acquisition since experience have been proven to diminish over time (Huber, 1991; Custódio and Metzger, 2010). Barkema and Schijven (2008) argued that using a long time period for measuring experience variables may overestimate the ability to remember past events while using a short time period may underestimate this ability. Fowler and Schmidt (1989) measured firm acquisition experience using a four year period preceding the focal acquisition and were able to find a significant positive relationship between acquisition experience and performance. Custódio and Metzger (2010) found that the industry specific work experience the CEO had gained within 10 years prior to a particular acquisition had a significantly higher positive effect on post-M&A performance when undertaking diversifying mergers compared to experience gained before this period, and that the effect was even higher for the five year period preceding the acquisition. Therefore, we will not account for any deals the CEO has been exposed to before five years prior to the focal acquisition. Furthermore, we do not treat deals completed within one year prior to the focal acquisition as acquisition experience. We reason that experience gained from such deals is relatively less meaningful for the CEO's decisions

compared to experience gained from deals completed during the preceding four years since the results of too recently completed deals may not yet have materialized. In this case, it becomes difficult to determine the degree of success for the various aspects of such deals and therefore we assume that the CEO will have learned less from these deals.

4.4 Firm-specific control variables

We follow closely the acquiring firm-specific control variables used by Custódio and Metzger (2010) including firm size, profitability, Tobin's Q and financial slack. All firm-specific controls are measured as of the first fiscal year ending prior to the announcement of the acquisition. Acquiring *firm size* is measured as the logarithm of the book value of total assets. Larger firms have more resources available for handling the transaction process and therefore are expected to accomplish superior acquisition performance (Basuil and Datta 2015), therefore we expect firm size to be positively related to post-acquisition performance.

Research on the *profitability* of the acquirer has indicated that companies with superior financial performance tend to perform better in acquisitions (Haleblian and Finkelstein, 1999). We measure profitability as operating cash flows over book value of total assets and expect it to be positively related to acquisition performance.

Lang et al. (1989) found that the abnormal returns of acquiring firms are related to the acquiring firms' *Tobin's Q*, measured as the ratio of the firms' total market value to its replacement value. The argumentation corresponding to these results is that management performance is a major determinant of a firm's Q ratio and that financial markets reward well-managed firms when undertaking acquisitions. Following Custódio and Metzger (2010), we measure Tobin's Q as the ratio of the market value to book value of total assets and expect the coefficient to be positive.

There are mixed views regarding the way *financial slack* affects performance in the finance literature. On the one hand, Hitt et al. (1993) argued that firms with more financial slack require less external financing and debt financing is cheaper and easier to obtain when undertaking acquisitions, leading to superior acquisition performance. Their findings were consistent with this argument. On the other and, Jensen (1986) argued that companies with large amounts of free cash flow will be more likely to undertake bad-performing acquisitions. Regardless in which direction financial slack affects acquisition performance, the two variables have shown to be significantly related and therefore it is consistently controlled for in studies on acquisition performance. We measure financial slack in the following two ways: as the ratio of debt to equity, which is inversely related to financial slack, and as operating cash flow.

Following the prevalent conceptualization of organizational M&A experience (Fowler and Schmidt, 1989; Halebian and Finkelstein, 1999; Hayward, 2002), we measure *firm-level M&A experience* as the number of M&A deals completed by the acquiring firm. We restrict this measure to only include deals completed during a period stretching from five years until one year prior to the focal acquisition since recent experience has been proven to be more valuable even on an organizational level (Argote et al., 1990; Benkard 2000).

4.5 Deal- and environment-specific control variables

Following Halebian and Finkelstein (1999), we control for the *industry relatedness* between the acquiring firm and the target firm. The potential synergies that can be generated through a merger has been shown to be higher for similar than for dissimilar firms. Hence, we expect the industry relatedness to be positively linked to post-acquisition performance. Similar to Halebian and Finkelstein (1999), we assign a weighted measure (0-3) of relatedness depending on the number of matches in the firms' primary four-digit SIC codes, where a zero to one digit match (from the left) is given the value of 0, a two-digit match is given the value of 1 and so on.

Following Custódio and Metzger (2010), we control for *payment method* by constructing two dummy variables depending on the consideration type involved in the transaction. We define a transaction as a “stock deal” (dummy variable =1) if the acquirer made part of the payment with its own stock, and we define a transaction as a “cash only” (dummy variable =1) deal if the deal was paid in full with cash. Research has shown that acquirer returns decrease with the portion of the transaction payment made with the acquirer’s stock (Haleblian and Finkelstein, 1999). The argument here is that the consideration type may send a signal to the market of the managements’ view regarding the valuation of the firm. Paying with the acquiring firm’s stock can signal that management believes the firm is overvalued, since paying with stock in that case is cheaper than cash. On the contrary, paying with cash can signal that management believes the firm is undervalued. Therefore, we expect our stock only and cash only dummies to be negatively and positively related to acquisition performance respectively.

Markets have been found to react more positively to announcements of acquisitions of private firms compared to public firms, a phenomenon referred to by finance scholars as the “private firm discount” (Capron and Shen, 2007). Similar to Custódio and Metzger (2010), we control for *target type* by creating dummy variables (0-1) that identify deals as private and public respectively conditional on the status of the target. Capron and Shen (2007) found that acquirers of private targets performed better than acquirers of public targets around merger announcements. Hence, we expect the deals involving public targets to have a lower cumulative abnormal return compared to deals involving private targets.

The presence of competition among multiple bidders in an acquisition has been shown to affect acquisition premiums positively (Slusky and Caves, 1991). The authors suggest that rival bidders could unleash competitive instincts which promote overbidding or that the bids become inflated when bidders does not have a fixed reservation price. Following Slusky and Caves (1991), we control for the presence of a *contested bid* by constructing a dummy variable that is equal to one if there were more than one bidder involved in the transaction and zero otherwise.

Acquiring firm returns tend to be greater when the target firm is relatively larger than the target firm. Asquith et al. (1983) were able to prove a positive link between the ratio of the target to acquirer assets and acquirer abnormal returns, indicating the existence of a size bias for large acquisitions. We follow Custódio and Metzger (2010) and control for the *relative acquisition size* defined as the ratio of the transaction value to the market capitalization of the acquiring firm. Since a large fraction of the transactions involve private targets, data on firm market value is unavailable for this fraction of our sample and the transaction value is used as a proxy. The market capitalization for the acquiring firm is defined as the common shares outstanding times the share price at the end of the fiscal year prior to the announcement.

