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Managerial Ability and Acquirer Returns

by

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Highlights

- We examine the impact of managerial ability on the profitability of mergers and acquisitions.
- We use a new managerial ability measure that suffers less than conventional managerial ability measures from measurement error.
- We find a positive relationship between managerial ability, announcement abnormal returns and long-term buy-and-hold abnormal returns.
- We find a negative relationship between managerial ability and takeover premiums.
- High environmental uncertainty is an important scenario that should be included in studies investigating the influence of managerial ability.

ABSTRACT

This paper examines the impact of managerial ability on the profitability of mergers and acquisitions. We find that acquisitions by firms with high managerial ability generate better announcement abnormal returns as well as better post-announcement abnormal returns than deals by firms with low managerial ability. We also find deals with high managerial ability pay significantly lower premiums than deals without. Further, we find that managers with high managerial ability perform better in scenarios with high environmental uncertainty, which suggests that high environmental uncertainty is an important scenario that should be incorporated into

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