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Do firms with specialized M&A staff make better acquisitions?

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We are grateful for discussions with participants at the 2020 Acuris Mergermarket US Corporate Development Summit and to seminar participants at the joint seminar of the Universities of Bristol, Exeter, Lancaster, and Manchester, and at the University of Washington.

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Abstract

We open the black box of the M&A decision process by constructing a comprehensive sample of US firms with specialized M&A staff. We investigate whether specialized M&A staff improves acquisition performance or facilitates managerial empire building instead. We find that firms with specialized M&A staff make better acquisitions when acquisition performance is measured by stock price reactions to announcements, long-run stock returns, operating performance, divestitures, and analyst earnings forecasts.This effect does not hold when the CEO is powerful, overconfident, or entrenched. Acquisitions by firms without specialized staff do not create value, on average. We provide evidence on mechanisms through which specialized M&A staff improves acquisition performance. For identification, we use the staggered recognition of inevitable disclosure doctrine as a source of exogenous variation in the employment of specialized M&A staff.

Keywords: Mergers and acquisitions, acquisitions, corporate takeover market, corporate development, M&A staff

JEL Classifications: G30, G34, G14, G24

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1. Introduction

Mergers and acquisitions represent the largest and most readily observable corporate investments. Despite the importance of mergers and acquisitions (or just acquisitions for simplicity) for corporations and for the reallocation of capital within the economy, there is still considerable debate in the literature on whether firms create value for shareholders with these investments and why so many acquisitions appear to be unsuccessful. In an attempt to understand the drivers of acquisition performance, an enormous literature has focused on acquirer and target characteristics, on the incentives and characteristics of CEOs and directors, the nature of the deals, and so on. However, this literature has not penetrated inside the black box of the firm's internal decision-making process for acquisitions, most likely because of difficulty in measuring organizational structure and skills pertaining to acquisitions. In this paper, we open this black box by manually constructing a novel and comprehensive sample of US public firms employing specialized M&A staff from 2000 to 2017 and provide the first in-depth investigation of the impact of specialized M&A staff on acquisition outcomes.

In the US, corporate staff focused on acquisitions, which we call specialized M&A staff, are corporate development professionals housed in corporate development departments. As indicated by Marks, Slee, and Blees (2012) as well as in Ernst & Young and Deloitte surveys, specialized M&A staff are involved in all aspects of the acquisition process including, but not limited to, development of a firm's inorganic growth strategy, identification of targets from internal pipelines and information memorandums sent by investment banks, performing synergy and valuation analyses on transactions, participating in deal negotiations with the target, undertaking financial due diligence, analyzing post-merger integration, and comparing ex-post M&A outcomes to pre-acquisition forecasts.

On the one hand, if the interests of the managers and shareholders are aligned and management is focused on maximizing shareholder wealth, it will employ specialized M&A staff if such staff is expected to improve sufficiently its ability to identify more suitable targets through the aforementioned acquisition related functions and better integrate the target firms. This view leads to our value creation hypothesis, which is that firms with specialized M&A staff make better acquisitions. On the other hand, it is well

recognized that management may pursue its own agenda and be focused on empire building through acquisitions to extract private benefits rather than maximizing shareholder wealth. Such management may also want to employ specialized M&A staff so that firm size can be increased faster through acquisitions. In this case, specialized M&A staff is expected to facilitate management's empire-building behavior and hence is not expected to improve acquisition performance. Therefore, our alternative hypothesis is what we call the agency hypothesis—management employs specialized M&A staff to further its own agenda and firms with specialized staff do not make better acquisitions. Ultimately, whether specialized M&A staff helps firms create value through acquisitions is an open empirical question. We find that firms with specialized M&A staff make significantly better acquisitions, so that, on average, the evidence supports the value creation hypothesis and rejects the agency hypothesis.

We manually construct a comprehensive sample of firms with specialized M&A staff using *Boardex Individual*, *LinkedIn.com*, *Bloomberg*, *Reuters,* and *Marquis Who's Who* databases. We find that 36.56% of all public firms have specialized M&A staff between 2000 and 2017, and the percentage of firms employing such staff exhibits an upward trend over time. For instance, roughly less than 30% of public US firms employ specialized M&A staff before 2003, and this percentage exceeds 40% from 2011 to 2017. When we focus on the employment of specialized M&A staff by acquirers, we find that 47.01% of acquisitions are executed by firms employing such staff over the sample period. We begin our analyses by examining the association between specialized M&A staff and acquisition performance using a sample of 11,098 unique acquisitions of public firms, private firms, and subsidiaries (totaling $6.38 trillion in deal value).

A traditional measure of acquisition performance is the abnormal stock price reaction to the announcement of an acquisition. While not without controversy, this performance measure is immediate and captures the stock market's expected change in discounted cash flows emanating from an acquisition. We find that the average five-day cumulative abnormal return (CAR) over the [-2, +2] event window surrounding the acquisition announcement is 0.75% and significant at the 1% level for firms with specialized M&A staff. By contrast, the five-day CAR for acquisitions by firms without such staff is

insignificantly negative (-0.12%). The difference between the two samples is significant, translating into a $95.77 million higher abnormal shareholder wealth gain per acquisition by firms with specialized M&A staff. We report that the difference is similar for acquisitions of public, private, and subsidiary targets as well as targets paid for with all cash or some equity.