Finally, we control for the potential existence of macroeconomic and industry specific effects that can possibly drive the returns for the acquiring firms to some extent. The *industry effect* is measured using industry dummy variables based on the Fama-French 12-industries classification equal to one for the acquirer's industry and zero for all other industries. The *periodic effect* is measured as year dummies equal to one for the acquisition year and zero for all other years.

5. Results

Descriptive statistics of the data can be observed in Table 1 to 3 in Appendix. Our final sample consists of 875 deals conducted by 641 companies employing 667 CEOs. On average each company and CEO has made 1,64 and 1,61 acquisitions respectively during the observed period prior to an acquisition. Consistent with the prevalent literature on mergers and acquisitions, we find that the cumulative abnormal return around the deal announcements for the acquiring firms in our sample is not distinguishable from zero. On average, deal announcements result in a 0,73% cumulative abnormal return during the seven day event window. The results of our regressions are outlined in Table 4 through 6 in Appendix. Table 4 shows the results from testing *Hypothesis one*, and by observing the table we can conclude that the coefficient for CEO M&A experience is negative and the

coefficient for firm-level M&A experience is positive but neither of them is significant. We further run the regression including only CEO M&A experience and firm-level M&A experience respectively and the result are unchanged. These results indicate that there is no significant effect of CEO or firm acquisition experience, tested for simultaneously and individually, on post-acquisition performance.

With regard to our control variables we only obtain one significant result, public target dummy (1%-level). The coefficient is negative, indicating that acquiring public firms negatively affects post-acquisition performance. Inconsistent with Custódio and Metzger (2010), we do not find a significant effect of acquirer size, leverage and stock deal. The reason for this may be that we only included deals for which the transaction value exceeded \$100 million whereas Custódio and Metzger (2010) include deals above \$50 million. In order to test whether this might have been the case or not we went half-way and decreased the lower bound of our transaction value criteria to \$75 million to see if our results become comparable to theirs. This increased our sample to 1043 observations and the results are presented in the lower part of Table 4 in Appendix. Although we still get the same results for the experience variables, we get significant results for our profitability variable (5% and positive), public target (1% and still negative), private target (10% and negative) and relative size (5% and negative). This is still inconsistent with the results of Custódio and Metzger (2010), suggesting their results may come from the deals in the transaction range between \$50 and \$75 million. Another reason may be that they use a longer sample period stretching from 1990-2008 whereas we only include deals between 2003 and 2007.

In order to test *Hypothesis two*, we split our sample into two sub-groups that include deals for which the acquiring firm operated in a high discretion- and low discretion-industry respectively. We then run Model (1) on both samples and the results are presented in Table 5. The coefficients for our experience variables are not significant for the high- nor the low-discretion sample. For the high-discretion sample, however, the signs of the coefficients for the CEO- and the firm-experience

variables switch to positive and negative respectively. This is in line with the perception that CEO M&A experience is positively related to post-acquisition performance and that it is relatively more important if the acquiring firm operates in an industry where managers have are more powerful. However, our results cannot confirm this at a statistically significant level. The results are the same for the extended sample. As a robustness check, we also study this by only including the top and bottom 20% of the discretion rating firms in the high and low discretion-samples respectively but the results are unchanged.

One aspect that can possibly be drive our results to some extent is if the CEO has not been fully involved in the acquisition process and, therefore, his or her experience is not fully reflected in the outcome of that particular acquisition. This could be the case if the CEO has been hired recently prior to the acquisition and therefore has likely not been involved in selecting the target to acquire. In order to control for this, we exclude all the deals where the CEO has held the position of CEO in the acquiring firm for less than one year. The results from the regressions are presented in Table 6 in Appendix. The coefficients for our experience variables are still insignificant for our initial and extended samples. This further suggest that there is no significant relationship between the M&A experience of the CEO nor the firm and post-acquisition performance, based on the specifications in our study.

6. Discussion

Given that the results of our regressions of acquisition experience on post-acquisition performance came back insignificant, we can conclude that either there is no significant relationship between CEO nor firm acquisition experience and post-acquisition performance, or there is a significant relationship but our study failed to prove it. The latter would be the result from the existence of specification errors in our study that led to an inaccurate measure of M&A experience on the individual and/or firm level. With regard to experience being a complex variable to measure by nature, the presence of a specification error in our study is not unlikely.

Several studies have been conducted on M&A experience and performance, the results have been inconsistent and no generally accepted way to measure M&A experience has evolved. Several factors contribute to making M&A experience complicated to measure and how these factors are important for the interpretation of our results is discussed below.

First, by adopting the traditional learning curve perspective on the link between M&A experience and performance, we implicitly assume that a growing stock of experience should result in continuous improvement in the ability to perform acquisitions. This is a strong assumption about the learning concept and Barkema and Schijvin (2008) argue that such assumption implies treating experience effects as exclusively positive, disregarding the fact that experience may be negative when inappropriately applied and in fact may not be linear⁵. Also, it implies treating experience as an automatic channel for learning even though the former may not necessarily lead to the latter (Barkema and Schijvin, 2008). Finally, the authors argue that this “learning by doing” perception implies disregarding any opportunities for the firm or its decision makers to learn from others. One can reasonably assume that companies and their decision makers vary in their capability building mechanisms and their ability to retain the knowledge they have gained. As such, it is unlikely that M&A experience can be measured in way that accurately describes the experience of each firm or individual. Moreover, we may also introduce specification error into our measure of M&A experience through the period we use as basis for constructing this measure. By not accounting for acquisitions that occurred prior to five years before the focal acquisition both for CEO-level and firm-level experience, we may inappropriately disregard of experience that may in fact be relevant. Even though experience has been proven to diminish over time (Huber, 1991), excluding “old” experience in full may be an inaccurate way to treat this aspect. Argote and Epple (1990) argue that if knowledge depreciation occurs, measures that put greater weight on recent

⁵ Haleblan and Finkelstein (1999) showed evidence of a non-linear U-shaped relationship between M&A experience and performance where the first few acquisitions had a negative effect on post-acquisition performance.

compared to distant experience events are more appropriate to use. Thus, it may be more valid for the purpose of measuring M&A experience to use a longer measurement period in which acquisitions are discounted according to how distant they are from the focal acquisition.

