

CEO General Ability and the Takeover Market

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This paper presents evidence on what type of managerial experience is more impactful on how managers run their firms. We show that the breadth of experience, general ability of the manager, is associated with successful outcomes in the takeover market. The exposure of the CEO to a specific type of experience, specialist managerial ability, is not. As such, the study notably justifies the increased compensation for higher general ability CEOs active in the takeover market by documenting the enhanced value created by these CEOs. The paper adds to the literature that the greater success in the takeover market is a related benefit to the hiring of these types of general ability CEOs. As further contribution to the literature, the study documents higher positive market reactions to the complex – smaller, or multi-industry, or intense R&D innovation – target acquisitions initiated by general ability managers. On the other hand, neither the deal structure nor the takeover experience of the general ability manager has an augmented impact on the takeover performance.

Keywords: General Managerial Ability; Mergers and Acquisitions; CEOs; Corporate Governance

JEL classification: G14; G30; G34; J24

1. Introduction

There is increasing demand for CEOs with diverse past work experience and high general ability. Compensation packages are typically higher for these CEOs, especially when they undertake complex tasks, such as mergers and acquisitions (M&As). However, there is little evidence as to whether the increased compensation for these CEOs is justified by how these executives perform in complex tasks. In other words, do managers with heightened general managerial ability execute these important, yet complex operational tasks more effectively than managers with more specialized experience? Our study contributes to this strand of the literature by providing affirmative evidence to this important question.

In this paper, we investigate how the level of general ability of a manager shapes outcomes in the takeover market for their firms. Specifically, we consider whether the quality of the acquisitions varies with the general ability of the CEO of the acquiring firm. We gauge the quality of acquisitions made using the reaction of the market to the announcement of the deal.

We measure general ability using the general ability index (*GAI*) constructed in Custódio et al. (2013) and extend to more recent time periods. We first examine whether the success of an acquisition varies with the value of the *GAI* for the CEO. We find that the CEOs associated with higher values of *GAI* make deals with

significantly higher *CARs*. Economically, a one standard deviation increase in *GAI* results in a 5.2% increase in the *CAR*, relative to the sample mean. This effect is robust to including CEO characteristics, the macro-economic environment in the takeover market, and the time invariant industry conditions.

One concern with these results is the potential correlation between CEOs with general lifetime work experience and CEOs that simply have higher ability. If CEOs with higher general ability are simply the same as those that have higher 'natural' ability, the latter effect may account for our results. While it is difficult to accurately measure CEO ability, we tackle the issue by controlling for the ability of the CEO using a proxy developed in the literature. Specifically, we use the *managerial ability index (MAI)* created by Demerjian et al. (2012). This measure captures the portion of the firm efficiency attributable to specific CEOs throughout their careers.

Our study differs from and builds on previous work in several ways. We compare generalist *GAI* with 'natural' specialist managerial ability *concurrently*. We focus on CEO takeover activity and we use a larger sample set. We find that the 'natural' ability of the CEO (that is, of the acquiring firm CEO) has no impact on the market reaction to the announcement of the deal when *GAI* is also considered contemporaneously. Moreover, the positive relation between the *GAI* and the announcement return is robust to the inclusion of this potentially omitted correlated variable.

Furthermore, we examine the mechanisms that drive our primary conclusion, that managers equipped with broad experiences make value-enhancing acquisitions. First, we contribute to the existing literature by considering whether CEOs with high general ability are better able to select and integrate targets into their firms based on target size, target's presence in multiple segments, and target's R&D engagement. We find that the positive relation between *GAI* and *CARs* is significantly higher for smaller target firms, for relatively complex targets operating in multiple industries, and for targets involved with innovation and R&D.

Second, we contribute to the existing literature by exploring whether CEOs with higher *GAI* navigate complex deal structures, such as tender offers, diversified acquisitions, or deals offered with a percentage as cash. We document that none of these factors significantly affects the positive returns to acquiring firms with high *GAI* CEOs.

Third, we contribute to the existing literature by exploring whether the high *GAI* CEO's takeover market experience drives high *CAR* deals. We find that takeover-specific experiences do not drive the positive relationship between general ability and the success in the takeover market.

The results of the paper here contribute to the literature that explores the impact of managerial experience on how managers run their firms. We show that the breadth of experience (*GAI*), not exposure to a specific type of experience (*MAI*), is associated with successful outcomes in the takeover market. As such, our study matters and is important because of the documented evidence that increased compensation for higher *GAI* CEOs active in the takeover market is justified by the enhanced value created by these CEOs. The paper adds to the literature that the greater success in the

takeover market is a related benefit to the hiring of these CEOs.

The remainder of this paper is organized as follows. Section 2 provides the literature review. Section 3 outlines the empirical predictions. Section 4 describes the data. Section 5 presents and interprets the empirical results. Finally, Section 6 concludes.

2. Literature Review

Previous studies have largely explored the 'natural and specialized' managerial ability through the Demerjian et al. (2012) measure. For example, Chen and Lin (2018) examine the impact of 'natural' managerial ability on the profitability of mergers and acquisitions. They find acquisitions by firms with high managerial ability generate better announcement abnormal returns than deals by firms with lower managerial ability. Chen et al. (2015) find that managerial ability is positively associated with innovative output.

On the other hand, as documented in numerous studies such as Bertrand and Mullainathan (1999, 2003) and Datta et al. (2001), diverse work experience and superior 'general' ability of top executives are continually in high demand leading to enhanced compensation packages for these types of executives. This is the case especially when these executives are involved with complex assignments such as takeover activities (Custódio et al., 2013).

Following and expanding on this branch of the relevant literature, we compare GAI with 'natural' managerial ability concurrently in this study. The nature of the CEO's experience may alter their ability to make value-enhancing decisions in the takeover market in several different ways. Broad experience may increase the ability of the CEO to execute successful deals. For example, broad experience may increase the ability of the CEO to value targets more accurately, allowing them to be integrated into the acquiring firms. Moreover, CEOs with high general ability may be able to better navigate the process of structuring a deal. More specifically, broad experiences of CEOs with high general ability may include specific experiences in the takeover market, enhancing the CEO's takeover ability.¹

Researchers have examined the effect that managers have on firm outcomes from many different perspectives. Dittmar and Duchin (2016) show that CEOs who have experienced distress are more likely to manage their firms conservatively. Bernile et al. (2017) provide evidence of a potential non-linear relationship between exposure to fatal disasters and risk-taking decisions. In our paper, we show that the breadth of experience, not exposure to a specific type of experience, is associated with successful outcomes in the takeover market. As such, our study follows Custódio et al. (2013, 2017) and suggests that the increased pay for CEOs with high general ability in firms active in the takeover market is likely justified by the enhanced value created by these

¹ On the other hand, CEOs with more specialized abilities may be better in finding value-enhancing deals. For instance, firm-specific experiences of such CEOs may help establish more advantageous connections to other firms in the industry. The industry connections of the executive may help increase the CEO's chances to make value-enhancing deals. However, research studies such as El-Khatib et al. (2015) and others have not found supporting evidence for such specialized abilities.

CEOs. The results of the paper here contribute to the strand of literature that explores the impact of managerial experience on how managers run their firms. The paper adds to the literature that the greater success in the takeover market is a related benefit to the hiring of these CEOs.