Our evidence from the univariate announcement returns is consistent with the value creation hypothesis that firms use M&A specialized staff to make better acquisitions rather than to pursue empire-building goals. It is, however, possible that firms with specialized M&A staff have higher acquisition returns for other reasons. First, it could be that acquirers with specialized M&A staff have firm, deal, or top management characteristics that are also associated with better acquisitions so that, if we control for these characteristics, specialized M&A staff is no longer important for acquisition performance. Second, there are various disadvantages to measuring acquisition performance with short-term CARs such as, among others, over or underestimation of value created by a transaction, noise in the stock prices, and deal anticipation (e.g., Malmendier, Moretti, and Peter, 2018; Ben-David, Bhattacharya, and Jacobsen, 2020). Therefore, it is plausible that specialized M&A staff may not be associated with better acquisition performance if we measure performance with alternative metrics. Third, specialized M&A staff is not randomly allocated to firms. Hence, it is possible that non-random matching between specialized M&A staff and firms or omitted characteristics that correlate with the employment of specialized M&A staff explains or biases our results. We investigate these three plausible concerns in turn.

There is a vast literature showing that acquirer CARs are related to firm, deal, CEO, and director characteristics. We perform multivariate regressions that explicitly control for an array of such characteristics (along with industry-year fixed effects). Our results show that specialized M&A staff is among the most important factors related to acquisition performance. Ceteris paribus, five-day CARs are 1.31% higher for acquisitions of firms with specialized M&A staff compared to those of firms without such staff, an abnormal gain of $145.89 million in shareholder wealth for the average acquirer in our sample.

A valid concern is whether our results are robust to using alternative measures of acquisition performance. We find that our results remain similar when we extend the pre-acquisition announcement

window to account for potential market anticipation of deal announcement and measure post-announcement event returns over a longer window. We further find that our evidence is equally strong for performance metrics that are not based on stock returns. We find that firms with specialized M&A staff 1) are less likely to divest acquisitions, 2) have their consensus analyst earnings forecasts increase more following the acquisitions, 3) have their abnormal operating performance improve more in the post-acquisition period relative to the pre-acquisition year, and 4) are less likely to make an acquisition with a large shareholder wealth loss.

Having found that known determinants of acquisition performance do not explain the better acquisition performance of firms with specialized M&A staff and that our results are robust to alternative performance metrics, we then show that it is unlikely that potentially non-random matching between specialized M&A staff and acquirers explains our results. The most obvious possible explanation for our results is that firms hire specialized M&A staff in anticipation of valuable future acquisition opportunities. For instance, if a firm believes that it can increase shareholder wealth through an acquisition strategy, it may be more likely to hire specialized M&A staff. If so, higher acquisition returns are not the result of employing specialized M&A staff, but instead, are due to acquiring firms having better inorganic growth opportunities. We provide a series of tests to rule out this explanation. First, we use the empirical approach of past work (e.g., Custodio and Metzger, 2013; Huang, Jiang, Lie and, Yang, 2014; Fields and Mkrtchyan, 2017, among others) and remove acquisitions for which specialized M&A staff is hired within three (or five) years or more before the acquisition is announced. In this case, it is difficult to believe that the firm hired specialized staff in anticipation of a particular acquisition more than three (five years) years into the future. When we remove such transactions, we find that specialized M&A staff still improves acquisition performance. Second, mergers are documented to occur in waves (e.g., Harford, 2005). Therefore, it would seem likely that acquisitions triggered by merger waves are less likely to be foreseen by firms relative to acquisitions occurring outside merger waves. Our results hold for transactions announced as a part of a merger wave. Third, we only focus on frequent acquirers executing acquisitions with and without specialized M&A staff and add firm fixed effects. In this setting, we isolate time-invariant firm characteristics that may be related

to acquisition performance and employment of specialized M&A staff. Examining how acquisition performance varies for the *same* firm between periods when it has specialized M&A staff and periods when it does not, we find that acquisition performance is higher when firms have specialized M&A staff. Fourth, we implement a propensity score matching technique using a nearest-neighbor matching estimator with replacement. Specifically, we match acquisitions of firms with specialized M&A staff to similar acquisitions executed by similar acquirers (including their acquisition likelihood) except that they do not have specialized M&A staff. Our results remain similar. Fifth, we conduct a falsification test where we replace our variable of interest (specialized M&A staff) with specialized product development staff. Unlike corporate development, product development staff focuses on product and partner strategies. As expected, we find that acquisition performance is not related to specialized product development staff.

Perhaps most importantly, we exploit an exogenous variation in the probability of employing specialized M&A staff using an instrumental variable analysis in a two-stage least squares framework. Our instrument is the *staggered* recognition of the inevitable disclosure doctrine (*IDD*) by US state courts that concludes that former employees can be prevented from working at rival firms if doing so inevitably results in disclosures of trade secrets concerning their former employers (e.g., Klasa, Ortiz-Molina, Serfling, and Srinivasan, 2018; Li, Qiu, and Shen, 2018; among others). We expect the adoption of IDD to increase the likelihood that a firm employs specialized M&A staff since such staff is less likely to be poached by rival firms—strategic plans and acquisitions are among the most common types of trade secrets lost to rivals and former employees represent the greatest source of risk for losing such trade secrets. Using this source of exogenous variation, we find that firms are indeed more likely to employ specialized M&A staff following the staggered adoption of IDD. Importantly, accounting for this source of exogenous variation does not affect the conclusion that specialized M&A staff improves acquisition performance. The results of these numerous tests are difficult to explain except as support for our value creation hypothesis that firms make better acquisitions because they have specialized M&A staff.

We next seek to understand whether the benefits from specialized M&A staff vary cross-sectionally as predicted. If specialized M&A staff improves acquisition performance, we would also expect that firms

with better specialized M&A staff make even better acquisitions. We find this to be the case—acquisition performance is also incrementally related to measures of specialized M&A staff's quality. More specifically, acquisition performance is even better when the managers of specialized M&A staff have longer firm and employment experience, and when the acquirer has a larger specialized M&A staff. Further, we expect that specialized staff do not improve acquisition performance when the CEO is less likely to listen to their input when making acquisition decisions. Our evidence is consistent with this view—the marginal impact of specialized M&A staff is positive but insignificant under powerful or overconfident CEOs. Lastly, we examine whether specialized M&A staff adds value when agency costs of managerial discretion are higher. We find that the marginal impact of specialized staff on acquisition performance is insignificant for firms with dual-class shares, without independent boards, and when the CEO is the chairman of the board.