Second, with the intention to capture the CEOs M&A experience, we included all the transactions made by all firms at which the CEO had held a top management position in the years starting from five years until one year prior to the focal acquisition. The purpose here was to include all positions that we expect are exposed to or involved in the different facets of the acquisition process in general. In this way, we would more accurately measure M&A experience compared to if we only included transactions made while the CEO held the position of CEO or regardless of the position he or she held. However, it should be noted that our measure of M&A experience could be flawed in the way we defined these positions. The degree to which the various positions are involved in the acquisition process may differ across firms. If we have accounted for a position that was not exposed to a particular acquisition that was regarded in a CEOs M&A experience, we have overestimated this CEOs experience and vice versa. In the context of creating a measure for CEO M&A experience, this is clearly an important aspect that needs to be considered carefully. One way to shed some light on this would be create different samples that are based on different levels of top management positions considered for constructing the measure of M&A experience, starting with the very top (CEO, CFO and COO for example) and gradually increasing the number of positions considered. This approach could potentially contribute to the development of this measure and we recommend future researchers to apply it.

Finally, with regard to our approach of incorporating the human capital factor into the relationship between M&A experience and performance, we may introduce specification errors into our study by only accounting for the M&A experience of the CEO. We restricted our study to focus on the CEO based on the view that CEOs, in general, are the chief decision makers in corporate decisions. Although this may be true for a fraction of firms, it is not unreasonable to argue that acquisition

decisions (and outcome) from time to time rely on inputs from other individuals within the top management team or the board of directors. One could realistically expect that in some firms, corporate decisions such as mergers and acquisitions are even made on a group basis. The concentration of power among managers in firms most likely differ across firms (Finkelstein, 1992). In that sense, the M&A experience of the CEO should be relatively more important in firms where more power is concentrated to the CEO whereas the M&A experience of the whole management team should be relatively more important in firms where power is more evenly distributed among the members of the top management team. Seeing as the incorporation of the human capital factor in the analysis between M&A experience and performance is completely dependent on which individuals are accounted for when constructing associated measures, it should be regarded as a limitation of the study if it is focused on individuals who, in general, have relatively less relevance. The purpose of this study has been to study the relationship between CEO M&A experience and post-acquisition performance and, as such, this study is not per se flawed because it has not included other top management members' acquisition experience into the analysis, but it may be flawed by including transactions where the CEO of the acquiring firm had relatively little power. With the intention of testing for this aspect, we split our sample into two according to high and low degree of managerial discretion. Even though we may have been successful in correctly group the transactions according to managerial discretion, it does not mean that these transactions correspond to the ones where the CEO had the primary power. In light of this, we argue that a study on the relationship between CEO M&A experience and post-acquisition performance should optimally include transactions where the acquiring firm's strategic decisions, in general, are relatively more in the control of the CEO. Stridharan (1996) studied the determinants of CEO compensation and found that CEO pay is positively related to measures of CEO influence over the board. The author measured CEO influence over the board using two variables. A dummy variable that indicated if the CEO was also the chairman of the board and a variable that measured the proportion of insiders⁶ within the board. We argue that this measure of CEO influence could be

⁶ An individual who held both a position on the board and a management position within the firm.

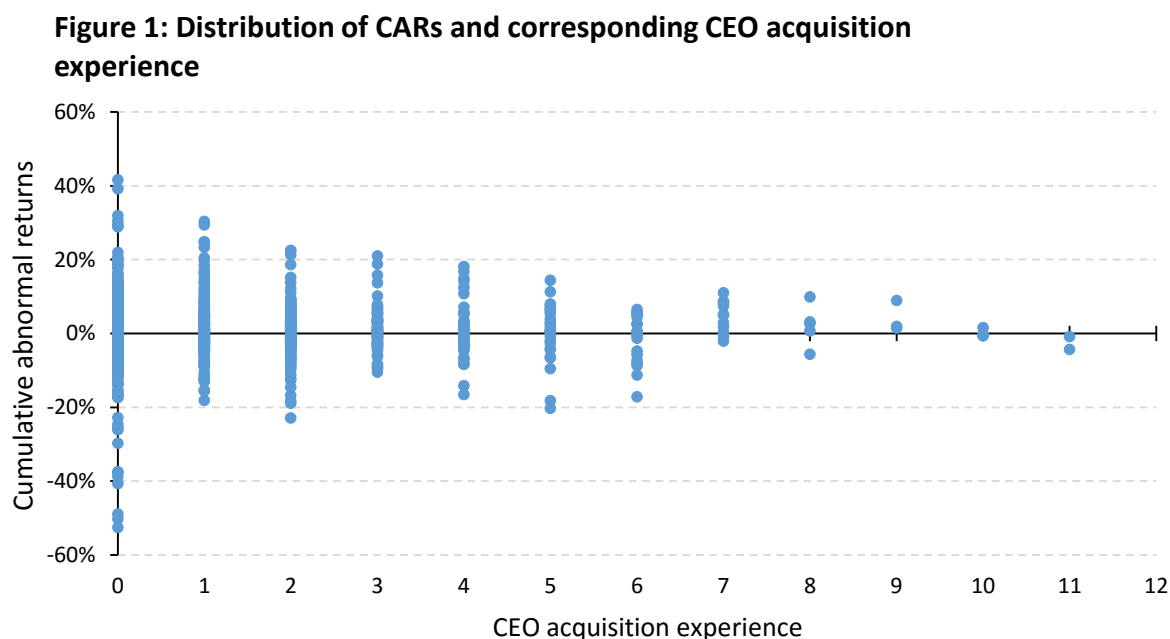
interesting to use for future research on the relationship between CEO acquisition experience and post-acquisition performance.

The above mentioned implications clearly point out some of the complex aspects involved in studying the effects of acquisition experience on post-acquisition performance. Barkema and Schijven (2008) described this topic as under-researched and stated that more insight into the associated issues is important to understand how they can be resolved. Despite not being able to show a significant positive relationship between CEO or firm acquisition experience and performance, this study contributes to the extant research on acquisition experience by ruling out one approach that was shown to be inadequate for proving a significant positive relationship between CEO and firm acquisition experience and performance and by providing suggestions for future research on this topic. The fact that groundbreaking positive results on this relationship have not yet emerged does not per se call for more research to be done on the topic. However, we argue that, with regard to the uncertainties involved in measuring the relevant variables and the lack of consensus in the conceptualization of the relationship among extant research, in order to determine the real effects of CEO and firm acquisition experience on post-performance more research is required.