An important aspect of the literature is how the experience that CEOs collect over time impacts the way in which they manage. This is of interest as CEOs with more general experience – CEOs with a broad set of knowledge and skills as opposed to specialist CEOs with a narrower but deeper set of knowledge and skills – have been shown to be paid more and with a higher tilt towards equity compensation, especially in firms that are active in the takeover market (Custódio et al., 2013). Several studies compare generalist versus specialist CEOs documenting advantageous outcomes for the generalist CEOs. For instance, Chen et al. (2023) find that CEOs with higher GAI receive higher approval rates on M&A voting events and enjoy better short-term and long-term stock performances. Chen et al. (2021) find that generalists CEOs are more likely to successfully engage in unrelated acquisitions than ‘specialists’ CEOs. Using a sample of Chinese firms, Xu et al. (2021) examine the impact of generalist top executives on mergers and acquisitions. The authors find that generalist top executives conduct more acquisitions and experience better announcement and long-term returns than their specialists’ counterparts. In addition, Liu et al. (2024) find that generalist CEOs are more likely to engage in international acquisitions and improve the acquired firms’ long-term accounting and market performance.

Similar to previous studies, we also find that managers equipped with broad experiences in different firms and industries make value-enhancing acquisitions, on average. Our study aims to dig deeper and add to the existing literature by exploring the mechanisms that drive this finding. We consider three mutually exclusive mechanisms that are found by the literature to affect the merger and acquisition activity – target characteristics, deal structure, and CEO acquisition experience. For example, Alexandridis et al. (2013) show that the larger the target size, the lower the acquirer’s cumulative abnormal return. Other studies document the relation between acquisition performance and the deal structure. Bradley et al. (1988) find synergy gains in their sample of tender offers from 1963 to 1984. Bhagat et al. (2005) study the acquisitions gain from tender offers and find a positive cumulative abnormal returns. Eckbo (1983) studies acquisitions in mining and manufacturing firms and found acquisition gains for both bidders and targets in horizontal mergers. Fuller et al. (2002) and Moeller et al. (2004) find that acquisitions through cash offers result in positive cumulative abnormal returns for acquirers. In addition, studies such as Barkema and Schijven (2008) and Aktas et al. (2009, 2011, 2013) document the importance of past takeover experience on future acquisition performance.

By exploring the various mechanisms, our study differentiates itself from previous literature on the impact of generalist CEOs on acquisition performance by

documenting that the value-enhancing acquisitions of generalist CEOs could be attributed to these CEOs engaging in complex takeovers as proxied by target characteristics.

3. Empirical Predictions

The general experience gained by CEOs with high general ability may have an influence on the quality of the deals made by these CEOs. CEOs with high general ability have a history of working in different firms, in different industries, and in different managerial positions. Thus, throughout their careers they accumulate knowledge from all these different firms and industries, enabling them to be better at selecting targets, especially selecting complex target firms that are difficult to evaluate, which can then be successfully integrated into their current firms. This leads us to our empirical question: What drives the acquisition gain for CEOs with higher general ability?

Chen and Lin (2018) document that managers with high managerial ability perform better in scenarios with high environmental uncertainty, which suggests that high environmental uncertainty, complexity, is an important scenario that should be incorporated into studies of the influence of the CEO's ability. To this end, we conjecture that CEOs with general experience may simply be better able to evaluate complex targets, including the costs of integrating these targets into the acquiring firm. Given the broad experience of the CEOs with high *GAI*, we consider whether announcement returns are higher when the target firm is relatively complex. Research in this area has found that the larger the target size, the lower the acquirer's cumulative abnormal returns (Alexandridis et al., 2013). Larger targets are more complex, making integration into the acquiring firm more difficult. We next proxy for complexity based on whether the firm has multiple operating segments. Prior research shows that information is more difficult to digest from firms with multiple segments (Cohen and Lou, 2012). Another target-level characteristic that increases the complexity of the firm is investment in research and development – R&D. CEOs with high *GAI* are shown to increase innovation, arguably because increased outside career options insulate such CEOs from failure (Custódio et al., 2017). Further, the M&A activity has been shown to relieve financial constraints of the target as shown by Erel et al. (2015), and may increase future innovation. These conjectures lead to the following hypothesis:

Hypothesis 1: The higher returns for CEOs with higher general ability are more pronounced based on the complexity of the target.

We next consider whether the higher returns for CEOs with high *GAI* are more pronounced based on the structure of the deal. We consider tender offers as these deals have been shown to exploit potential synergies in the deal (Bradley et al., 1983). Furthermore, tender offers are influenced by the target management's impact on the deal (Stulz, 1988). Separately, we also consider horizontal mergers. CEOs with high *GAI* may be better suited for diversifying mergers given their wide spectrum of

experiences. On the other hand, these CEOs may also be better suited for horizontal mergers given the scrutiny levied from antitrust agencies on such mergers (e.g., Stillman, 1983). Finally, we evaluate the consideration offered to the target firm in a merger deal as acquiring firms may select consideration because of information asymmetry between the bidder and the target (Hansen, 1987). CEOs with high *GAI* values may offer more (or less) cash compensation.

Hypothesis 2: The higher returns for CEOs with higher general ability are more pronounced based on the structure of the deal.

We finally examine whether the experiences of CEOs uniquely relate to the takeover market. Specifically, it may not necessarily be general experience, per se, that leads to positive returns. Rather, it may be that this general experience places the CEOs in situations involved with more takeovers and that it is actually the takeover experience driving the results. This leads us to our final hypothesis.

Hypothesis 3: The higher returns for CEOs with higher general ability are more pronounced based on the takeover experience of the CEO.

4. Data Description

4.1. General Ability

We use the General Ability Index (*GAI*) constructed by Custódio et al. (2013) as a measure of a CEO's general human capital skills, to determine how these skills impact activity in the takeover market. The *GAI* considers five measures of a CEO's general ability prior to the CEO's current position and was originally calculated for the time period from 1993 to 2007. More recently, the data was extended through 2016. The five measures are the number of positions the CEO held, the number of firms the CEO worked in, the number of industries the CEO worked in, an indicator variable that is equal to one if the CEO held a previous CEO position, and an indicator variable that is equal to one if the CEO worked in a conglomerate. The *GAI* is based on a principal components analysis of these five variables. The index captures the skills gained throughout the CEO's career that can only be attributed to the CEO's vast experience from different firms, industries, and positions that are not firm-specific. The more diverse the CEO's past careers have been, the higher the CEO's *GAI*. Custódio et al. (2013) standardize their index to have a zero mean and a standard deviation of one. Since the data of this study include only a subset of their sample, the general ability mean here is -0.036 and the standard deviation is 0.929.

4.2. Sample Selection

The sample includes CEO-firm year observations from the Compustat Execucomp database. The sample period is from 1993 to 2016 since Execucomp database starts from 1992. We omit the year 1992 from our sample since Execucomp data for that year is incomplete. We first merge our CEO data with BoardEx to get

the necessary information on the characteristics of the CEOs such as their education level, the various positions held within the firm, and whether they were hired from within the firm. We then merge our sample to Compustat to obtain the necessary firm-level accounting information. We exclude financial firms (SIC codes 6000 to 6999) and utility firms (SIC codes 4900 to 4999). We require every CEO to have an assigned GAI value.