How does specialized M&A staff create value for the acquirer's shareholders? Our results suggest that specialized M&A staff helps acquirers identify targets that have higher synergies with the acquirer as reflected in higher combined announcement returns and improvements in the combined firm's abnormal operating performance in the post-acquisition period. We do not find evidence that specialized M&A staff drives a better bargain for the acquirer in that such acquirers capture more of the combined synergy gains or pay lower takeover premiums. Moreover, while these firms do not seem to retain fewer external advisors, we find that they pay lower advisory fees. The lower fees paid by firms with specialized M&A staff further suggest that the specialized M&A staff performs some tasks that otherwise would be performed by the investment bankers.

Our evidence strongly suggests that firms with specialized M&A staff make better acquisitions. An obvious question is why not all firms employ specialized staff. We attempt to gain a better understanding of this question by further exploring the firm and management characteristics that are prevalent when a firm employs specialized M&A staff. Obviously, such staff are not as valuable for firms for which inorganic growth through acquisitions does not represent an important component of their growth strategy. As expected, we find that the average ratio of total dollars spent on acquisitions relative to that on total

investments over the past ten years is positively associated with employment of specialized M&A staff. We also find that firms are less likely to employ specialized M&A staff when management possesses more specialized knowledge pertaining to acquisitions. Specifically, CEOs with longer industry experience, experience in the target's industry, or with investment banking experience are less likely to employ such staff. Firms with directors possessing such specialized knowledge are likewise less likely to employ specialized M&A staff, consistent with the notion that CEOs may rely on such directors for acquisitions. Finally, our findings show that firms with busier CEOs or directors are more likely to have specialized staff, suggesting that such firms may delegate acquisition related tasks and functions to specialized M&A staff. In sum, these results are consistent with the view that firms are more likely to have specialized M&A staff when specialized staff are most useful to them.

Our paper cuts across several strands of academic literature. First, we make an important contribution to the vast body of literature attempting to identify the cross-sectional variation in acquisition performance by focusing on deal, firm, and top management characteristics (for surveys of this literature, see Betton, Eckbo, and Thorburn, 2008, and Renneboog and Vansteenkiste, 2019). In this paper, we open the black box of the firm's acquisition-related decision-making process and find that more than 40% of US acquirers have specialized M&A staff in the 2010s. More importantly, having specialized M&A staff is among the most economically important factors for acquisition performance. The only related study is the survey paper by Aktas, Boone, Witkowski, Xu, and Yurtoglu (2020). Their paper examines the role of internal M&A teams through a small survey among large firms in Austria, Germany, and Switzerland. These teams have some of the functions of the corporate development departments in the US, but not all. Specifically, unlike European internal M&A teams, corporate development departments play a leading role in the development of corporate inorganic growth strategy. Their empirical work uses 40 public firms, all of which appear to use M&A teams. The authors also find correlations suggesting that internal M&A teams affect outcomes for their sample of large European firms, but they are mostly focused on the value of internal M&A teams relative to the value of external advisors. In contrast, we offer the first large-sample systematic evidence on the implications of specialized M&A staff in the US where we compare firms with specialized M&A staff

to other firms, provide identification, identify settings where such staff adds value to acquisition outcomes, and explore why some firms employ specialized M&A staff and others do not.

Second, our study fits into the broader literature in economics, finance, and management that seeks to understand the impact of management practices on corporate decision making and firm performance (e.g., Bloom and Van Reenen, 2007, 2010; Bloom, Eifer, Mahajan, McKenzie, and Roberts, 2013; Duchin and Sosyura, 2013; Agrawal, Hacamo, and Hu, 2020). Research in this field acknowledges that the practices, training, skills, and decision rights of managers outside the executive suite can crucially affect corporate behavior and performance. We add to this growing literature by highlighting the importance of specialized M&A staff for the largest and most important investments made by US corporations.

The paper is organized as follows. In Section 2, we explain the role of specialized M&A staff in corporations, show how we build our sample, and compare firms with specialized staff and their acquisitions to firms without specialized staff and their acquisitions. In Section 3, we examine the association between specialized M&A staff and acquisition performance. While doing so, we consider a wide array of alternative performance metrics (Section 3.2), provide a number of tests to mitigate endogeneity concerns (Section 3.3), and consider cross-sectional analyses (Section 3.4). In Section 4, we turn to an investigation of how specialized M&A staff contributes to acquisition performance. In Section 5, we further examine why some firms have specialized staff and others do not. Section 6 concludes.

2. Specialized M&A staff: Definition, sample construction, and sample characteristics

In this section, we first show how we identify whether a firm has specialized M&A staff, explain the construction of our sample of acquisitions, and demonstrate how firm and transaction characteristics differ depending on whether the acquirer employs specialized M&A staff.

2.1. Definition and identification of specialized M&A staff

In the US, specialized M&A staff focused on acquisitions are corporate development professionals housed in the corporate development department and managed by corporate development managers. For the most part, as indicated by Ernst & Young and Deloitte surveys,[2] and Marks, Slee, and Blees (2012), as well as our interviews with corporate development managers, specialized M&A staff are involved in all aspects of inorganic corporate growth strategy, including: i) identifying target firms from internal deal pipeline and strategic M&A portfolios, as well as analyses of teasers and confidential information memorandums sent by investment bankers, ii) undertaking synergy and valuation analyses through the examination of revenue and cost synergies, product portfolios and fit of corporate cultures between the acquirer and target, iii) participating in M&A negotiations, iv) undertaking financial due diligence, v) analyses of post-merger integration via transaction integration and post-closing adjustments and assessing ex-post M&A performance.[3] Ultimately, corporate development professionals are viewed as central to corporations' inorganic growth strategy and they spend roughly 80% of their time on acquisition-related functions (e.g., E&Y, 2015). Typically, corporate development managers report directly to the top executive team, and their compensation is generally tied to i) identification of potential targets, ii) return on completed transactions, iii) fit of transactions with corporate strategy, iv) realization of transaction synergies, and iv) the number of deals completed.