As a complementary analysis, we plotted the CARs and the corresponding CEO acquisition experience for the deals in our extended sample in Figure 1 below. As can be inferred by observing the figure, the variation in the CARs seems to decrease with acquisition experience of the CEO. By regressing CEO acquisition experience on the standard deviation and the interval between the minimum and maximum of the CARs respectively, the coefficient for CEO acquisition experience come back negative and significant on the 1%-level⁷ (see Table 7 in Appendix), indicating the power of the relationship observed in Figure 1. For example, this could be interpreted as CEOs risk appetite decrease with experience, inexperienced CEOs tend to undertake riskier acquisitions, and the predictability

⁷ Excluding transactions for which the CEO experience levels were above 11 due to few observations.

of post-acquisition performance increases with CEO acquisition experience. Note that these results are achieved without controlling for the potential influence of outside factors. Nevertheless, the results are compelling and should serve as an interesting basis for future research.



7. Conclusion

The purpose of this study was to incorporate CEO experience into the analysis of the relationship between acquisition experience and post-acquisition performance. First we tested whether CEO acquisition experience had a significant positive impact on post-acquisition performance, measured as the cumulative abnormal stock return for the acquiring firm around the announcement date of the deal. Our results indicated that there is no significant positive (or negative) effect of CEO acquisition experience on post-acquisition performance. We continued by studying whether the acquisition experience of the CEO had more importance for post-acquisition performance if the acquiring firm operated in industries in which managers have more influence over strategic decisions. Results showed an insignificant effect of acquisition experience on post-acquisition performance on the CEO- and firm-level for firms operating in high and low discretion-industries.

While these results may very well be depict the true causal effect of acquisition experience on performance in general, our results must be interpreted in light of some potential limitations of our study, including our perception of learning and retaining knowledge in the context of M&A and the importance of CEOs for performance across firms. We recommend future researchers who intend to conduct studies on this topic to consider different variants of measurement periods when measuring CEO and firm acquisition experience, explicitly control for CEO influence across firms, and test alternative levels of positions accounted for in the CEO experience measure.

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Appendix

Table 1: Descriptive statistics of the deals

Panel A shows the yearly distribution of deals for the initial and extended samples including sub-groups. The initial sample and the extended sample include deals for which the transaction value was at least \$100 million and \$75 million respectively. Panel B and panel C shows the average, median, minimum and maximum of deal-specific control variables for the initial and the extended sample respectively including sub-groups. The transaction value is the total value of consideration excluding fees and expenses. The market value of assets is computed as total assets plus market capitalization minus book value of equity. Market capitalization is computed as the share price times the total number of shares outstanding as of the fiscal year ending prior to the announcement. Stock payment is a dummy equal to 1 when common stock of the acquirer was involved in the transaction payment. Cash only payment is a dummy equal to 1 when only cash was involved in transaction payment. Contested bid is a dummy equal to 1 if there was more than 1 bidder.

Panel A: Yearly deal distribution by sample and sub-group.

Initial deal sample								
All deals			High discretion-deals		Low discretion-deals		Tenure deals (CEO for at least one year)	
Year	Number of deals	Percentage	Number of deals	Percentage	Number of deals	Percentage	Number of deals	Percentage
2003	152	17.37%	61	15.72%	73	17.94%	141	17.52%
2004	178	20.34%	70	18.04%	95	23.34%	166	20.62%
2005	183	20.91%	85	21.91%	76	18.67%	167	20.75%
2006	196	22.40%	99	25.52%	86	21.13%	177	21.99%
2007	166	18.97%	73	18.81%	77	18.92%	154	19.13%
Total	875	100.00%	388	100.00%	407	100.00%	805	100.00%

Extended deal sample								
All deals			High discretion-deals		Low discretion-deals		Tenure deals (CEO for at least one year)	
Year	Number of deals	Percentage	Number of deals	Percentage	Number of deals	Percentage	Number of deals	Percentage
2003	180	17.26%	73	15.57%	87	18.20%	167	17.41%
2004	215	20.61%	91	19.40%	110	23.01%	201	20.96%
2005	209	20.04%	95	20.26%	90	18.83%	190	19.81%
2006	238	22.82%	120	25.59%	101	21.13%	215	22.42%
2007	201	19.27%	90	19.19%	90	18.83%	186	19.40%
Total	1 043	100.00%	469	100.00%	478	100.00%	959	100.00%

Panel B: Initial deal sample including sub-groups, deal-specific variables description.

All deals				
	Average	Median	Min	Max
Transaction value	1 012.43	240.00	100.00	54 906.81
Transaction value to assets (market value)	20.63%	8.85%	0.01%	891.83%
Transaction value to equity (market value)	34.70%	14.15%	0.07%	1 106.86%
Target Status				
Public target	27.72%			
Private target	30.92%			
Other	41.36%			
PAYMENT				
Cash only	57.14%			
Common stock	29.21%			
other	13.65%			
Contested bid	1.83%			

High discretion-deals				
	Average	Median	Min	Max
Transaction value	910.62	240.00	100.00	35 810.27
Transaction value to assets (market value)	18.18%	8.82%	0.01%	180.14%
Transaction value to equity (market value)	35.87%	14.80%	0.08%	303.70%
Target Status				
Public target	27.05%			
Private target	33.79%			
Other	39.16%			
PAYMENT				
Cash only	59.47%			
Common stock	28.77%			
other	11.76%			
Contested bid	2.57%			

Low discretion-deals				
	Average	Median	Min	Max
Transaction value	1 091.27	240.00	100.00	54 906.81
Transaction value to assets (market value)	22.78%	8.89%	0.06%	891.83%
Transaction value to equity (market value)	42.82%	14.15%	0.07%	1 106.86%
Target Status				
Public target	25.06%			
Private target	33.42%			
Other	41.52%			
PAYMENT				
Cash only	57.00%			
Common stock	30.47%			
other	12.53%			
Contested bid	0.74%			

Tenure deals (CEO for at least one year)				
	Average	Median	Min	Max
Transaction value	1 059.05	234.50	100.00	54 906.81
Transaction value to assets (market value)	19.81%	8.82%	0.06%	891.83%
Transaction value to equity (market value)	33.69%	14.70%	0.07%	1 048.65%
Target Status				
Public target	26.18%			
Private target	34.12%			
Other	39.70%			
PAYMENT				
Cash only	59.93%			
Common stock	28.66%			
other	11.41%			
Contested bid	1.61%			

Panel C: Extended deal sample including sub-groups, deal-specific variables description.