We then construct a sample that includes CEOs who were involved in at least one acquisition during our sample period. We obtain M&A data from SDC platinum, and we include all completed acquisitions. We exclude deals with transactions values lower than \$1 million and deals where the acquirer owns more than 50% of the target prior to announcement. All acquirers must be publicly listed and matched to accounting data from Compustat. We include acquisitions of both public and private target firms in our main tests. After the application of these filters, we have a sample of 9,993 CEO-deal observations and 1,679 distinct CEOs. We obtain acquirer cumulative abnormal returns (CARs) from Eventus. These CARs are measured over the three-day window centered on the deal announcement date. Firm-level returns are net of expected returns, where expected returns are calculated using the market model. Market model parameters are estimated for the 253 trading days prior to the announcement and ending 64 days prior to the announcement. We require that the firm has at least 100 trading days. We winsorize all continuous variables at the 1st and 99th percentiles. In subsequent analysis, we also consider the impact of GAI on firm-level innovation activity quantified as research and development activity within the firm.

Table 1 reports the descriptive statistics of the CEO-level, firm-level, and deal-level sample characteristics in Panels A, B, and C, respectively. We adjust all Compustat variables to 2016 dollars using the consumer price index. Then, we scale the variables by the book value of assets and winsorize them at the 1st and 99th percentiles. The descriptive statistics in Panel A report an average GAI, CEO age, and CEO tenure of -0.036, 55.397 years, and 8.435 years, respectively. Panel A also reports that most CEOs in the sample do not have an MBA degree, are most likely to be hired from inside the firm, and do not hold a position as a chairman. Panel B reports that return on assets, ROA, is positive, on average, for the sample. Further, approximately 14% of the assets of the firms are in cash holdings. Panel C reports the average CAR value. Consistent with past literature, this average is near zero at 0.6%. Just under one-third of the sample target firms are publicly listed and fewer than half of the deals are diversifying acquisitions.

As part of the preliminary analysis, Table 2 presents the correlation matrix of the variables used in the study, along with the significance levels of the correlations. Since of primary interest, an overview of the general ability index (GAI) correlations with other variables is warranted. We observe that the general ability of the CEO is highly positively and significantly correlated with the size of own firm. Apparently, large companies with multiple business segments and complex operations tend to have CEOs with higher general ability. CEOs that are also chairs of their firms tend

to have higher general ability. Age of the CEO is positively and statistically significantly correlated with general ability. General ability and managerial ability (natural skills) are positively correlated. Finally, high general ability CEOs tend to be more involved with diversified acquisitions. As far as negative and significant correlations, we observe that high general ability CEOs do not tend to be typically at first year at the position, do not tend to be external hires, do not seem to have long tenures, are not associated with the policy of high capital expenditures, and are not typically involved with acquisitions financed with stock deals.

Table 1. Descriptive Statistics

| <i>Panel A: CEO-Level (N = 6,078)</i> | | | |
|---------------------------------------|--------|--------|-----------|
| Variables | Mean | Median | Std. Dev. |
| General Ability Index | -0.036 | -0.191 | 0.929 |
| Managerial Ability Index | 0.584 | 0.600 | 0.306 |
| CEO Age | 55.397 | 55.500 | 7.329 |
| CEO Tenure | 8.435 | 6.00 | 6.975 |
| First Year | 0.056 | 0.00 | 0.229 |
| MBA | 0.119 | 0.000 | 0.324 |
| CEO-Chairman | 0.446 | 0.000 | 0.497 |
| External Hire | 0.091 | 0.000 | 0.287 |
| <i>Panel B: Firm-Level (N=6,078)</i> | | | |
| Variables | Mean | Median | Std. Dev. |
| Acquirer ROA | 0.053 | 0.057 | 0.074 |
| Acquirer CapEx | 0.049 | 0.036 | 0.043 |
| Acquirer Size | 7.985 | 7.864 | 1.498 |
| Acquirer Cash | 0.139 | 0.078 | 0.151 |
| <i>Panel C: Deal-Level (N=9,993)</i> | | | |
| 3 Days Acquirer CAR | 0.006 | 0.003 | 0.052 |
| Toehold | 0.040 | 0.000 | 0.196 |
| Stock Deal | 0.108 | 0.000 | 0.311 |
| Public Acquisition | 0.303 | 0.000 | 0.460 |
| Hostile | 0.007 | 0.000 | 0.084 |
| Contested | 0.011 | 0.000 | 0.106 |
| Merger of Equals | 0.001 | 0.000 | 0.028 |
| Tender Offer | 0.067 | 0.000 | 0.249 |
| Diversifying Acquisition | 0.410 | 0.000 | 0.492 |
| Relative Size | 0.088 | 0.024 | 0.237 |

Note: Panel A, Panel B, and Panel C report descriptive statistics of sample CEOs, firms, and M&A deals from 1993 to 2016, respectively. General ability is the measure of a CEO's general skills based on past work experience including the past number of positions the CEO held, the past number of firms the CEO worked for, the past number of industries the CEO worked in, whether the CEO held a CEO position at a different company, and whether the CEO worked for a conglomerate. All variables are defined in the appendix. All Compustat variables are adjusted to 2016 dollars using CPI and are scaled by the book value of assets.