In this paper, we take the view that if a firm has one or more corporate development managers, it indicates that the firm employs specialized M&A staff focused on acquisitions. Such an association is almost obvious as corporate development managers and professionals spend much of their time on acquisition-related functions. To identify whether a firm has specialized M&A staff, we construct a sample of corporate development managers from *Boardex of Management Diagnostic Limited Individual* (*Boardex*

[2] See, Ernst & Young "2015 Global Corporate development study: corporate development today--driving strategy, accelerating growth" and annual "Corporate Development strategy" surveys by Deloitte.

[3] Other responsibilities of corporate development officers may include: 1) corporate strategy development, 2) providing financing for acquisitions, development programs, and corporate initiatives through project loans, term loans, high-yield notes, margin loans, stock issuance, and working capital revolvers, 3) financial planning and analyses, and 4) ad-hoc strategy and briefing to executives.

Individual).[4] We start our sample in 2000 as *Boardex Individual*'s coverage is relatively incomplete prior to 2000 (e.g., Ishii and Xuan, 2014). We manually construct a comprehensive sample of corporate development managers from *Boardex Individual* by parsing the "Rolename" and "Full text Description" of individual profiles for variants of "Corporate Development." Corporate development managers are defined as individuals holding the following titles: "Head/Global Head/Chief of Corporate Development," as well as corporate development managers with the following titles: "Corporate Director" or "Executive Director" or "President" or "Co-President" or "Chairman" or "Co-Chairman" or "Vice President" or "Executive Vice President" or "Managing Director" or "Regional Director".

To ascertain the quality of the data cleaning and integration process, we manually check all corporate development managers, their titles, employing companies and employment dates, and make the necessary corrections. For instance, in some cases, *Boardex Individual* assigns a different identifier to the same individual or the same firm because it collects biographical information from public sources that may use different spellings or abbreviations. We manually go through every observation to ensure the same individual or firm is associated with only one unique identifier and eliminate duplications in the process. For corporate development managers with non-complete profiles (i.e., missing employer firm names or employment years or vague titles), we manually collect complete historical employment background information from *LinkedIn.com*, *Bloomberg*, *Reuters*, and *Marquis Who's Who* databases. In addition, for corporate development managers with non-missing profiles at *Boardex Individual*, we cross-check their appointment dates using the above sources. Next, we merge our sample of corporate development managers with CRSP/Compustat using employer firms' CUSIPs, CIK codes, and *Boardex Individual* company names to obtain financial statement and stock return information. This leaves us with a novel and comprehensive sample of 8,566 corporate development managers employed by 3,593 public U.S. firms between 2000 and 2017.

[4] Due to data availability, we do not observe rank and file level junior specialized M&A staff.

Table 1 documents the distribution of corporate development managers and the number of US corporations employing at least one corporate development manager over time. A clear time-series pattern is observed. Consistent with the growing importance and prevalence of specialized M&A staff in the US as indicated by practitioner surveys, the percentage of public firms employing corporate development managers increases over time. For example, in 2000, 1,042 firms have a at least one corporate development manager, or 25.51% of firms in our merged sample of Boardex Individual/CRSP/Compustat. In our sample, these firms employ 1,672 unique corporate development managers for whom there is information in *Boardex Individual*. By 2007, 35% of public firms have at least one corporate development manager. This percentage exceeds 40% after 2011. Overall, 36.56% of all public US firms employ at least one corporate development manager who supervises specialized M&A staff between 2000 and 2017.

2.2. The acquisition sample

We next merge the sample of corporate development managers with *Thomson One Platinum Securities Data Company* (*SDC*) M&A database and collect deal information from January 1, 2000, to December 31, 2017. We exclude transactions labeled as spinoffs, recapitalizations, repurchases, exchange offers, minority stake purchases, acquisitions of remaining interest, and privatizations. We restrict the acquirers and targets to be domestic companies and focus on transactions that involve a change of control, defined as acquirers having a majority of target shares after the transaction but not before. Our full sample selection criteria are as follows:

Step 1: All Acquisitions between January 1, 2000, to December 31, 2017.

Step 2: Deal Status is "Completed."

Step 3: Acquirer and Target are domestic companies.

Step 4: The acquirer owns less than 50% of the target six months prior to the deal announcement and controls more than 50% of the target following the transaction.

Step 5: The deal value exceeds $1 million and represents at least 1% of the acquirer's market capitalization on the 42nd trading day prior to the deal announcement date.

After implementing these data screens and merging the M&A sample with the *Boardex Individual/CRSP/Compustat* sample, we are left with 11,098 transactions executed by 2,602 unique firms and totaling over $6.38 trillion in deal value.

In column five of Table 1, we show the distribution of the 11,098 unique transactions over our sample period. The deal activity reaches its highest level in 2005, drops significantly following the 2007-2008 crisis, and then recovers starting in 2010. The pattern is consistent with past studies. In column six of Table 1, we show the percentage of transactions undertaken by firms with specialized M&A staff. As expected, firms with specialized M&A staff acquire more, so that the percentage of acquisitions executed by firms with specialized M&A staff (as shown in column five) exceeds the percentage of firms with specialized staff (as shown in column three). We find that 47.01% of M&As are executed by acquirers with specialized M&A staff between 2000 and 2017 compared to 36.56% of all public US firms having specialized M&A staff.