All deals				
	Average	Median	Min	Max
Transaction value	854.15	200.00	75	54 906.807
Transaction value to assets (market value)	18.70%	8.00%	0.01%	891.83%
Transaction value to equity (market value)	33.12%	13.49%	0.07%	1 106.86%
Target Status				
Public target	25.12%			
Private target	35.95%			
Other	38.93%			
PAYMENT				
Cash only	60.79%			
Common stock	28.09%			
other	11.12%			
Contested bid	1.63%			

High discretion-deals				
	Average	Median	Min	Max
Transaction value	767.91	188.00	75.00	35 810.27
Transaction value to assets (market value)	16.61%	7.96%	0.01%	180.14%
Transaction value to equity (market value)	27.69%	13.96%	0.08%	779.92%
Target Status				
Public target	27.72%			
Private target	36.03%			
Other	36.25%			
PAYMENT				
Cash only	63.11%			
Common stock	26.23%			
other	10.66%			
Contested bid	2.35%			

Low discretion-deals				
	Average	Median	Min	Max
Transaction value	949.03	210.04	75.00	54 906.81
Transaction value to assets (market value)	20.88%	8.36%	0.06%	891.83%
Transaction value to equity (market value)	38.89%	13.29%	0.07%	1 106.86%
Target Status				
Public target	23.22%			
Private target	36.82%			
Other	39.96%			
PAYMENT				
Cash only	58.16%			
Common stock	29.71%			
other	12.13%			
Contested bid	0.63%			

Tenure deals (CEO for at least one year)				
	Average	Median	Min	Max
Transaction value	894.97	200.00	75.00	54 906.81
Transaction value to assets (market value)	18.14%	8.00%	0.06%	891.83%
Transaction value to equity (market value)	31.50%	13.50%	0.07%	1 048.65%
Target Status				
Public target	24.50%			
Private target	36.08%			
Other	39.42%			
PAYMENT				
Cash only	61.21%			
Common stock	28.15%			
Other	10.64%			
Contested bid	1.46%			

Table 2: Descriptive statistics of acquiring companies

The Panel A and Panel B below shows company-specific variables description for the initial sample and the extended sample respectively. There are 641 and 756 companies in our initial sample and extended sample respectively. Market capitalization is computed as total common shares outstanding times the closing price as of the fiscal year ending prior to the announcement of each deal. Tobin's Q is measured as the ratio of the firms' market value to book value of total assets. Profitability is measured as the ratio of net operating cash flow to the market value of total assets. Acquiring company M&A experience is measured as the total number of domestic and cross-border M&As undertaken from 5 years until 1 year before the focal acquisition.

Panel A: Initial deal sample including sub-groups, company-specific variables description.

All deals				
	Average	Median	Min	Max
Total asset (book value)	19 774.52	1 873.00	20.50	1 884 318.00
Total asset (market value)	25 986.56	3 210.76	51.08	2 039 133.07
Market capitalization	9 442.43	1 737.55	34.09	293 137.30
Debt/Equity ratio	0.91	0.43	-45.22	91.87
OCF	540.05	134.57	-33 612.00	24 459.00
Tobin's Q	1.93	1.58	0.70	11.92
OCF/assets (book value)	0.09	0.09	-0.67	0.53
Company M&A experience	1.51	1.00	0.00	44.00

High discretion-deals				
	Average	Median	Min	Max
Total asset (book value)	26 315.51	2 155.42	35.60	1 884 318.00
Total asset (market value)	33 521.28	3 688.63	82.74	2 039 133.07
Market capitalization	11 152.60	2 071.44	64.67	273 598.07
Debt/Equity ratio	0.62	0.41	-45.22	26.32
OCF	484.60	169.00	-31 352.00	17 594.00
Tobin's Q	1.97	1.57	0.82	10.73
OCF/assets (book value)	0.09	0.09	-0.67	0.53
Company M&A experience	1.70	1.00	0.00	44.00

Low discretion-deals				
	Average	Median	Min	Max
Total asset (book value)	20 235.08	2 100.22	20.50	1 291 803.00
Total asset (market value)	26 847.11	3 589.35	51.08	1 375 126.60
Market capitalization	9 942.25	1 889.56	34.09	293 137.30
Debt/Equity ratio	1.28	0.52	-32.27	91.87
OCF	528.19	139.21	-33 612.00	14 509.00
Tobin's Q	1.89	1.58	0.70	11.92
OCF/assets (book value)	0.09	0.09	-0.59	0.48
Company M&A experience	1.60	1.00	0.00	35.00

Tenure (CEO for at least one year)				
	Average	Median	Min	Max
Total asset (book value)	18 958.59	2 168.58	20.50	1 291 803.00
Total asset (market value)	25 594.75	3 613.20	51.08	1 375 126.60
Market capitalization	9 987.52	1 999.18	34.09	293 137.30
Debt/Equity ratio	0.98	0.47	-45.22	91.87
OCF	636.56	156.76	-33 612.00	24 459.00
Tobin's Q	1.94	1.58	0.70	11.92
OCF/assets (book value)	0.09	0.09	-0.67	0.53
Company M&A experience	1.80	1.00	0.00	44.00

Panel B: Extended deal sample including sub-groups, company-specific variables description.

All deals				
	Average	Median	Min	Max
Total asset (book value)	19 774.52	1 873.00	20.50	1 884 318.00
Total asset (market value)	25 986.56	3 210.76	51.08	2 039 133.07
Market capitalization	9 442.43	1 737.55	11.54	293 137.30
Debt/Equity ratio	0.91	0.43	-45.22	91.87
OCF	540.05	134.57	-33 612.00	24 459.00
Tobin's Q	1.93	1.58	0.70	11.92
OCF/assets (book value)	0.09	0.09	-0.67	0.53
Company M&A experience	1.51	1	0	44

High discretion-deals				
	Average	Median	Min	Max
Total asset (book value)	26 315.51	2 155.42	35.60	1 884 318.00
Total asset (market value)	33 521.28	3 688.63	82.74	2 039 133.07
Market capitalization	11 152.60	2 071.44	11.54	273 598.07
Debt/Equity ratio	0.62	0.41	-45.22	26.32
OCF	484.60	169.00	-31 352.00	17 594.00
Tobin's Q	1.97	1.57	0.82	10.73
OCF/assets (book value)	0.09	0.09	-0.67	0.53
Company M&A experience	1.70	1.00	0	44

