Accepted Manuscript

Title: Managerial Ability and Acquirer Returns

Authors: Sheng-Syan Chen, Chih-Yen Lin

PII: S1062-9769(17)30048-0
DOI: https://doi.org/10.1016/j.qref.2017.09.004
Reference: QUAECO 1076

To appear in: *The Quarterly Review of Economics and Finance*

Received date: 28-1-2017
Revised date: 14-7-2017
Accepted date: 22-9-2017

Please cite this article as: Chen, Sheng-Syan., & Lin, Chih-Yen., Managerial Ability and Acquirer Returns.*Quarterly Review of Economics and Finance* https://doi.org/10.1016/j.qref.2017.09.004

Managerial Ability and Acquirer Returns

by

Sheng-Syan Chen[1], and Chih-Yen Lin[2]

1. Sheng-Syan Chen is a professor in the Department of Finance, College of Management, National Taiwan University, No. 85, Sec. 4, Roosevelt Rd., Taipei, Taiwan. Tel: +886-2-33661083; fax: +886-2-33661519; e-mail: sschenfn@ntu.edu.tw.

2. Address correspondence to Chih-Yen Lin, Department of Economics, College of Social Sciences at Fu Jen Catholic University, No. 510, Zhongzheng Road, Xinzhuang Dist., New Taipei City, Taiwan. Tel: +886-2-29052695; Fax:+886-2-29052188;e-mail: cylin@mail.fju.edu.tw.

We wish to thank Narjess Boubakri (the editor), two anonymous reviewers, Jonathan Batten, Yan-Shing Chen, and Chia-Wei Huang for helpful comments and suggestions. We thank Peter R. Demerjian, Baruch Lev, and Sarah E. McVay for providing the data on managerial ability. We are also indebted to Cláudia Custódio, Miguel A. Ferreira, and Pedro Matos for sharing their general ability data. Chih-Yen Lin gratefully acknowledges financial support from the Ministry of Science and Technology of Taiwan (MOST 104-2410-H-030-010).

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