2.3. How do acquirer- and deal-specific characteristics vary based on employment of specialized M&A staff?

In Table 2, we present descriptive statistics for the characteristics of acquirers and transactions for the overall sample of M&As, and separately for M&As of firms with and without specialized M&A staff, respectively. All variables are defined in the Appendix. Panel A of Table 2 documents acquirer characteristics. The mean (median) acquirer size is $11.13 (1.45) billion in our sample. Acquirers with specialized M&A staff are significantly larger relative to acquirers without such staff. This result is perhaps not surprising given that top management of larger firms cannot devote as much attention and time to individual acquisitions. In contrast, in smaller firms, top executives and directors typically take the lead in acquisitions (e.g., Marks, Slee, and Blees, 2012). Since the existing evidence that the acquisition

performance of larger acquirers is worse than that of smaller acquirers (e.g., Moeller, Schlingemann, and Stulz, 2004), the fact that larger firms are more likely to have specialized M&A staff suggests that univariate comparisons of acquisition performance between firms with and without specialized M&A staff may potentially lead to higher stock price reactions for firms without such staff.

We also find that acquirers with specialized M&A staff have better stock price performance (14.2%) over the [-205, -6] event window relative to the deal announcement date, compared to acquirers without such M&A staff (11.8%). Stock return volatility does not vary economically across acquirers depending on the employment of specialized M&A staff over the same event window. Past studies argue debt serves as a monitoring device that makes it less likely that acquirers will make poor acquisitions (e.g., Maloney, McCormick, and Mitchell, 1993; Masulis, Wang, and Xie, 2007). We find that acquirers with specialized M&A staff have lower book leverage during the fiscal year preceding acquisition announcements, suggesting that debt plays less of a monitoring role for such firms. Prior studies show that the bidder's Tobin's Q has an ambiguous effect on the shareholder wealth effects of M&As (e.g., Lang, Stulz, and Walking, 1989; Servaes, 1991; Dong, Hirshleifer, Richardson, and Teoh, 2006), while firms with higher return on assets (ROA) have acquisitions that create more abnormal value (Morck, Shleifer, and Vishny, 1990). The average acquirer with specialized M&A staff has a higher Tobin's Q and higher ROA prior to M&A announcements compared to other acquirers. Consistent with Jensen's (1986) free cash flow hypothesis, past work reports a negative relation between free cash flow and M&A announcement returns (e.g., Lang, Stulz, and Walkling, 1991). Acquirers with specialized M&A staff have higher cash flow-to-equity ratios at the fiscal year-end before the acquisition announcement. 36.6% of acquirers with such staff operate in high-tech industries as defined in Loughran and Ritter (2004), compared to 23% for the other acquirers. Finally, the mean and median institutional ownership, defined as the fraction of the acquirer's stock owned by institutional investors during the quarter before the M&A announcement, is higher for firms with specialized M&A staff. Chen, Harford and Li (2007) arrive at the conclusion that total institutional holding is uninformative for M&A performance.

In Panel B, we present statistics for a number of deal characteristics examined in the M&A literature. The mean (median) dollar size of the transaction relative to the size of the acquirer is smaller for acquirers with specialized M&A staff. Moeller, Schlingemann, and Stulz (2004) find a negative association between relative deal size and acquirer returns. Focusing on the ownership status of targets, we find that 49% of targets are private firms, and 34.6% of targets are subsidiaries of target firms. Existing empirical evidence shows that acquirer returns are higher for acquisitions of private firms and subsidiaries (e.g., Fuller, Netter and Stegemoller, 2002; Netter, Stegemoller, and Wintoki, 2011). Firms with specialized M&A staff are more likely to acquire public firms and less likely to acquire subsidiaries compared to other firms. Not surprisingly, hostile acquisitions are unusual in our sample as they represent only 0.2% of all acquisitions in our sample. There is no difference in the frequency of hostile acquisitions between firms with and without specialized M&A staff. Next, we consider whether diversifying acquisitions vary based on the employment of specialized M&A staff. We define an acquisition as diversifying if the acquirer and target firm do not belong to the same two-digit SIC code (e.g., Golubov, Petmezas, and Travlos, 2012). Past research shows mixed results on the association between diversifying deals and value creation from M&As (Morck, Shleifer and Vishny, 1990; Campa, and Kedia, 2002; Villalonga, 2004; Masulis, Wang, and Xie, 2007). Approximately 47.9% of acquisitions are classified as diversifying transactions and firms with specialized M&A staff are less likely to undertake such transactions. With respect to the method of payment used for acquisitions, 35.8% of acquisitions are financed solely by cash, while 21.6% of acquisitions have some or all stock financing. The remaining deals (42.66%) involve some cash or other method of payment. The literature finds that acquisitions paid for with some stock have lower stock price reactions (e.g., Travlos, 1987; Amihud, Lev, and Travlos, 1990). Firms with specialized M&A staff are more likely to make acquisitions financed by pure cash only. In terms of the retention of external financial advisors, an average M&A transaction is associated with 0.38 external advisors (1.23 advisors conditional on the retention of at least one external advisor), with top tier banks representing roughly one fourth of financial advisors (65% conditional on retention of at least one advisor). These figures are higher for acquirers with specialized M&A staff.

3. Specialized M&A staff and acquisition performance

In this section, we examine the association between specialized M&A staff and acquisition performance to test our value creation and agency hypotheses. In section 3.1, we examine the abnormal stock price reactions to acquisition announcements. In section 3.2, we consider alternative ways of measuring acquisition performance with alternative announcement event windows, announcement returns that account for bid anticipation, avoidance of large loss deals, long-term buy-and-hold-abnormal returns following acquisition announcements, likelihood of divestitures following acquisitions, post-acquisition abnormal operating performance, and changes in analyst earnings forecasts surrounding acquisition announcements. In Section 3.3, we consider the impact of potential non-random matching between acquirers and the employment of specialized M&A staff on our parameter estimates. Finally, in Section 3.4, we examine cross-sectional variation in the association between acquisition performance and specialized M&A staff as well as CEO characteristics.