Low discretion-deals				
	Average	Median	Min	Max
Total asset (book value)	20 235.08	2 100.22	20.50	1 291 803.00
Total asset (market value)	26 847.11	3 589.35	51.08	1 375 126.60
Market capitalization	9 942.25	1 889.56	34.09	479 958.15
Debt/Equity ratio	1.28	0.52	-32.27	91.87
OCF	528.19	139.21	-33 612.00	14 509.00
Tobin's Q	1.89	1.58	0.70	11.92
OCF/assets (book value)	0.09	0.09	-0.59	0.48
Company M&A experience	1.60	1.00	0.00	35.00

Tenure (CEO for at least one year)				
	Average	Median	Min	Max
Total asset (book value)	18 958.59	2 168.58	20.50	1 291 803.00
Total asset (market value)	25 594.75	3 613.20	51.08	1 375 126.60
Market capitalization	9 987.52	1 999.18	11.54	479 958.15
Debt/Equity ratio	0.98	0.47	-45.22	91.87
OCF	636.56	156.76	-33 612.00	24 459.00
Tobin's Q	1.94	1.58	0.70	11.92
OCF/assets (book value)	0.09	0.09	-0.67	0.53
Company M&A experience	1.80	1.00	0.00	44.00

Table 3: Descriptive statistics of the CEOs

This table shows the descriptive statistics of the CEOs' M&A experience in our samples. There are 667 and 785 CEOs respectively in our initial sample and extended sample. M&A experience is measured as the number of domestic and cross-border deals completed by the firms at which the CEO has held a top management position from 5 years before until 1 year before the focal acquisition. Top management positions include CEO, CFO, COO, Chairman, President, Division CEO, Division CFO, Division Chairman, Division COO, Division President, Head of Division, Regional CEO, Regional CFO and Regional President.

Initial deal sample including sub-groups: CEO M&A experience				
	Average	Median	Min	Max
All deals	1.61	1	0	44
High discretion-deals	1.58	1	0	44
Low discretion-deals	1.66	1	0	35
Tenure deals	1.84	1	0	44

Extended deal sample including sub-groups: CEO M&A experience				
	Average	Median	Min	Max
All deals	1.56	1	0	44
High discretion-deals	1.46	1	0	44
Low discretion-deals	1.56	1	0	35
Tenure deals	1.52	1	0	44

Table 4: Regression output of CEO acquisition experience on post-acquisition performance

This table shows the regression outputs for testing *Hypothesis one* for the initial and extended samples respectively. The dependent variable is the cumulative abnormal stock market return of the acquirer over an event window of seven days starting from three days before the announcement date of the acquisition to three days after. The main explanatory variable is CEO total M&A experience and the control variables are deal-specific and company-specific. CEO M&A experience is measured as the number of domestic and cross-border deals completed by the firms at which the CEO has held a top management position from five years before until one year before the focal acquisition. Top management positions include CEO, CFO, COO, Chairman, President, Division CEO, Division CFO, Division Chairman, Division COO, Division President, Head of Division, Regional CEO, Regional CFO and Regional President. Firm-level M&A experience is measured as the number of M&A deals the acquiring company has made from five years until one year prior to the focal acquisition. Log Total assets is the logarithm of the book value of total assets of the acquirer. Tobin's Q is measured as the ratio of the acquiring firm's market value to book value of total assets. ACQ D/E is measured as the ratio of the book value of debt to equity value of the acquirer. ACQ Net OCF is the net operating cash flow of the acquiring company. ACQ Profitability is measured as the ratio of operating cash flows over book value of total assets. Contested bid is a dummy variable that is equal to 1 when there was more than one bidder present in the bidding process. Public target is a dummy variable that is equal to 1 when the target company was a public company. Private target is a dummy variable that is equal to 1 when the target company was a private company. PAYMENT: cash only is a dummy variable that is equal to 1 when the acquirer paid the transaction using cash only. PAYMENT: Common stock is a dummy variable that is equal to 1 when the acquirer paid the transaction with a positive fraction of common stock. Relatedness measures the degree of similarity in the business of the acquirer and the target firm. We assign a weighted measure (0-3) of relatedness depending on the number of matches in the firms' primary four-digit SIC codes; a zero to one digit match (from the left) is given the value of 0, a two-digit match is given the value of 1 and so on. Relative size is measured as the ratio of transaction value to market capitalization of acquirer. Asterisks indicate significance at the 1% (***), 5% (**), and 10% (*) levels.

Initial deal sample				
Firm M&A experience	0.08%	0.03%	0.15%	0.10%
	[0.23]	[0.11]	[0.45]	[0.30]
CEO Total M&A experience	-0.06%	-0.01%	-0.07%	-0.01%
	[-0.20]	[-0.03]	[-0.23]	[-0.02]
Log Total assets (BV)	-0.27%	-0.25%	-0.19%	-0.16%
	[-0.58]	[-0.54]	[-0.39]	[-0.32]
Tobin's Q	-0.18%	-0.23%	-0.15%	-0.22%
	[-0.62]	[-0.78]	[-0.46]	[-0.70]
ACQ D/E	-0.07%	-0.07%	-0.07%	-0.08%
	[-0.98]	[-1.08]	[-0.36]	[-1.12]
ACQ NET OCF	0.00%	0.00%	0.00%	0.00%
	[-0.22]	[-0.24]	[-0.36]	[-0.36]
ACQ profitability	5.27%	5.53%	5.22%	5.65%
	[1.45]	[1.53]	[1.37]	[1.48]
Contested bid (=1)	2.92%	2.91%	2.59%	2.46%
	[1.28]	[1.28]	[1.13]	[1.07]
Public target	-4.29%***	-4.31%***	-4.16%***	-4.19%***
	[-5.21]	[-5.26]	[-4.97]	[-5.02]
Private target	-0.81%	-0.79%	-0.80%	-0.80%
	[-1.12]	[-1.09]	[-1.10]	[-1.09]
PAYMENT: Cash only	-1.26%	-1.47%	-0.97%	-1.20%
	[-1.30]	[-1.53]	[-1.00]	[-1.23]
PAYMENT: Common stock	-0.62%	-0.81%	-0.12%	-0.32%
	[-0.57]	[-0.75]	[-0.11]	[-0.29]
Relatedness	-0.14%	-0.14%	0.00%	0.03%
	[-0.64]	[-0.60]	[0.02]	[0.12]
Relative size	-0.26%	-0.23%	-0.24%	-0.19%
	[-0.62]	[-0.55]	[-0.56]	[-0.44]
Observations	875	875	875	875
Year dummy	No	Yes	No	Yes
Industry dummy	No	No	Yes	Yes
R square	4.47%	5.56%	6.27%	7.41%

