

CEO International Background and Cross-Border M&As

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Motivation

U.S. firms acquire international targets to

- ✓ enlarge and diversify the business
- ✓ ease customer access
- ✓ expand products to drive growth
- ✓ benefit from tax advantages
- ✓ remove competition within an industry

Cross-border transaction volume increasing

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



INTERNATIONAL ARRIVALS

WHAT DO I DO NOW?

WHEN IS HE GOING TO TAKE MY CARD?

HE SEEMS A BIT UNFRIENDLY?

WHOA - PERSONAL SPACE INVASION!

I'M NEXT, WHAT SHOULD I DO?



Unique complexities →
More than 50% of Cross-
border M&As fail

CEO's role is critical, e.g., [Background and behavioral traits](#)



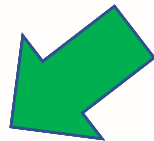
- Informational advantage (Wang and Yin, 2018)
- Narcissism (Aktas, Bodt, Bollaert, and Roll, 2016)
- Familiarity/home bias (Chung, Green, and Schmidt, 2018; Jiang, Qian, and Yonker, 2018)
- Overconfidence (Roll, 1986; Malmendier and Tate, 2008)
- International Experience: distinctive worldviews and global networks (Le and Kroll, 2017)

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



Increase **likelihood** of attempting cross-border deals



Better **performance** of deals

International Background (IB)

- Non-U.S. **nationality**
- **Education** from a foreign country
- Overseas **work experience**



- **IB1**
- **IB2**
- **IB3**
- **IB \geq 1**
- **IB \geq 2**

Contribution

International Background affects **target selection** and **deal performance**:

1. Informational advantage → target selection and deal outcomes
2. Evidence for how CEOs' international background affect cross-border M&As
 - First study to explore culture at the CEO-level and the first one to link international background to deal selection and outcome.
 - National culture (Ahern, Daminelli, Fracassi, 2015) and cultural distance (Morosini, Shane, and Singh, 1998)



Literature Review and Research Questions

CEO General Characteristics

- CEO's background attributes affect investment styles, R&D investments, and other corporate investment decisions (Henderson and Hutton, 2018; Bernile, Bhagwat, and Rau, 2016; Dittmar and Duchin, 2015; Daily, Certo, and Dalton, 2000).

CEO International Characteristics

- International experience influences personal values by causing greater open-mindedness, increased understanding, respect, and a sense of responsibility for others (Black and Duhon, 2006; Chieffo and Griffiths, 2004).

Are CEOs with an international background more likely to acquire cross-border targets, compared to those without an international background?

Unique Resource

- International assignment experience provide CEOs with unique skills, perspectives, and professional connections create value by being a valuable resource (Carpenter, Sanders, and Gregersen, 2001; Athanassiou and Nigh 1999).
- ✓ Add value to the cross-border M&A deal by reducing ambiguity in negotiations and thereby facilitate the integration process.

Cultural Awareness

- Cultural differences are important parameters when individuals with conflicting values have to coordinate with each other.
- ✓ Greater cultural distance leads to lower announcement returns (Ahern and Daminelli, 2015; Erel, Liao, and Weisbach, 2012).

Do CEOs with an international background that acquire cross-border targets create value?

Country-specific Skills

Informational Advantage

- Firsthand knowledge of local legislation (in target countries)--informational advantage.
- Social ties-- decrease the costs of gathering information on investments.
- ✓ Create value by bidding on optimal target firm (Wang and Yin, 2018; Cohen, Frazzini, and Malloy, 2008)

Familiarity Bias

- ✓ Investors prefer familiar environments, more likely invest in familiar assets in risky situations--Not always optimal (Pool, Stoffman, and Yonker, 2012)
- ✓ Overconfident CEOs undertake value-destroying mergers because they overestimate their local connections and their ability to generate returns (Chung, Clifton and Schmidt, 2018).

Do firms realize abnormal returns when CEOs acquire targets in countries that they are familiar with?

Data and Sample

Deal-level

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

Data spans: **January 1996 and December 2018**

- ISS coverage begins in 1996
- SDC sample is more consistent and reliable starting from 1996

Final sample contains 37,278 deals

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

Controls

- CEO: Business or Law degree, Tenure, CEO Previous CBMA
- Firm: Size, CapInt, Leverage, Cash Flow, ROA, Market Value, MTB, Firm Previous CBMA
- Deal: Friendly, Stock, Challenged, Definitive Agreement, Collar, Merger of Equals, Due Diligence
- Target Nation: GDP Growth, Corporate Tax Rate, Language

Table 1: Frequency of International M&As by Target Nations

Target Nation	N	%
U.K.	1,443	18.9
Canada	1069	14.0
Germany	691	9.1
France	404	5.3
Australia	390	5.1
Netherlands	263	3.5
Brazil	232	3.0
Italy	218	2.9
China	188	2.5
India	180	2.4
Israel	173	2.3
Spain	171	2.2
Switzerland	159	2.1
Mexico	146	1.9
Sweden	146	1.9

Table 2: Frequency of International M&As by Non-U.S. Nationalities

Nationality	N	%
Canada	159	20.1
U.K.	138	17.4
India	70	8.8
Australia	65	8.2
Israel	33	4.2
France	30	3.8
Switzerland	27	3.4
Netherlands	26	3.3
Italy	21	2.6
Germany	17	2.1
China	16	2.0
Ireland	15	1.9
South Africa	15	1.9
Denmark	12	1.5

Table 3: Sample Breakdown of International and Domestic M&As by U.S. Firms

Panel A: CEO Characteristics

	International (7,620)		Domestic (29,658)	
	N	%	N	%
Nationality				
American	6,827	90%	21,846	95%
Non-American	793	10%	1,254	5%
Education				
U.S.	5,780	82%	23,343	89%
Non-U.S.	1,271	18%	2,795	11%
Employment				
U.S.	5,441	72%	23,970	81%
Non-U.S.	2,157	28%	5,525	19%

Table 3 contd.

