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The Impact of Top-Management Characteristics on the Performance of M&A Deals Initiated by Russian Public Companies

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Abstract:

The performance of M&A deals is the actual research topic for many years, both in academic literature and practical field. According to prior research, despite firms hire directors with acquisition experience regardless the effective-ness of the deal, only prior positive experience is creating additional positive re-turns. Those studies examine the firms operating in developed countries, mainly USA traded companies. In this article the effect of management's experience is analyzed in emerging countries, where the management plays a greater role in decision making and value creation, on the example of Russia over 2007 – 2018. Based on the sample of 205 acquisitions exceeding 1 mln dollars, performed by public acquirers, we find that in Russia several management's experience related characteristics, such as industry and political expertise, prior acquisitions experience, with respect to performance quality, significantly and positively affect deal outcomes in acquisitions for bidder company.

Keywords: Mergers and Acquisitions; Corporate Governance; CEO Characteristics; Event Studies.

1. Introduction

This paper analyzes the data on acquisitions in Russia starting from 2007 up to 2018 to estimate whether the prior experience directly in M&A deals among other managers' skills positively influences the effectiveness of the deal in conditions of the transition economy. According to the academic research, many different CEO's characteristics might influence the deals outcome. The results indicate that prior experience of the CEO is highly valuable, creating an additional value on acquisition returns. Many papers search for correlation between multiple firm's acquisition and serial acquirers returns. Also, many of the authors focus on CEOs' characteristics. But nearly none of the findings are conducted on the emerging markets, and none of them measure the CEO power on the Russian deals.

2. Data and summary statistics

The sample includes all acquisitions both foreign and domestic, made by Russian public companies, the data is retrieved from Thomson Reuters Eikon Database, following the criteria:

- Type of the deal – acquisition;
- The deal status – completed;
- The Acquirer - a Russian public company trading on one of Stock Exchanges (MOEX, RTS);
- The announcement date was made between January 1, 2007 and December 31, 2018;
- The deal value was disclosed and reached, at least \$1 million;
- The target was a public company, a subsidiary or a private company.

The final data sample consists of detailed observations of 205 deals of 62 firms performed by 75 CEOs.

3. Measuring acquisition effectiveness by event studies

This research examines cumulative abnormal returns on event windows of different length as prior findings argue about which window shows the more appropriate result. Thus, the specified event windows are the shortest 3-days [-1:+1] one, the medium one, observing 5 days prior and after the announcement date, [-5:+5], and the largest one, 21-days window [-10:+10].

CAR is computed by estimating coefficients for expected return on market model (McKinlay, 1997) by running OLS on return data based on 150 days estimation period prior the deal announcement date stock data. As market index is used the MOEX industry index of the corresponding industry to the acquirer firm. Statistical significance is checked via Patell t-test (Patell, 1976) and Corrado Rank-test (Corrado, Zivney, 1992).

The data sample is divided by two criteria. First, it is CEO's prior acquisition experience (135 out of 205 deals in our sample were performed by the managers, who had taken part at least in one acquisition before, 70 are performed by those, who never took part in acquisition as a bidder manager before). The next division is done by relative deal size. From the whole sample we left the deals, where the acquirer got more than 50% of target shares (the full control over it) after the transaction, and where the deal value was at least equal to 0,5% of acquirer's total asset¹⁰ (for the deal to be large enough to have an influence over the stock returns). The sample that fits these limitations contains 63 deals, 33 of which were performed by CEO's with prior acquisition experience.

For all three event windows, both CAARs and Patell t-statistics are higher for the deals, performed by experienced CEOs, also the difference between the CAARs of experienced and inexperienced CEOs is larger for the size criteria adjusted sample. The most significant results are shown by 11-days window, with 4 significant CAARs, both on overall and deal size adjusted samples. Thus, it would be the main event window for further analysis.

4. Empirical results and Discussion

Based on the results on CAARs and Patell statistics, CEO's previous experience in performing acquisitions is expected to have a positive relationship with acquirers' cumulative abnormal returns. To measure that impact, multivariate regressions, where the dependent variable is the acquirer's CAR, computed over the 3-day window [-1:+1], over 11 day window [-5:+5] and over 21-day window [-10:+10] surrounding the announcement date.

Despite the theoretical approach of prior studies, many of the describing control variables do not have any significant effect over CAR. Moreover, the success of the prior acquisition itself is not influencing the current deal outcome, as well as just the existence of such experience. Out of all regressors sample the significant effect from deal describing variables has the deal attitude, so the hypothesis about negative impact of hostile acquisitions is accepted. Next, the amount of target shares significantly influences the deal outcome, otherwise, the influence is negative. The hypothesis about negative effect of serial acquisitions for the firms is also proved. Industry relation is important for the firm, thus, the hypothesis about the ability of the firm to learn through inside information and operation processes is proved. All corporate governance characteristics resulted in insignificant values. The suggestion about expertise experience of CEOs results to be true, as both, industry expertise and government experience result in significant positive values. The hugest impact of 0.81 has the prior CEO's CAR, it is positive and significant, indicating that CEO's acquisition experience quality is associated with direct influence on current outcomes. Also, the total number of CEO's acquisition has a significant positive value of 0.077. Thus, the experience in acquisitions enriches the quality of strategic decisions and deal effectiveness. The results show, that the effect of CEO's acquisition experience on deal efficiency measured by acquirer abnormal returns is both economically and statistically significant.

¹⁰ Similar to prior studies (e.g., Field, Mkrtychan, 2013)

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