Table 2. Correlation Matrix

| Var | Ga | Ma | Rels | Age | Tenure | 1styear | Mba | Chair | Ext | Roa | Capex | Size | Cash | Toeh | Stockd | Pub | Hostil | Contest | Equal | Tendo |
|---------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|---------|----------|----------|---------|---------|--------|-------|
| Ma | 0.07*** | | | | | | | | | | | | | | | | | | | |
| Rels | -0.02* | -0.05*** | | | | | | | | | | | | | | | | | | |
| Age | 0.20*** | -0.02* | 0 | | | | | | | | | | | | | | | | | |
| Tenure | -0.06*** | 0.03*** | -0.02* | 0.38*** | | | | | | | | | | | | | | | | |
| 1styear | -0.04*** | 0.003 | -0.01 | -0.10*** | -0.27*** | | | | | | | | | | | | | | | |
| Mba | 0.04*** | 0.08*** | -0.02* | -0.04*** | -0.03*** | -0.01 | | | | | | | | | | | | | | |
| Chair | 0.10*** | -0.004 | -0.02** | 0.10*** | 0.10*** | -0.10*** | 0.14*** | | | | | | | | | | | | | |
| Extl | -0.03*** | 0.02* | 0.01 | -0.02** | -0.02** | -0.02* | -0.02* | 0.31*** | | | | | | | | | | | | |
| Roa | -0.001 | 0.18*** | -0.06*** | 0.06*** | 0.03*** | -0.02** | 0.06*** | -0.03*** | -0.09*** | | | | | | | | | | | |
| Capex | -0.08*** | 0.04*** | -0.01 | 0.003 | -0.004 | 0.01 | -0.07*** | 0.03*** | 0.09*** | 0.05*** | | | | | | | | | | |
| Size | 0.34*** | 0.19*** | -0.08*** | 0.16*** | -0.03*** | 0.05*** | 0.05*** | 0.07*** | -0.03*** | 0.13*** | 0.03*** | | | | | | | | | |
| Cash | -0.02** | 0.20*** | -0.02** | -0.20*** | 0.01 | 0.01 | -0.02*** | -0.07*** | -0.02* | 0.04*** | -0.14*** | -0.19*** | | | | | | | | |
| Toeh | 0.04*** | 0.02* | -0.01 | 0.03*** | -0.002 | 0.01 | 0.02** | -0.01 | 0.004 | 0.01 | 0.04*** | 0.11*** | -0.04*** | | | | | | | |
| Stockd | -0.03*** | 0.07*** | 0.06*** | -0.12*** | -0.02* | 0.01 | -0.01 | 0.01 | 0.07*** | -0.09*** | 0.09*** | -0.06*** | 0.14*** | -0.001 | | | | | | |
| Pub | 0.04*** | 0.05*** | 0.07*** | 0.03*** | 0.01 | 0.01 | -0.02* | 0.01 | 0.02** | 0.02** | 0.07*** | 0.12*** | -0.04*** | 0.04*** | 0.07*** | | | | | |
| Hostil | 0.03*** | -0.01 | 0.04*** | 0.02*** | 0.01 | -0.01 | -0.004 | 0.01 | 0.01 | -0.01 | -0.01 | 0.04*** | -0.02* | 0.08*** | 0.02* | 0.07*** | | | | |
| Contest | 0.01 | 0.01 | 0.04*** | 0.02** | 0.01 | -0.01 | 0.01 | 0.02* | 0.02** | 0.01 | -0.001 | 0.04*** | -0.03*** | 0.02** | 0.02** | 0.05*** | 0.34*** | | | |
| Equal | -0.01 | -0.002 | 0.04*** | 0.01 | -0.01 | -0.01 | -0.01 | 0.01 | 0.02** | -0.01 | 0 | 0.01 | -0.01 | -0.01 | 0.07*** | 0.03*** | -0.002 | 0.03*** | | |
| Tendo | 0.04*** | 0.01 | 0.04*** | 0.02*** | -0.01 | 0.03*** | -0.02** | 0.001 | 0.004 | 0.01 | -0.03*** | 0.09*** | -0.02** | 0.08*** | -0.04*** | 0.21*** | 0.22*** | 0.19*** | -0.007 | |
| Diverse | 0.06*** | 0.02* | -0.02* | 0.02** | -0.02* | -0.01 | 0.08*** | 0.05*** | -0.01 | 0.01 | -0.07*** | 0.10*** | -0.05*** | 0.01 | -0.01 | -0.13*** | -0.02* | 0.001 | 0.008 | -0.00 |

Note: This table reports the Pearson correlations between the variable pairs used in the study, with ga: general ability, ma: managerial ability, relS: relative size, CEO age, CEO tenure, 1stYear: first year in the position, CEO MBA, CEO is also chair, extl: CEO hired externally, roa: return on assets, capEx: capital expenditures to book value of assets, size: book value of assets, cash: firm cash to book value of assets, toehI: whether acquirer had prior interest = toehold, stockD: stock deal, pub: publicly traded target, hostil: hostile acquisition, contest: contested with multiple bidders, equal: merger of equals, tendO: tender offer, diverse: diversified acquisition. The variables are defined in more detail in the appendix. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

5. Empirical Results

5.1. General Ability and Acquisition Gains

We first examine the effect of the value of *GAI* for the acquiring firm CEO on the acquirers' cumulative abnormal returns by using the following regression:

$$3 \text{ Day Acquirer CARs}_{i,j,t} = \beta_1 \text{ General Ability Index}_{i,j,t} + \gamma' X_{i,j,t} + \varepsilon_{i,j,t}, \quad (1)$$

where *3-Day Acquirer CARs* denotes the acquirer's 3-day cumulative abnormal returns of deal *i* made by CEO *j* in period *t*, *General Ability Index* denotes the general ability of CEO *j* in period *t*, and *X* is a set of CEO level, firm level, and deal level characteristics in period *t*. The CARs are calculated using the market model and the CRSP value-weighted index returns as market returns. In all the models, standard errors are clustered at the CEO level.

We control for CEO characteristics, acquirer characteristics, and deal characteristics in regression models (1) through (6) of Table 3. CEO characteristics include *CEO Age*, *CEO Tenure*, and indicator variables for whether it is the CEO's first year in the position, whether the CEO has an MBA, whether the CEO has a dual position as a chairman, and finally whether the CEO is hired from outside the firm. Acquirer characteristics include *Return on Assets (ROA)*, *Capital Expenditures (CapEX)*, *Size*, and *Cash*. *ROA* is defined as the net income over total assets. *CapEX* is the value reported in Compustat adjusted to the book value of total assets. *Size* is defined as the natural logarithm transformation of the acquirer's book value of total assets. *Cash* is the value of cash in Compustat adjusted to the book value of assets. Deal characteristics include ratio of the target's size to the acquirer's size and indicator variables for whether the deal is: (a) unsolicited, (b) merger of equals, (c) tender offer, (d) public acquisition, (e) contested acquisition, (f) diversified acquisition, and (g) stock deal. An indicator is also included if the deal includes a toehold. *Stock deal* is an indicator variable if more than 50% of the deal value is financed by equity. And an acquisition is considered diversified if the acquirer's 2 digit SIC level differs from that of the target. These variables are clarified further in the Appendix section. We also include CEO fixed-effects, year fixed-effects, and industry fixed-effects to control for time-invariant CEO characteristics, time-varying factors, and industry varying factors, respectively.

Model (1) and Model (2) of Table 3 report the initial results. In Model (1), the results report a positive and significant relation between the CEOs with higher *GAI* value and the acquirers' 3-day cumulative abnormal returns. CEOs with high general ability use their vast work experience to make higher quality acquisitions and increase the market reaction to the deal. Industry fixed effects are based on the two digits of the SIC codes. Economically, a one standard deviation increase in the value of the *GAI* for the acquiring firm CEO is associated with a 0.6% increase in the 3-day cumulative abnormal market reaction to the public deal announcement, which is equal to the magnitude of the mean *CAR* for the sample. Acquirer cash has a positive but insignificant relation with the acquirers' *CARs*. Consistent with Moeller et al. (2004), acquirer size is negatively related to the acquirers' *CARs*.