Panel B: Measures of International Background

	International (7,620)		Domestic (29,658)	
	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 \geq 1	2,049	38.8%	4,868	28.3%
Others	3,238	61.2%	12,326	71.7%
IB \geq 2	641	12.1%	1,111	6.5%
Others	4,646	87.9%	16,083	93.5%

Table 4: CEO International Background and the Probability of Conducting an International M&A

Panel A: Components of International Background

	Probit			MFX		
Non-American	0.253*** (7.78)			0.150*** (4.01)		0.048*** (3.82)
Non-U.S. Employment		0.212*** (8.74)		0.110*** (3.83)		0.033*** (4.84)
Non-U.S. Education			0.145*** (7.24)	0.106*** (4.99)		0.036*** (3.86)
CEO Controls	Yes	Yes	Yes	Yes	Yes	Yes
Deal Controls	Yes	Yes	Yes	Yes	Yes	Yes
Firm Controls	Yes	Yes	Yes	Yes	Yes	Yes
Constant	-0.704*** (5.57)	-0.990*** (8.00)	-0.954*** (7.70)	-0.707*** (5.57)		
N	25,644	30,474	30,348	25,550		25,550
Year FE	Yes	Yes	Yes	Yes	Yes	Yes

Table 6: Acquirer Announcement Returns for International M&As

	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	Yes
Deal Controls	Yes	Yes	Yes	Yes	Yes	Yes
Firm Controls	Yes	Yes	Yes	Yes	Yes	Yes
Target Controls	Yes	Yes	Yes	Yes	Yes	Yes
Constant	0.028 (1.24)	0.028 (1.26)	0.026 (1.14)	0.027 (1.20)	0.025 (1.09)	
N	5,069	5,069	5,069	5,069	5,069	5,069
Adjusted R ²	-0.0257	-0.0259	-0.0229	-0.0259	-0.0249	
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes

Table 9: Relationship of International Background, Firm and Deal Characteristics with Announcement Returns

	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
Constant	0.036* (1.88)	-0.031 (0.91)	0.062 (1.10)	0.037 (1.31)
N	5,632	304	1,496	3,120
Adjusted R ²	0.0159	0.0416	0.0756	0.0140
Year FE	Yes	Yes	Yes	Yes

Table 11: The CAR of the Country Experience Deals

Panel A: Full Sample			Panel B: Country Experience Deals Only		
	CAR (-1, +1)			CAR (-1, +1)	
	No Country Experience	Country Experience		Later Deal	1st Deal
IB3	0.026*** (3.65)	0.019* (1.77)	IB3	0.023** (2.05)	-0.008 (0.25)
Controls (Table 6)	Yes	Yes	Controls (Table 6)	Yes	Yes
Constant	0.0295 (1.68)	-0.045 (1.18)	Constant	-0.034 (0.61)	-0.112 (0.88)
Year FE	Yes	Yes	Year FE	Yes	Yes
Adjusted R ²	0.0128	0.0219	Adjusted R ²	0.0117	-0.0009
N	6,121	416	N	294	120

Additional Tests

Acquirer Announcement Returns for International M&As Across Subsamples

- Tenure < 5-year  higher market response

Placebo Test-Acquirer Announcement Returns for International M&As

- IB3 var is randomly assigned  no significant abnormal returns

Table 15: Within Firm Probit Analysis

	Probit	MFX
IB3	0.515** (2.02)	0.193** (2.11)
CEO Controls	Yes	Yes
Deal Controls	Yes	Yes
Firm Controls	Yes	Yes
Target Controls	Yes	Yes
Constant	1.185 (1.56)	
N	415	415
Year FE	Yes	Yes

Table 16: Within Firm CAR Analysis

	CAR (-1, +1)
IB3	0.013* (1.66)
CEO Controls	Yes
Deal Controls	Yes
Firm Controls	Yes
Target Controls	Yes
Constant	0.071** (2.39)
N	165
Adjusted	0.0304

Conclusion

CEO International Background

- ✓ Increases the likelihood of acquiring international targets when compared to CEOs without this background
- ✓ Firms realize significantly positive abnormal returns
- ✓ Having multiple dimensions of IB (as opposed to one) increases the likelihood and announcement returns

The observed gains are largely due to:

- ✓ greater due diligence, lower acquisition premiums, and a greater likelihood of financing the deal mostly with stock
- CEOs' informational advantage, cultural awareness, unique skills and talents assist in value creation.

Thank you for your time!

Please let me know if you have any questions or comments.

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Additional Tests

Table 8: Acquirer Announcement Returns for International M&As Across Subsamples

	CAR (-1, +1)			
	No Business/Law	Business/Law	Tenure ≤ 5	Tenure > 5
IB3	0.041*** (2.84)	0.003 (0.45)	0.036*** (3.39)	0.001 (0.13)
Controls	Yes	Yes	Yes	Yes
Constant	0.053 (1.30)	0.013 (0.90)	0.040 (1.46)	0.021 (1.12)
Year FE	Yes	Yes	Yes	Yes
Adjusted	0.0235	0.0413	0.0196	0.0368
N	2,351	3,281	3,570	2,084

Table 14: Placebo Test-Acquirer Announcement Returns for International M&As

<u>Dependent Variable:</u>	<u>CAR (-1, +1)</u>
IB3 (randomly assigned)	-0.005 (-0.67)
CEO Controls	Yes
Deal Controls	Yes
Firm Controls	Yes
Target Controls	Yes
Constant	0.028 (1.24)
N	5,069
Adjusted	-0.0258
Year FE	Yes