Extended deal sample				
Firm M&A experience	0.01%	0.04%	0.10%	0.11%
	[0.05]	[0.23]	[0.57]	[0.57]
CEO Total M&A experience	-0.01%	-0.03%	-0.04%	-0.02%
	[-0.03]	[-0.17]	[-0.24]	[-0.09]
Log Total assets (BV)	-0.37%	-0.37%	-0.37%	-0.37%
	[-0.88]	[-0.87]	[-0.82]	[-0.83]
Tobin's Q	-0.22%	-0.27%	-0.17%	-0.24%
	[-0.80]	[-0.98]	[-0.58]	[-0.81]
ACQ D/E	-0.06%	-0.07%	-0.07%	-0.07%
	[-0.94]	[-1.00]	[-0.98]	[-1.06]
ACQ NET OCF	0.00%	0.00%	0.00%	0.00%
	[-0.45]	[-0.42]	[-0.62]	[-0.57]
ACQ profitability	8.11%**	8.23%**	8.14%**	8.25%**
	[2.55]	[2.59]	[2.42]	[2.45]
Contested bid (=1)	2.31%	2.32%	1.70%	1.74%
	[1.05]	[1.05]	[0.77]	[0.78]
Public target	-4.12%***	-4.14%***	-3.86%***	-3.84%***
	[-5.34]	[-5.37]	[-4.93]	[-4.90]
Private target	-1.25%*	-1.30%**	-1.12%*	-1.17%*
	[-1.92]	[-1.99]	[-1.70]	[-1.78]
PAYMENT: Cash only	-1.28%	-1.42%	-0.98%	-1.09%
	[-1.42]	[-1.58]	[-1.09]	[-1.21]
PAYMENT: Common stock	-0.37%	-0.49%	0.15%	0.03%
	[-0.37]	[-0.49]	[0.14]	[0.03]
Relatedness	-0.22%	-0.20%	-0.11%	-0.07%
	[-1.07]	[-0.97]	[-0.51]	[-0.34]
Relative size	-0.78%**	-0.77%**	-0.78%**	-0.78%**
	[-2.01]	[-1.98]	[-2.00]	[-1.98]
Observations	1043	1043	1043	1043
Year dummy	No	Yes	No	Yes
Industry dummy	No	No	Yes	Yes
R square	4.57%	5.31%	6.23%	7.15%

Table 5: Regression output when testing for managerial discretion

This table shows the regression outputs for testing *Hypothesis two* for the initial and extended sample respectively. The samples are further divided into high discretion-deals and low discretion-deals according to the degree of managerial discretion of the acquiring firms' primary industry. We define the company as high discretion if the company's managerial discretion score is higher than the median of managerial discretion index across whole deal sample. The dependent variable is the cumulative abnormal stock market return of the acquirer over an event window of seven days starting from three days before the announcement date of the acquisition to three days after. The main explanatory variable is CEO total M&A experience and the control variables are deal-specific and company-specific. CEO M&A experience is measured as the number of domestic and cross-border deals completed by the firms at which the CEO has held a top management position from five years before until one year before the focal acquisition. Top management positions include CEO, CFO, COO, Chairman, President, Division CEO, Division CFO, Division Chairman, Division COO, Division President, Head of Division, Regional CEO, Regional CFO and Regional President. Firm-level M&A experience is measured as the number of M&A deals the acquiring company has made from five years until one year prior to the focal acquisition. Log Total assets is the logarithm of the book value of total assets of the acquirer. Tobin's Q is measured as the ratio of the acquiring firm's market value to book value of total assets. ACQ D/E is measured as the ratio of the book value of debt to equity value of the acquirer. ACQ Net OCF is the net operating cash flow of the acquiring company. ACQ Profitability is measured as the ratio of operating cash flows over book value of total assets. Contested bid is a dummy variable that is equal to 1 when there was more than one bidder present in the bidding process. Public target is a dummy variable that is equal to 1 when the target company was a public company. Private target is a dummy variable that is equal to 1 when the target company was a private company. PAYMENT: cash only is a dummy variable that is equal to 1 when the acquirer paid the transaction using cash only. PAYMENT: Common stock is a dummy variable that is equal to 1 when the acquirer paid the transaction with a positive fraction of common stock. Relatedness measures the degree of similarity in the business of the acquirer and the target firm. We assign a weighted measure (0-3) of relatedness depending on the number of matches in the firms' primary four-digit SIC codes; a zero to one digit match (from the left) is given the value of 0, a two-digit match is given the value of 1 and so on. Relative size is measured as the ratio of transaction value to market capitalization of acquirer. Asterisks indicate significance at the 1% (***), 5% (**), and 10% (*) levels.

Initial deal sample		
	High Discretion	Low Discretion
Firm M&A experience	-0.11%	0.30%
	-0.23	0.59
CEO Total M&A experience	0.21%	-0.18%
	0.45	-0.38
Log Total assets (BV)	-0.54%	0.35%
	-0.77	0.45
Tobin's Q	-0.30%	-0.28%
	-0.75	-0.51
ACQ D/E	-0.30%***	-0.02%
	-2.12	-0.28
ACQ NET OCF	0.00%	0.00%
	0.29	-0.96
ACQ profitability	1.80%	17.68%***
	0.35	2.88
Contested bid (=1)	4.23%	4.26%
	1.56	0.73
Public target	-4.60%***	-4.33%***
	-4.03	-3.18
Private target	-1.43%	0.25%
	-1.44	0.21
PAYMENT: Cash only	-0.03%	-1.61%
	-0.02	-1.02
PAYMENT: Common stock	0.76%	0.40%
	0.49	0.23
Relatedness	-0.23%	0.30%
	-0.69	0.76
Relative size	-1.51%	-0.03%
	-1.08	-0.06
Observations	388	407
Year dummy	Yes	Yes
Industry dummy	Yes	Yes
R square	12.48%	9.44%