Table 3. Acquirer CEO General Ability - Cumulative Abnormal Returns

| | (1) | (2) | (3) | (4) | (5) | (6) |
|--------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| General Ability Index | 0.005** | 0.006** | 0.007*** | 0.007*** | 0.007*** | 0.007*** |
| Managerial Ability Index | | 0.005 | | 0.005 | | 0.005 |
| GAI* Large Relative Size | | | -0.004*** | -0.004*** | | |
| Large Relative Size | 0.006*** | 0.005*** | 0.005*** | 0.005*** | | |
| GAI* Large Target Size | | | | | -0.003* | -0.003** |
| Large Target Size | | | | | 0.005*** | 0.005*** |
| CEO Age | 0.006*** | 0.006*** | 0.006*** | 0.006*** | 0.006*** | 0.006*** |
| CEO Tenure | -0.000 | -0.000 | -0.000 | -0.000 | -0.000 | -0.000 |
| First Year | 0.000 | 0.000 | 0.000 | 0.001 | 0.000 | 0.001 |
| MBA | 0.046*** | 0.047*** | 0.045*** | 0.046*** | 0.049*** | 0.051*** |
| CEO-Chairman | 0.002 | 0.002 | 0.002 | 0.002 | 0.002 | 0.002 |
| External Hire | -0.010 | -0.008 | -0.010 | -0.009 | -0.011 | -0.010 |
| Acquirer ROA | -0.002 | -0.006 | -0.001 | -0.005 | -0.002 | -0.006 |
| Acquirer CapEx | -0.044 | -0.046 | -0.043 | -0.045 | -0.051 | -0.052 |
| Acquirer Size | -0.005** | -0.005** | -0.005** | -0.005** | -0.006** | -0.006*** |
| Acquirer Cash | 0.003 | 0.004 | 0.003 | 0.003 | 0.003 | 0.004 |
| Toehold | -0.002 | -0.002 | -0.002 | -0.002 | -0.002 | -0.002 |
| Stock Deal | -0.016*** | -0.017*** | -0.016*** | -0.017*** | -0.017*** | -0.017*** |
| Public Target | 0.002 | 0.002* | 0.002 | 0.002* | 0.002* | 0.003** |
| Hostile | -0.008 | -0.008 | -0.008 | -0.008 | -0.008 | -0.007 |
| Contested | 0.001 | 0.000 | 0.001 | 0.000 | 0.001 | 0.000 |
| Merger of Equals | -0.024 | -0.025 | -0.024 | -0.024 | -0.024 | -0.024 |
| Tender Offer | 0.001 | 0.001 | 0.001 | 0.001 | 0.001 | 0.001 |
| Diversifying Acquisition | -0.003** | -0.003** | -0.003** | -0.003** | -0.003*** | -0.003** |
| Constant | -0.291*** | -0.282*** | -0.288*** | -0.279*** | -0.281*** | -0.272*** |
| Observations | 9993 | 9871 | 9993 | 9871 | 9993 | 9871 |
| Adjusted R ² | 0.095 | 0.092 | 0.096 | 0.093 | 0.094 | 0.092 |
| CEO FEs | YES | YES | YES | YES | YES | YES |
| Year FEs | YES | YES | YES | YES | YES | YES |
| Industry FEs | YES | YES | YES | YES | YES | YES |

Note: Regression results of acquirers' cumulative abnormal returns over a 3-day window centered on announcement day on the general ability index covering 1993 to 2016 are reported. General ability measures a CEO's general skills based on past work experience including the past number of positions the CEO held, firms worked for, industries worked in, whether the CEO held a CEO position at a different company, and whether the CEO worked for a conglomerate. Managerial ability is the portion of variation in sales attributable to managerial fixed effects. Industry fixed effects are based on two digits SIC codes. In (1) through (4), relative size is measured by the ratio of target's size to acquirer's size. Large relative size is one if the relative size is greater than the yearly median, and zero otherwise. In (5) and (6), target's size is measured by the log of the target value excluding liabilities. Large target size is one if the target size is greater than the yearly median, and zero otherwise. All Compustat variables are adjusted to 2016 dollars using CPI and scaled by book value of assets. All control variables are defined in the appendix. Standard errors are clustered at the CEO level. *t*-stats are in parentheses. *, **, and *** denote significance at 10%, 5%, and 1% levels, respectively.

Acquirer capital expenditures and ROA have negative but not insignificant relationships with the acquirers' CARs. Consistent with Andrade et al. (2001), stock

deals are negatively and significantly related to the acquirers' CARs.

In Model (2), we repeat the first regression but also control for the managerial ability of the CEO as measured by Demerjian et al. (2012). The results for Model (2) still show a positive relation between CEOs with higher *GAI* value and 3-day CARs after controlling for the managerial ability of CEOs. Thus, similar to the findings of Chen and Lin (2018), CEOs with higher general ability tend to have an advantage over their peers by using their accumulated knowledge and work experience to increase the wealth of the firm during a new acquisition attempt.

5.2. What Drives Acquisition Gains?

After examining the relation between the CEOs with higher general ability and the acquirers' CARs, we now consider the mechanisms behind these value increasing acquisitions. Therefore, we study the effect of the target's complexity, the deal structure, and the CEO's prior acquisition experience on the three-day cumulative abnormal returns. We focus on cross-sectional variation in the three-day cumulative abnormal returns.

5.2.1. General Ability and Target Complexity

A CEO with higher general ability may be better able to value synergies from a more complex target. Furthermore, their experiences may allow them to better integrate complex targets into the firm they manage. Prior research shows that the larger the target size, the lower the acquirer's cumulative abnormal returns (Alexandridis et al., 2013). Larger targets are more complex and hence, more difficult to acquire and benefit from. Therefore, we examine whether the positive acquisition returns reported earlier are due to the CEOs' unique general ability to extract rent from this size-related complexity in targets. We calculate the yearly median for the target size and construct an indicator variable (*Large Target Size*) that is equal to one if the target size is larger than the median and zero otherwise. Separately, we construct an indicator variable (*Large Relative Size*) equal to one if the ratio of the target's size to the acquirer's size is greater than the yearly median, and zero otherwise.

In Model (3) and Model (4) of Table 3, we interact the relative size of the target and acquirer (*Large Relative Size*) with the general ability index (*GAI*) of the manager and find similar results. The coefficients of the interaction variable are *negative* and highly statistically significant both in Model (3) and in Model (4) where we control for CEO, year, and industry fixed-effects in each regression. In other words, CEOs with higher general ability tend to experience larger CARs from M&A activities of smaller sized target firms relative to the size of the acquirers. Model (4) regression additionally controls for managerial ability and provides the same conclusions.

While prior research has used the large size of a firm as the proxy for complexity, a counter conjecture may submit that it is actually the smaller sized firms that are complex since they are associated with shorter histories, with relative unfamiliarity, with less focus of inspection by security analysts, and with uncertainties about the success of their innovative ideas / projects. Our results documenting that CEOs with

higher general ability tend to experience larger CARs from the M&A activities of smaller sized target firms are in line with this counter viewpoint. The market participants seem to interpret that CEOs can see through the fog of uncertainty in these small firms and have the ability to engage in M&A activities with those that these CEOs deduce will be successful.

Model (5) and Model (6) of Table 3 report the results where the dependent variable is the 3-day cumulative abnormal returns. We use the same CEO characteristics, acquirer firm, and deal control variables as in Models (1) and (2). But now we interact the variable *GAI* with *Large Target Size*. The coefficients of the interaction variable are *negative* and significant in Model (5) when we control for CEO, year, and industry fixed-effects. In other words, CEOs with higher general ability tend to experience larger CARs from smaller firms. We repeat the same regression in Model (6), but we additionally control for managerial ability. The results are robust to this addition.

Our second important target-level characteristic that increases the complexity of the firm is investment in research and development – R&D. CEOs with high *GAI* are shown to increase innovation at target firms, arguably because increased outside career options insulate these CEOs from failure (Custódio et al., 2017). Further, the M&A activity has been shown to relieve financial constraints of the target by Erel et al. (2015) and may increase future innovation. We consider whether the higher CARs of these executives are more pronounced when the target firm invests heavily in R&D as this is an input and a proxy for innovation and complexity. We find in Table 4 that they are. Specifically, across both Model (1) and Model (2) in Table 4, we find higher CARs for CEOs with high *GAI* if the target invested a significant amount in R&D spending (the estimate of the interaction term between *GAI* and High Target R&D is positive and statistically significant). Collectively, this evidence suggests that one mechanism for the higher returns is the identification of small, but relatively complex target firms with promising activity for innovation. Both Model (1) and Model (2) control for CEO-, year-, and industry-fixed-effects. Model (2) additionally controls for managerial ability, providing the same conclusions as those of Model (1).

