



CEO International Background and Cross-Border M&As

Busra Agcayazi (West Virginia University)

with Ann Marie Hibbert (West Virginia University) and Thibaut Morillon (Elon University)



Motivation

U.S. firms acquire international targets

- ✓ enlarge and diversify the business
- ✓ ease customer access, eliminate competition
- ✓ benefit from tax advantages

Cross-border transaction volume increasing

- 30% of global M&A volume in 2018 (\$1.2 trillion) vs. 20% in 1991

Unique complexities

- differences in culture, language, and legislation
- peculiarities of alien system



➔ > 50% of cross-border M&As fail to create value (no + CARs)

CEO's role is critical: background & behavioral traits

Main Conjecture

International Background

Increases CEO knowledge and experience with different cultures, norms, legislative frameworks and brings unique talents and skill set in the cross-border M&A

Increased likelihood of attempting cross-border deals Better performance of cross-border deals

Main Variable

Non-U.S. { nationality, education, work experience

- IB1
- IB2
- IB3
- IB≥1
- IB≥2

Data

Deal-level (1996-2019)

- SDC & BoardEx (complemented with ISS and Execucomp)
- CRSP & Compustat

Final sample: 37,278 deals

- 29,658 domestic
- 7,620 cross-border

Sample Breakdown

	International		Domestic	
	N	%	N	%
IB1	1,408	26.6	3,757	21.9
Others	3,879	73.4	13,437	78.2
IB2	363	6.9	785	4.6
Others	4,924	93.1	16,409	95.4
IB3	278	5.3	326	1.9
Others	5,009	94.7	16,868	98.1
IB ≥1	2,049	38.8	4,868	28.3
Others	3,238	61.2	12,326	71.7
IB ≥2	641	12.1	1,111	6.5
Others	4,646	87.9	16,083	93.5

Probability of Conducting a Cross-Border M&A

	Probit (MFX)				
IB1	0.015** (2.42)				
IB2	0.048*** (3.80)				
IB3	0.137*** (7.96)				
IB ≥1	0.046*** (7.63)				
IB ≥2	0.086*** (8.27)				
CEO Controls	Yes	Yes	Yes	Yes	Yes
Deal Controls	Yes	Yes	Yes	Yes	Yes
Firm Controls	Yes	Yes	Yes	Yes	Yes
N	25,550	25,550	25,550	25,550	25,550
Year FE	Yes	Yes	Yes	Yes	Yes

Acquirer Announcement Returns

	CAR (-1, +1)				
IB1	-0.005 (1.08)				
IB2	-0.004 (0.48)				
IB3	0.036*** (3.74)				
IB ≥1	0.002 (0.51)				
IB ≥2	0.014** (2.19)				
CEO Controls	Yes	Yes	Yes	Yes	Yes
Deal Controls	Yes	Yes	Yes	Yes	Yes
Firm Controls	Yes	Yes	Yes	Yes	Yes
Target Controls	Yes	Yes	Yes	Yes	Yes
N	5,069	5,069	5,069	5,069	5,069
Adjusted R ²	-0.03	-0.03	-0.03	-0.03	-0.03
Industry FE	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes

Source of Value Creation

	CAR (-1, +1)			
	Due Diligence	Premium	Stock Deal	Deal Value
IB3	0.012 (1.55)	0.085*** (2.63)	0.014 (0.55)	0.062** (2.10)
IB3 x Deal Char.	0.000*** (3.66)	-0.033* (1.71)	0.596*** (8.68)	-0.003 (0.47)
CEO Controls	Yes	Yes	Yes	Yes
Deal Controls	Yes	Yes	Yes	Yes
Firm Controls	Yes	Yes	Yes	Yes
Target Controls	Yes	Yes	Yes	Yes
N	5,632	304	1,496	3,120
Adjusted R ²	0.02	0.04	0.08	0.01
Year FE	Yes	Yes	Yes	Yes

Country-specific Deals

	CAR (-1, +1)	
	Later Deal	First Deal
IB3	0.023** (2.05)	-0.008 (0.25)
Controls	Yes	Yes
Constant	-0.034 (0.61)	-0.112 (0.88)
N	294	120
Adjusted R ²	0.01	-0.00
Year FE	Yes	Yes

Endogeneity and Robustness Checks

	Probit	MFX	CAR (-1, +1)
IB3	0.515** (2.02)	0.193** (2.11)	0.013* (1.66)
Controls	Yes	Yes	Yes
N	415	415	165
Year FE	Yes	Yes	Yes

- ✓ Placebo Test
- ✓ Robustness Checks
- ✓ Within-firm Analysis

Conclusion

CEO International Background

- ✓ Increases the likelihood of acquiring international targets when compared to CEOs without this background
- ✓ Firms realize significantly positive abnormal returns

The observed gains are largely due to:

- ✓ Greater due diligence, lower acquisition premiums, a greater likelihood of financing the deal mostly with stock

- CEOs' informational advantage, cultural awareness, unique skills and talents assist in value creation

Contacts

- Corresponding author: Busra Agcayazi
- Email: ba0038@mix.wvu.edu