Extended deal sample		
	High Discretion	Low Discretion
Firm M&A experience	-0.21%	0.32%
	-0.62	0.66
CEO Total M&A experience	0.29%	-0.20%
	0.86	-0.42
Log Total assets (BV)	-1.08%*	0.16%
	-1.77	0.22
Tobin's Q	-0.26%	-0.42%
	-0.73	-0.81
ACQ D/E	-0.32%***	-0.03%
	-2.38	-0.31
ACQ NET OCF	0.00%	0.00%
	0.03	-0.96
ACQ profitability	0.38%	21.30%***
	0.09	3.94
Contested bid (=1)	3.31%	4.40%
	1.30	0.76
Public target	-3.76%***	-4.59%***
	-3.62	-3.56
Private target	-1.52%*	-0.72%
	-1.70	-0.67
PAYMENT: Cash only	-0.14%	-1.68%
	-0.12	-1.16
PAYMENT: Common stock	0.98%	0.65%
	0.70	0.40
Relatedness	-0.26%	0.12%
	-0.90	0.34
Relative size	-4.08%***	-0.05%
	-4.98	-0.10
Observations	469	478
Year dummy	Yes	Yes
Industry dummy	Yes	Yes
R square	14.06%	9.88%

Table 6: Excluding deals where the CEO has been the CEO of the acquiring firm for less than one year.

This table shows the regression outputs for testing *Hypothesis one* for the initial and extended samples respectively, only including deals where the CEO has been the CEO of the acquiring firm for at least one year. The dependent variable is the cumulative abnormal stock market return of the acquirer over an event window of seven days starting from three days before the announcement date of the acquisition to three days after. The main explanatory variable is CEO total M&A experience and the control variables are deal-specific and company-specific. CEO M&A experience is measured as the number of domestic and cross-border deals completed by the firms at which the CEO has held a top management position from five years before until one year before the focal acquisition. Top management positions include CEO, CFO, COO, Chairman, President, Division CEO, Division CFO, Division Chairman, Division COO, Division President, Head of Division, Regional CEO, Regional CFO and Regional President. Firm-level M&A experience is measured as the number of M&A deals the acquiring company has made from five years until one year prior to the focal acquisition. Log Total assets is the logarithm of the book value of total assets of the acquirer. Tobin's Q is measured as the ratio of the acquiring firm's market value to book value of total assets. ACQ D/E is measured as the ratio of the book value of debt to equity value of the acquirer. ACQ Net OCF is the net operating cash flow of the acquiring company. ACQ Profitability is measured as the ratio of operating cash flows over book value of total assets. Contested bid is a dummy variable that is equal to 1 when there was more than one bidder present in the bidding process. Public target is a dummy variable that is equal to 1 when the target company was a public company. Private target is a dummy variable that is equal to 1 when the target company was a private company. PAYMENT: cash only is a dummy variable that is equal to 1 when the acquirer paid the transaction using cash only. PAYMENT: Common stock is a dummy variable that is equal to 1 when the acquirer paid the transaction with a positive fraction of common stock. Relatedness measures the degree of similarity in the business of the acquirer and the target firm. We assign a weighted measure (0-3) of relatedness depending on the number of matches in the firms' primary four-digit SIC codes; a zero to one digit match (from the left) is given the value of 0, a two-digit match is given the value of 1 and so on. Relative size is measured as the ratio of transaction value to market capitalization of acquirer. Asterisks indicate significance at the 1% (***), 5% (**), and 10% (*) levels.

Initial deal sample	
Firm M&A experience	0.10%
	[0.27]
CEO Total M&A experience	0.00%
	[0.01]
Log Total assets (BV)	-0.34%
	[-0.66]
Tobin's Q	-0.36%
	[-1.11]
ACQ D/E	-0.09%
	[-1.33]
ACQ NET OCF	0.00%
	[-0.33]
ACQ profitability	2.86%
	[0.73]
Contested bid (=1)	2.91%
	[1.16]
Public target	-3.53%***
	[-4.10]
Private target	-0.84%
	[-1.13]
PAYMENT: Cash only	-0.73%
	[-0.72]
PAYMENT: Common stock	-0.24%
	[-0.21]
Relatedness	0.18%
	[0.73]
Relative size	0.07%
	[0.13]
Observations	805
Year dummy	Yes
Industry dummy	Yes
R square	6.02%

Extended deal sample	
Firm M&A experience	0.05%
	[0.16]
CEO Total M&A experience	0.06%
	[0.21]
Log Total assets (BV)	-0.55%
	[-1.13]
Tobin's Q	-0.38%
	[-1.27]
ACQ D/E	-0.08%
	[-1.23]
ACQ NET OCF	0.00%
	[-0.61]
ACQ profitability	7.07%***
	[2.05]
Contested bid (=1)	2.15%
	[0.89]
Public target	-3.24%***
	[-3.98]
Private target	-1.19%*
	[-1.77]
PAYMENT: Cash only	-0.63%
	[-0.65]
PAYMENT: Common stock	0.22%
	[0.20]
Relatedness	0.03%
	[0.15]
Relative size	-0.81%*
	[-1.70]
Observations	959
Year dummy	Yes
Industry dummy	Yes
R square	5.71%

Table 7: Complementary analysis.

This upper part of this table shows the data of the standard deviations and the intervals between the minimum and maximum value of CARs corresponding to each level of CEO acquisition experience level for the extended sample. The lower part shows the regression results of CEOs' acquisition experience on standard deviation of CARs and of CEOs' acquisition experience on the intervals of CARs. Asterisks indicate significance at the 0.01 (***), 0.05 (**), and 0.10 (*) levels.

Level of CEO acq. experience and corresponding st.dev. and interval of CARs		
CEO Total M&A Experience	StDev	Interval
0	10.08%	0.941
1	7.02%	0.484
2	6.70%	0.453
3	6.00%	0.315
4	7.24%	0.346
5	7.87%	0.347
6	6.29%	0.236
7	4.30%	0.131
8	5.59%	0.156
9	4.19%	0.075
10	1.03%	0.022
11	2.46%	0.035

Regression: CEO acq. experience on standard deviation of CARs	
	Coefficients
Intercept	8.96% [12.73]
CEO Total acquisition Experience	-0.59%*** [-5.42]
R Square	0.75
Observations	12

Regression: CEO acq. experience on interval between min and max of CARs	
	Coefficients
Intercept	64.78% 10.20
CEO Total acquisition Experience	-6.41%*** [-6.55]
R Square	0.81
Observations	12