The third proxy for complexity is based on whether the target firm has multiple operating segments. Prior research shows that information is more difficult to digest from firms with multiple segments (Cohen and Lou, 2012) because of their complex operations. The multiple number of industries that the target firm is associated with is typically considered as an indication of the complex nature of the target firm. To this end, Model (3) and Model (4) in Table 4 both utilize an indicator variable that takes the value of one if the number of industry segments is greater than one, and zero otherwise (segments indicator). With this complexity proxy, both Model (3) and Model (4) provide estimates indicating that the positive relationship between *GAI* and CARs is significantly more pronounced if the target operates segments in multiple industries (the estimate of the interaction term between *GAI* and Segments Indicator is positive and statistically significant). Thus, CEOs with high *GAI* may be better able to evaluate these complicated firms, presumably because

of their varied experiences. While both models are based on CEO-, year-, and industry-fixed-effects, Model (4) additionally controls for managerial ability, providing similar conclusions as those of Model (3).

Table 4: Acquirer CEO General Ability, Target R&D, Target Segments

| | (1) | (2) | (3) | (4) |
|--------------------------|-----------|-----------|-----------|-----------|
| GAI* HighTarget R&D | 0.008** | 0.007** | | |
| High Target R&D | -0.000 | -0.000 | | |
| GAI* Segments Indicator | | | 0.012*** | 0.011*** |
| Segments Indicator | | | 0.004 | 0.004 |
| General Ability Index | 0.000 | 0.000 | -0.001 | -0.002 |
| Managerial Ability Index | | -0.001 | | -0.000 |
| Relative Size | 0.000 | 0.000 | 0.000 | 0.000 |
| CEO Age | -0.003 | -0.002 | -0.000 | -0.000 |
| CEO Tenure | -0.000 | -0.000 | -0.001 | -0.001 |
| First Year | 0.009 | 0.009 | 0.009 | 0.009 |
| MBA | 0.000 | 0.000 | 0.000 | 0.000 |
| CEO-Chairman | -0.002 | -0.002 | -0.001 | -0.001 |
| External Hire | -0.115*** | -0.116*** | -0.117*** | -0.117*** |
| Acquirer ROA | 0.014 | 0.012 | 0.012 | 0.011 |
| Acquirer CapEx | -0.019 | -0.027 | -0.025 | -0.033 |
| Acquirer Size | -0.001 | -0.001 | 0.001 | 0.001 |
| Acquirer Cash | -0.014 | -0.014 | -0.014 | -0.014 |
| Toehold | -0.006 | -0.006 | -0.008 | -0.008 |
| Stock Deal | -0.028*** | -0.028*** | -0.026*** | -0.026*** |
| Hostile | -0.005 | -0.005 | -0.003 | -0.003 |
| Contested | -0.014 | -0.014 | -0.015 | -0.015 |
| Merger of Equals | -0.014 | -0.014 | -0.012 | -0.011 |
| Tender Offer | 0.002 | 0.002 | 0.004 | 0.004 |
| Diversifying Acquisition | -0.003 | -0.002 | -0.002 | -0.002 |
| Constant | 0.179 | 0.163 | 0.048 | 0.042 |
| Observations | 2421 | 2394 | 2421 | 2394 |
| Adjusted R ² | 0.112 | 0.112 | 0.119 | 0.119 |
| CEO FEs | YES | YES | YES | YES |
| Year FEs | YES | YES | YES | YES |
| Industry FEs | YES | YES | YES | YES |

Note: The regressions results on acquirers' general ability index versus the target's research and development expense in (1) and (2) and versus the number of target segments in (3) and (4) from 1993 to 2016 are reported. The dependent variable is acquirers' cumulative abnormal returns over a 3-day window centered on announcement day. In (1) and (2), target's research and development expense is scaled by the target's sales. High target R&D is one if the target's R&D is greater than the yearly median, and zero otherwise. In (3) and (4), segments indicator is one if the number of target segments based on the 2-digit SIC is greater than one, and zero otherwise. General ability measures a CEO's general skills based on past work experience including the past number of positions the CEO held, firms the CEO worked for, industries the CEO worked in, whether the CEO held a CEO position at a different company, and whether the CEO worked for a conglomerate. Industry fixed effects are based on 2-digits SIC codes. All Compustat variables are adjusted to 2016 dollars using CPI and scaled by book value of assets. All control variables are defined in the appendix. Standard errors are clustered at CEO level. *t*-stats are in parentheses. *, **, and *** denote significance at 10%, 5%, and 1% levels.

5.2.2. General Ability and Deal Structure

To further explore the reasons driving the acquisition gains for CEOs with higher general ability, we examine whether the higher acquisition returns for CEOs with higher general ability are affected by the structure of the deal. There exists extensive research on how each component of the acquisition deal structure plays an important role in the determination of the acquirers' gains or losses. We focus on three major components of the deal structure that have been documented to provide gains to the acquirers' shareholders: tender offers, horizontal mergers, and the percentage of cash used by acquirers.

If the structure of the deal drives the positive relationship between the acquirer returns and the CEOs with higher general ability, we expect to see this positive relation between the components of the deal structure and the acquirer's cumulative abnormal returns for CEOs with higher general ability. Table 5 reports the results of this investigation. The dependent variable is the acquirers' three days cumulative abnormal returns centered on the announcement day. We use the same control variables and fixed effects as in Table 3.

In Model (1) regression of Table 5, we interact the *GAI* variable with a tender offer indicator variable equal to one if the acquisition is a tender offer, and zero otherwise. If the acquisitions gains are due to the CEOs with higher general ability using tender offer in their deals, we expect a positive and significant coefficient in the interaction term. However, the interaction variable estimate produces a negative and statistically insignificant coefficient. In Model (2), we interact *GAI* variable with a horizontal acquisition indicator variable equal to one if the acquisition is specified as horizontal with a 2-digit SIC code, and zero otherwise. Similar to the results of the tender offer Model (1), we expect a positive and significant coefficient for the interaction term if the acquisition gains are due to horizontal mergers. The interaction estimate between *GAI* and horizontal acquisition is negative and statistically insignificant. In Model (3), we interact the *GAI* variable with the percentage of the deal value paid in cash. We expect a positive and significant coefficient for the interaction term if the CEOs with higher general ability pay more of the deal with cash. The interaction variable estimate is negative and statistically insignificant, indicating no difference in pay across the CEOs in our sample.

All three models in Table 5 utilize CEO-fixed effects, year-fixed-effects, and industry-fixed-effects, and control for managerial ability (utilizing the managerial ability index) as an additional explanatory variable. The results in Table 5 indicate that the structure of the deal is not the mechanism behind the positive announcement returns from the deals acquired by CEOs with higher general ability.

5.2.3. General Ability and CEO Takeover Experience

There exists a vast literature on acquisition experience and its impact on acquisition performance. Halebian and Finkelstein (1999) reach mixed conclusions about the relationship between acquisition experience and performance.