3.1. Abnormal Announcement Returns

Our value creation hypothesis posits that firms with specialized M&A staff make better acquisitions. In particular, this means that acquisition-related functions undertaken by specialized M&A staff should translate into higher wealth creation for shareholders of the acquiring firms. Alternatively, with our agency hypothesis, management is focused on extracting private benefits and specialized M&A staff facilitates management's empire-building behavior through acquisitions. With the agency hypothesis, therefore, specialized M&A staff is not expected to be associated with higher wealth creation for shareholders.

A traditional way to measure whether an acquisition creates wealth is to assess the abnormal reaction of the stock market to the announcement of an acquisition. We use this approach as our starting point. To this end, we calculate market model adjusted abnormal returns (CARs) over the [-2, +2] event window surrounding acquisition announcement dates obtained from the *SDC M&A* database. The parameters of the market model are estimated using the CRSP value-weighted index over [-240, -41] days relative to the

acquisition announcement date (e.g., Golubov, Petmezas, and Travlos, 2012). All the results we show are robust to using a three-day event window surrounding acquisition announcements (i.e., [-1, +1]) and using alternative windows to estimate the market model (i.e., [-210, -11] as in Masulis, Wang, and Xie, 2007; Huang, Lie, and Yang, 2014).

Panel A of Table 3 presents the estimates for average cumulative abnormal returns surrounding acquisition announcements. For the full sample, the average CAR is 0.28% and is significant at the 1% level. When we distinguish between acquirers based on the employment of specialized M&A staff, we find an average acquisition CAR for firms with specialized M&A staff of 0.75% and significant at the 1% level (t-statistic of 7.48). In contrast, the average acquisition CAR for firms without specialized M&A staff is an insignificant -0.12% (t-statistic of -1.21). The difference in announcement returns of acquisitions by firms with specialized M&A staff and other firms is 0.86% and is significant at the 1% level (t-statistic of 6.21). In untabulated analyses, we also estimate average CARs on a yearly basis. The average yearly CAR is never negative for acquisitions by firms with specialized staff, and is significantly positive for fourteen out of eighteen years considered in our sample period. In sharp contrast, the average yearly CAR for acquisitions of firms without specialized staff is negative ten out of eighteen years over the same time period, significantly so in four years (i.e., 2001, 2003, 2004, 2008), and average yearly CAR is significantly positive *only* in one year (i.e., 2014). In further untabulated analyses, we also estimate value-weighted CARs with the market capitalization of acquiring firms on 50 trading days prior to the M&A announcement date serving as our weights. We find that the value-weighted average CAR for acquisitions of firms with specialized staff is 0.493% (t-statistic of 5.49) and it is -0.210% (t-statistic of -2.42) for firms without such staff. The difference between these two groups of acquisitions is significant at the 1% level (t-statistic of 5.63).

As indicated earlier, it is known that stock price reactions differ greatly between acquisitions of public firms, acquisitions of private firms, and acquisitions of subsidiaries. Therefore, in Panel B, we report results where we divide the sample according to the type of acquisition. With our hypothesis, we expect all three types of acquisitions to have higher average CARs for firms with specialized M&A staff. We find that the acquisitions of public firms, private firms, and subsidiaries have higher average CARs for firms employing

specialized M&A staff. There is no subsample where average CAR is positive and significant for firms without such staff. The average CAR for acquisitions of public firms is significantly negative irrespective of whether a firm has specialized M&A staff.

Acquisition announcement returns are also known to vary based on the mode of payment. In Panel C, we consider subsamples of acquisitions paid for with no equity and acquisitions paid for with some or all equity. Once again, we find that acquirers with specialized M&A staff have significantly higher average CARs irrespective of the mode of payment. The average CARs for firms with specialized M&A staff are significantly positive, while the average CARs for the remaining firms are insignificant in the case of acquisitions paid for with no equity and significantly negative (t-statistic of -1.81) in the case of acquisitions paid for with some equity.

Lastly, we split the subsamples in Panel B by mode of payment and show the results in Panel D. For acquisitions paid for without equity, average CARs are significantly higher for acquisitions of private and subsidiary targets by firms with specialized M&A staff than for other firms. When the mode of payment includes at least some equity, we find significant differences for acquisitions of subsidiaries, but not for acquisitions of public and private firms, even though the differences are economically similar for acquisitions paid for without equity. However, in Panel D, no acquisition type has a significantly positive average CAR for acquisitions executed by firms without specialized M&A staff. In contrast, acquisitions of private firms and subsidiaries are associated with significantly positive average CARs for acquisitions by firms with specialized M&A staff. Acquisitions of public firms paid for with equity have significantly negative average CARs irrespective of whether the acquirer employs specialized M&A staff.

Our univariate results up to this point are consistent with the value creation hypothesis. However, it is possible that firms with specialized M&A staff have higher acquisition returns because of uncontrolled firm and deal characteristics that are associated with higher acquisition returns. To address this concern, we next estimate OLS regressions and explicitly control for a battery of acquirer and deal characteristics that are standard in the literature and introduced in Section 2.3. Our dependent variable is the CAR estimated over

the [-2, +2] event window surrounding the acquisition announcement date.[5] Our key independent variable of interest is a binary indicator equal to one if the acquirer has specialized M&A staff, and zero otherwise. Harford (2005) shows acquisitions occur in waves and these waves are clustered within industries. Hence, we include industry and year, as well as industry-year paired fixed effects in our specifications, and report heteroskedasticity-robust standard errors. In untabulated analyses, we also cluster standard errors at the acquirer level and find that the results are essentially the same. Our regression model is as follows (we omit the time and stock subscripts):

