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Does the Education and Experience of CEO Matter? Evidence from M&As Initiated by Russian Companies

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The Russian M&A market has been growing steadily for more than 20 years since 2000. Despite this, not all deals lead to an increase in the value of the acquiring company. One important theory that reveals the reasons for this phenomenon is the behavioral theory. This theory argues that instead of being rational, people often make decisions based on cognitive biases.

A separate strand in the behavioral finance literature is research aimed at examining CEO personality traits that influence their decisions in M&A transactions. This is due to the fact that CEO is the key decision maker at all stages of the transaction.

Among the various characteristics, experience and education are of particular interest because they directly affect the CEO's ability to make competent decisions in transactions. According to Ying and He (2020), in recent years, it has become a strategic choice for more and more companies to hire people with relevant experience as CEO [4]. The authors provided empirical evidence of the positive impact of economic education on M&A performance using a sample of Chinese A-share listed companies from 2008 to 2016. In the same year, Bhattacharya et al (2020) conducted a study in the U.S. market and found that if board members of a buyer company have experience in the industry in which the target company operates, it has a positive effect on the stock market reaction to deal announcements, regardless of the CEO's experience in the target industry [2].

Academics and practitioners are interested in the impact of CEO education and experience on M&A performance but emphasize this question only for companies from some developed (US, Denmark) and emerging capital markets (China, Saudi Arabia) [1, 2, 3, 4]. We believe that these results cannot be extrapolated to Russian companies, because the vast majority of Russian managers in the 2000s-2020s were educated in the USSR. Education in the USSR had several important features, for example, greater prevalence of technical specialties and faculties in comparison with economic. The analysis on the example of Russian companies is important because of the peculiarities of education in the USSR in the 1980s, which should be taken into account to consider the background features of the CEOs of companies operating in the post-Soviet reality. Addressing this identified gap in the existing M&A literature, this paper holds immense potential to contribute to the understanding of the implications of educational characteristics that may affect CEO performance and the success of M&A deals for acquiring companies from Russia.

Our study involves a two-step procedure. First, we use the event study analysis to estimate the performance of M&A deals, initiated by Russian companies. We employ a 21-day event window, comprised of 10 pre-event days, the event day, and 10 post-event days and vary it, decreasing the number of days, for robustness check of our results. We take 120 trading days prior to the event window as the estimation period to calculate predicted returns to each firm. At the second step, we build the regression model to identify the impact of CEO education and experience on M&A outcomes. Our model considers different levels and types of CEO education and experience, as well as control variables.

We use the Zephyr M&As database from Bureau Van Dijk, Bloomberg and Thomson Reuters to identify an initial sample of 1 937 publicly traded deals that fit into the categories of complete transaction during the period of 2000-2021. We further require that (1) only acquirers are publicly traded firms, (2) the acquiring firm controls less than 50% of the shares of the target firm before the deal and more than 50%+1 after the deal, (3) the size of the deals is more than \$1 million, (4) acquirers do not belong to financial and utility sectors, and (5) the deals are not initiated during the crises of 2009, 2014. Our requirements yield the sample of 172 transactions.

The results of our study show that CEO economic/financial education, obtained during the existence of the Soviet Union, has a negative impact on the performance of deals, while the technical education can have a positive impact on M&As outcomes. Interesting positive results were obtained about the presence of an MBA and PhD in the education of the CEO. Our results also show that the previous deal experience increases deal performance, however CEO experience in the target company's industry reduces the performance of transactions. A possible reason is the CEO's overconfidence, which leads to ineffective strategic decisions.

References

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