Table 5. Acquirer CEO General Ability and Deal Structure

| | (1) | (2) | (3) |
|---------------------------------|-----------|-----------|-----------|
| GAI*Tender Offer | -0.001 | | |
| Tender Offer | 0.001 | | |
| GAI*Horizontal Acquisition | | -0.000 | |
| Horizontal Acquisition | | 0.003** | |
| GAI* Percentage of cash offered | | | -0.000 |
| Percentage of cash offered | | | 0.000*** |
| General Ability Index | 0.006** | 0.006** | 0.007*** |
| Managerial Ability Index | 0.005 | 0.005 | 0.005 |
| Relative Size | 0.000 | 0.000 | 0.000 |
| CEO Age | 0.006*** | 0.006*** | 0.006*** |
| CEO Tenure | -0.000 | -0.000 | -0.000 |
| First Year | 0.000 | 0.000 | 0.000 |
| MBA | 0.051*** | 0.050*** | 0.051*** |
| CEO-Chairman | 0.002 | 0.002 | 0.002 |
| External Hire | -0.009 | -0.009 | -0.009 |
| Acquirer ROA | -0.005 | -0.005 | -0.005 |
| Acquirer CapEx | -0.050 | -0.049 | -0.048 |
| Acquirer Size | -0.005** | -0.005** | -0.005** |
| Acquirer Cash | 0.004 | 0.003 | 0.004 |
| Toehold | -0.002 | -0.002 | -0.002 |
| Stock Deal | -0.016*** | -0.017*** | -0.015*** |
| Public Acquisition | 0.003** | 0.003** | 0.003** |
| Hostile | -0.008 | -0.007 | -0.007 |
| Contested | -0.000 | 0.000 | -0.000 |
| Merge of Equals | -0.029 | -0.028 | -0.029 |
| Observations | 9871 | 9871 | 9871 |
| Adjusted R ² | 0.090 | 0.091 | 0.091 |
| CEO FEs | YES | YES | YES |
| Year FEs | YES | YES | YES |
| Industry FEs | YES | YES | YES |

Note: The OLS regression results on the relation between the acquirers' general ability index and various deal structures from 1993 to 2016 are reported. The dependent variable is acquirers' cumulative abnormal returns over a 3-day window centered on announcement day. Tender offer is equal to one if the acquisition is a tender offer, and zero otherwise. Horizontal acquisition is equal to one if the acquisition is a horizontal acquisition based on 2-digit SIC level, and zero otherwise. The percentage of cash offered is the proportion of deal value in cash. General ability is the CEO's general skills based on past work experience including the past number of positions held, firms worked for, industries worked in, whether the CEO held a CEO position at a different company, and whether the CEO worked for a conglomerate. Managerial ability is the portion of variation in sales attributable to managerial fixed effects. Industry fixed effects are based on two digits SIC codes. All Compustat variables are adjusted to 2016 dollars using CPI and scaled by book value of assets. All control variables are defined in the appendix. Standard errors are clustered at the CEO level. *t*-statistics are reported in parentheses. *, **, and *** denote significance at the 10%, 5%, and 1% levels.

Table 6. Acquirer CEO General Ability and CEO Takeover Experience

| | (1) | (2) | (3) |
|-----------------------------------|-----------|-----------|-----------|
| GAI * Past Bidder CEO | 0.000 | | |
| Past Bidder CEO | -0.004** | | |
| GAI * Past Target CEO | | -0.007 | |
| Past Target CEO | | 0.005 | |
| GAI*Past Bidder and/or Target CEO | | | 0.002 |
| Past Bidder and/or Target CEO | | | -0.002 |
| General Ability Index | 0.005* | 0.007** | 0.004 |
| Managerial Ability Index | 0.005 | 0.005 | 0.005 |
| CEO Age | 0.006*** | 0.006*** | 0.006*** |
| CEO Tenure | -0.000 | -0.000 | -0.000 |
| First Year | -0.001 | 0.000 | -0.001 |
| MBA | 0.048*** | 0.050*** | 0.049*** |
| CEO-Chairman | 0.002 | 0.002 | 0.002 |
| External Hire | -0.009 | -0.011 | -0.009 |
| Acquirer ROA | -0.005 | -0.005 | -0.005 |
| Acquirer CapEx | -0.050 | -0.049 | -0.049 |
| Acquirer Size | -0.005** | -0.005** | -0.005** |
| Acquirer Cash | 0.002 | 0.003 | 0.003 |
| Toehold | -0.002 | -0.002 | -0.002 |
| Stock Deal | -0.016*** | -0.016*** | -0.016*** |
| Public Target | 0.003** | 0.003** | 0.003** |
| Hostile | -0.008 | -0.008 | -0.008 |
| Contested | 0.000 | -0.000 | -0.000 |
| Merger of Equals | -0.029 | -0.028 | -0.029 |
| Tender Offer | 0.001 | 0.002 | 0.001 |
| Diversifying Acquisition | -0.003*** | -0.003** | -0.003** |
| Relative Size | 0.000 | 0.000 | 0.000 |
| Observations | 9993 | 9871 | 9871 |
| Adjusted R ² | 0.094 | 0.091 | 0.091 |
| CEO Fes | YES | YES | YES |
| Year FEs | YES | YES | YES |
| Industry Fes | YES | YES | YES |

Note: The regression results on the relation between the acquirers' general ability index and CEO takeover experience from 1993 to 2016 are reported. The dependent variable is acquirers' cumulative abnormal returns over a 3-day window centered on announcement day. Past Bidder CEO is equal to one if the CEO has previously been a bidder CEO, and zero otherwise. Past Target CEO is equal to one if the CEO has previously been a target CEO, and zero otherwise. Past Bidder and/or Target CEO is equal to one if the CEO has previously been a bidder or a target, and zero otherwise. General ability measures a CEO's general skills based on past work experience including the past number of positions held, firms worked for, industries worked in, whether the CEO held a CEO position at a different company, and whether the CEO worked for a conglomerate. Industry fixed effects are based on two digits SIC codes. All Compustat variables are adjusted to 2016 dollars using CPI and scaled by book value of assets. All control variables are defined in the appendix. Standard errors are clustered at the CEO level. *t*-statistics are reported in parentheses. *, **, and *** denote significance at the 10%, 5%, and 1% levels.

They find that the relationship mainly depends on the similarity between the past and current acquisition deals. Barkema and Schijven (2008) argue that the acquisition learning experience and performance both improve when acquiring similar acquisitions. Aktas et al. (2009, 2011, and 2013) show that repetitive acquisitions lead to an increase in learning gains.

They argue that CEOs use the experience gathered from previous acquisitions to more efficiently complete successive deals. All these papers show that past acquisition deals play an important role in an ongoing acquisition's performance. Therefore, we examine if the takeover experiences of the CEOs with higher general ability affect contemporary acquisition gains. Specifically, we investigate whether the current acquirer CEO was previously a CEO in a bidder firm or a target firm. We create three separate indicator variables each equal to one if the CEO has previously been a bidder, previously been a target, and previously been a bidder or target (and zero otherwise). Being a CEO in a previous acquisition deal will increase the CEO's takeover experience and hence, the positive acquisition gains previously shown for CEOs with higher general ability could partly be the consequence of a higher takeover learning experience.