$$CAR\ (-2, +2) = \beta_1\ Specialized\ M\&A\ Staff + \beta_2\ Stock\ Price\ Runup + \beta_3\ Sigma + \beta_4\ Ln\ (Acquirer\ Size) + \beta_5\ Book\ Leverage + \beta_6\ Tobin's\ Q + \beta_7\ ROA + \beta_8\ Book\text{-}to\text{-}Market + \beta_9\ Cash\ Flows\text{-}to\text{-}Equity + \beta_{10}\ High\ Tech + \beta_{11}\ Institutional\ Ownership + \beta_{12}\ Relative\ Size + \beta_{13}\ Private + \beta_{14}\ Subsidiary + \beta_{15}\ Hostile + \beta_{16}\ Diversifying + \beta_{17}\ No\ of\ Advisors + \beta_{18}\ Top\ tier\ Advisor + \beta_{19}\ Payment\text{-}All\ Cash + \beta_{20}\ Payment\text{-}Includes\ Stock + \beta_{21}\ No\ of\ M\&As\ (past\ 10\ years) + Industry\ and\ Year\ Fixed\ Effects/\ Industry\text{-}Year\ Fixed\ Effects + \varepsilon \quad (1)$$

Table 4 presents estimates of the model. Models 1 and 2 differ in fixed effects. Model 1 includes industry and year fixed effects, and Model 2 includes industry-year paired fixed effects. Irrespective of the fixed effects used, acquisitions by firms with specialized M&A staff have higher abnormal returns after explicitly controlling for a battery of acquirer- and deal-specific characteristics. For instance, Model 2, which has industry-year paired fixed effects, suggests that CARs of acquirers with specialized M&A staff are 1.31% higher relative to those of other firms. For the average acquirer in our sample, this coefficient estimate translates into an abnormal gain of $145.89 million in shareholder value. To put this result in economic perspective, one standard deviation increase in acquirer size (book leverage) is related to 0.49%

[5] Fuller, Netter, and Stegemoller (2002) find that announcement dates obtained from SDC are inaccurate by no more than two trading days for 8% of the M&A sample. Therefore, for our main analyses, we use 5-day announcement returns as our dependent variable. Results are similar when we consider the shorter event window (i.e. [-1, +1]) surrounding M&A announcements as documented in Appendix Table 1.

(0.24%) lower (higher) acquirer announcement returns, while acquisitions paid for with all cash generate 0.31% higher announcement returns. The sign of most of the parameter estimates for other controls is generally consistent with past studies.

The existing literature shows that acquisition announcement returns may also be related to CEO and director characteristics (e.g., Malmendier and Tate, 2008; Custodio and Metzger, 2013; Huang, Jiang, Lie, and Yang, 2014; Field and Mkrtchyan, 2017). Therefore, we obtain a battery of CEO and director specific characteristics from *Boardex Individual*, *Riskmetrics*, and *Execucomp*, and control for the following attributes: CEO tenure, CEO gender, CEO-Chairman duality, CEOs experience in target's industry, CEOs' financial or investment banking experience, number/percentage of directors with financial or executive or investment banking or experience in target firm's industry. The sample size is reduced to 7,034 acquisitions due to data availability. In Model 3, we repeat our regressions with the addition of these CEO and director-specific characteristics. For brevity, we do not report coefficients on such characteristics. Our results continue to show that the coefficient estimate on *Specialized M&A Staff* remains positive and statistically significant. This coefficient translates into a 1.11% higher average CAR, representing a $122.50 million higher abnormal shareholder wealth gain for the average acquirer five days surrounding the announcement window. In light of the positive association between acquirer size and employment of specialized M&A staff as documented in Panel A of Table 2, we finally consider the possibility that the relation between CARs and the acquirer's size may be nonlinear. To address this, Model 4 includes two additional controls for the acquirer size: i) an indicator variable for large bidders where an acquirer is defined as a large bidder if the size of an acquirer is above the sample median of this measure, zero otherwise, and ii) the squared acquirer size. Once again, our results remain similar.

3.2. Alternative measures of acquisition performance

Section 3.1. uses short-term abnormal acquisition announcement returns as a measure of acquisition performance. This measure is widely used and has significant advantages. First, by definition, short-term CARs capture the market's expected change in future discounted cash flows emanating from the

announcement of a transaction. Second, it is an immediate and market-based estimate for the wealth effect of the announcement of a transaction. However, there are also various disadvantages to measuring M&A performance with short-term CARs. First, it is plausible that synergies and value created by a transaction may be over or underestimated around the announcement of M&As because of deal anticipation, information leakage during the private merger bidding process, uncertainties surrounding deal completion, arbitrageur positioning, as well as market inefficiencies. Second, the short-term CARs may be affected by information about the standalone firm value of the acquirer signaled by the acquisition announcement. Specifically, a firm announcing an acquisition could signal a lack of internal growth opportunities, and a firm paying with equity could signal that its stock may be overvalued (e.g., Shleifer and Vishny, 2003). Given these issues, it is perhaps not surprising that some studies (e.g., Malmendier, Moretti, and Peter, 2018; Ben-David, Bhattacharya, and Jacobsen, 2020) conclude that short-term announcement returns may not correlate with post-acquisition long-term performance.