We interact the *GAI* variable with the three proxies of takeover experience in Table 6. We regress the 3-day acquirer cumulative abnormal return on the interaction terms. We conjecture a statistically significant coefficient if the takeover experience of CEOs with higher general ability drives the results. We include the same control variables as in Table 2. Model (1) reports results when the takeover experience variable is an indicator variable equal to one if the acquirer CEO has previously been a bidder CEO, and zero otherwise. We find insignificant results for the interaction terms with the CEO-, year-, and industry-fixed effects employed. Model (2) reports the regression result where the takeover experience is represented by an indicator variable equal to 1 if the acquirer CEO has previously been a target CEO, and zero otherwise. There seems to be no statistically significant impact on the relationship between *GAI* and M&A announcement *CARs*.

Model (3) of Table 6 reports the regression results where the takeover experience variable is represented with an indicator variable equal to one if the acquirer CEO has previously been a bidder or a target, and zero otherwise. Similar to Model (1) and Model (2), the interaction term is estimated as statistically insignificant, indicating that the takeover experience is not the mechanism driving the positive announcement returns from the deals acquired by CEOs with higher general ability.

Collectively in Section 5.2, several non-mutually exclusive mechanisms are explored that could cause the positive acquirer's cumulative abnormal returns reported in Table 2. CEOs with higher general ability develop their experience from a wide range of industries, firms, and career paths throughout their professional lives. The evidence in this subsection suggests that these CEOs are able to use their wide knowledge to extract higher rents from acquisitions by efficiently acquiring more complex targets, such as targets with multiple operating segments and high research and development commitments. The takeover experiences of the CEO or the structures of the deal do not seem to be the reasons behind the higher acquisition

benefits reported for CEOs with higher general ability.

6. Conclusion

CEOs accumulate numerous experiences throughout their careers that shape and influence how they manage firms. CEOs may concentrate on firm-specific experiences or industry-specific experiences, which lead to the development of specialized skills. Alternatively, CEOs may accumulate general experiences which may provide them with the tools and the skills that can be transferred across a wide spectrum of business environments, sectors, industries, and firms. The demand for such multi-faceted CEOs with general experiences and abilities has increased over the years, especially if the CEO will be involved with complex tasks such as restructurings, mergers, or acquisitions.

We explore the impact of the differences in the nature of the past experiences of CEOs on the performance of their firm in the takeover market. We present evidence that CEOs with more general experience are better able to create value through takeover activities, i.e., the market reacts more favorably to the acquisitions of these CEOs. Thus, we find results supporting the first hypothesis in Section 3, that the broad experience of CEOs with high general ability enhances the outcomes for these CEOs in the takeover market. Cross-sectional evidence suggests that this enhanced value creation comes through the CEOs utilizing their experiences to value and to integrate complex target firms into the firm they manage. Furthermore, the reaction to acquisitions is particularly pronounced if the target firm invests heavily in research and development projects. Overall, the increased equity compensation and salary packages of CEOs with high general ability appear to be partially warranted by these CEOs utilizing their experiences to undertake value enhancing mergers.

Appendix: Variable Descriptions

| Variable | Description |
|--------------------------|---|
| CEO Age | CEO age (Execucomp). |
| CEO Tenure | Number of years as CEO in the current firm (Execucomp). |
| MBA | Indicator variable equal to one if the CEO has a MBA, and zero otherwise (Boardex). |
| External Hire | Indicator variable equal to one if the CEO is hired from outside the firm, and zero otherwise (Boardex). |
| CEO-Chairman | Indicator variable equal to one if the CEO is also the chairman, and zero otherwise (Boardex). |
| First Year | Indicator variable equal to one if it is the CEO's first year in the current position, and zero otherwise (Boardex). |
| Size (acquiring firm) | Log of the book value of total assets (Compustat AT). |
| Book Leverage | Total liabilities adjusted to the book value of assets Compustat (DLC + DLTT)/AT). |
| Market to Book | Market value of assets divided by the book value of assets (Compustat [DLC+DLTT+PRCC_F*CSHO+PSTKL]/AT). |
| Cash | Value of cash adjusted to the book value of assets (Compustat CHE/AT). |
| CapEx | Value of capital expenditures adjusted to the book value of assets (Compustat CAPX/AT). |
| ROA | Return on Assets (Compustat NI/AT). |
| Tobin's Q | Book value of assets plus market value of equity minus book value of equity adjusted to the book value of assets (Compustat AT+CSHO*PRCC_F-CEQ/AT). |
| Sales | Sales (Compustat SALE). |
| PPE | Net property, plant, and equipment adjusted to the book value of assets (Compustat PPENT/AT). |
| Capital Intensity | Net property, plant, and equipment adjusted to the number of employees (Compustat PPENT/EMP). |
| Diversifying Acquisition | Indicator variable equal to one if the acquisition is a diversified acquisition based on 2 digit SIC level, and zero otherwise (SDC Platinum). |
| Horizontal Acquisition | Indicator variable equal to one if the acquisition is a horizontal acquisition based on 2 digit SIC level, and zero otherwise (SDC Platinum). |
| Public Target | Indicator variable equal to one if the target is a public firm, and zero otherwise (SDC Platinum). |
| Stock Deal | Indicator variable equal to one if the acquisition is financed with more than 50% of equity, and zero otherwise (SDC Platinum). |
| Hostile Contested | Indicator variable equal to one if the acquisition is unsolicited, and zero otherwise (SDC Platinum). |
| Toehold | Indicator variable equal to one if the acquisition has multiple bidders, and zero otherwise (SDC Platinum). |
| Tender Offer | Indicator variable equal to one if the acquirer's prior interest is between 0 and 50%, and zero otherwise (SDC Platinum). |
| Merger of Equals | Indicator variable equal to one if the acquisition is a tender offer, and zero otherwise (SDC Platinum). |
| Acquisition Indicator | Indicator variable equal to one if the acquisition is a merger of equals, and zero otherwise (SDC Platinum). Indicator variable equal to one if an acquisition is announced during the year, and zero otherwise (SDC Platinum) |
| High Target R&D | Indicator variable equal to one if the target's R&D is greater than the yearly median, and zero otherwise (Compustat R&D/Sales). |
| Large Target Size | |

| | |
|-------------------------------|---|
| Large Relative Size | Indicator variable equal to one if the target's size is greater than the yearly median, and zero otherwise (SDC Platinum). |
| Past Bidder CEO | Indicator variable equal to one if the ratio of the target's size to the acquirer's size is greater than the yearly median, and zero otherwise. |
| Past Target CEO | Indicator variable equal to one if the CEO has previously been a bidder CEO, and zero otherwise (SDC Platinum). |
| Past Bidder and/or Target CEO | Indicator variable equal to one if the CEO has previously been a target CEO, and zero otherwise (SDC Platinum). |
| Family Ownership | Indicator variable equal to one if the CEO has previously been a bidder or a target, and zero otherwise (SDC Platinum). |
| Segments Indicator | Indicator variable equal to one if the firm is family owned, and zero otherwise (Anderson and Reeb, 2003). |
| | Indicator variable equal to one if the number of target segments based on 2-digit SIC is greater than 1, and zero otherwise (Compustat). |

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