In Table 5, we present evidence using other metrics of acquisition performance. While these measures are interesting on their own, they also allow us to be more confident that the positive association between specialized M&A staff and acquisition performance documented in Section 3.1. is not sensitive to how acquisition performance is measured. First, in Columns 1 and 2 of Table 5, we measure CARs starting at trading day -21 or -42 relative to the announcement date to account for the possibility that the stock market anticipates M&A announcements (e.g., Schwert 1996, 2000) and repeat Model 2 of Table 4 with these CARs serving as our dependent variable. Our results are robust to using these alternative measures of acquisition performance. In Column 3, we investigate whether acquisitions by firms with specialized M&A staff are less likely to be associated with large shareholder wealth losses (*Large Loss Acquisition*) defined as transactions for which shareholders of acquiring firms lose more than $500 million in 2017 dollars over the [-2, +2] event window surrounding the announcement date (e.g., Field and Mkrtchyan, 2017). Towards this end, we estimate a logistic regression with the aforementioned acquirer and transaction characteristics where a binary indicator for large loss transactions serves as our dependent variable. As illustrated in Column 3 of Table 5, firms with specialized staff are much less likely to make large loss acquisitions.

Next, we examine whether acquisitions executed by firms with specialized M&A staff have better performance over a longer horizon following M&A announcements. We employ characteristics-adjusted stock returns (Daniel, Grinblatt, Titman, and Wermers, 1997) and calculate post-M&A long-term buy-and-hold abnormal returns (BHAR) over 2 trading days prior to the announcement date through the effective closing date (*DGTW BHAR [-2, Close]*), as well as six months or one year after the announcement date (*DGTW BHAR [-2, 126]; DGTW BHAR [-2, +252]*), and then repeat Model 2 of Table 4 with long-term BHARs serving as our dependent variable. Columns 4 through 6 indicate that the greater acquisition performance of firms with specialized M&A staff is economically more significant when returns are measured over longer event windows. Economically, acquirers with specialized M&A staff outperform acquirers without such staff by roughly 4.5% to 4.7% over six months and one year following the acquisition announcement date.

Another commonly employed measure of M&A performance is whether an acquisition is subsequently divested (e.g., Kaplan and Weisbach, 1992). To supplement our analyses with this measure, we obtain a complete list of divestitures from *SDC* and then define our dependent variable as a binary indicator that equals one if the acquirer makes a divestiture in the same two-digit SIC industry of the target firm within three years following an acquisition's effective closing date (*Divestment*). In Column 7, we estimate a logistic regression where the binary indicator for *Divestment* is our dependent variable. Our results show a negative and significant coefficient estimate on *Specialized M&A staff*, suggesting that acquisitions considered unsuccessful *ex-post* are less likely to be undertaken by firms with specialized M&A staff.

Next, we consider changes in average analyst consensus earnings forecasts (EPS) around M&A announcements (e.g., Chen, Harford, and Li, 2007). The benefit of this measure is that it captures how sell-side analysts revise their expectations for the acquirer as a result of a particular acquisition. We obtain annual earnings forecast data from I/B/E/S and calculate the changes in analyst earnings forecasts as the difference between annual analyst consensus earnings forecasts six months preceding the M&A announcement date and six months following the closing date (*Change in Consensus Analyst EPS forecast*). Column 8 re-estimates Model 2 of Table 4 with changes in analyst earnings forecasts serving as our

dependent variable. We find that firms with specialized M&A staff have a greater increase in analyst consensus EPS forecasts compared to firms without such staff, which again supports our hypothesis that acquirers with specialized M&A staff make better acquisitions.

Finally, we consider changes in post-acquisition abnormal operating performance. We follow the existing literature and measure operating performance with return on assets (ROA) (e.g., Chen, Harford, and Li, 2007, and Custodio and Metzger, 2013). Given that the counterfactual operating performance (i.e., had the acquirer not acquired a firm) is difficult to measure, we use the industry performance as counterfactual and calculate industry-adjusted abnormal ROAs. To do so, we follow Barber and Lyon (1996) and construct industry-benchmark portfolios by identifying all firms sharing the same two-digit SIC code as the acquirers (excluding the acquirer and target firms) and selecting matched firms with ROAs that are between 90% and 110% of the acquiring firm's ROA during the year preceding acquisition announcement. If no matching firms can be found, we select the industry-matched firm with the closest ROA to that of the acquirer. We calculate the median ROA of industry-benchmark portfolios and define industry-adjusted ROA as the difference between the ROA of the acquirer and median ROA of the benchmark portfolio of industry-matched firms. We then compare the changes in industry-adjusted ROA for the acquiring firms from the pre-acquisition year (*t-1*) to one, two, and three years after deal completion (*t+1, t+2*, and *t+3*). Re-estimating Model 2 of Table 4 with changes in industry-adjusted ROA serving as our dependent variable in Columns 9 through 11, we find that firms with specialized M&A staff are associated with higher abnormal ROA changes following the acquisitions relative to firms without specialized M&A staff.

Taken as a whole, the empirical evidence in Table 5 continues to support our value creation hypothesis that firms with specialized M&A staff make better acquisitions and is inconsistent with our alternative agency hypothesis. We find that these firms create more shareholder wealth through acquisitions, are less likely to announce a large loss acquisition, have better post-acquisition stock performance, are less likely to divest the acquisition, and experience greater expected and realized improvement in accounting performance.

3.3. Do firms make better acquisitions because of specialized staff?

Our results in the previous sections demonstrate that firms with specialized M&A acquisition staff make better acquisitions. A plausible concern with these analyses is that specialized M&A staff is not randomly allocated to firms but, rather, firms choose when (or if) to have such specialized M&A staff. For example, if firms that foresee valuable future acquisition opportunities also decide to hire such staff, then the higher acquisition performance of firms with specialized M&A staff would be due to better acquisition opportunities rather than due to having such staff. If the employment of specialized M&A staff is endogenously determined, then OLS estimates presented in earlier sections could produce unreliable estimates. In this section, we provide a number of tests to mitigate this concern and provide more direct evidence on our value creation hypothesis. All regressions control for the acquirer and deal-specific characteristics introduced in Section 2.3, but we do not report the coefficients to make the table easier to read.

First, we focus on acquirers for which specialized M&A staff was in place at least three years prior to the announcement of an acquisition. If the non-random matching between acquirers and specialized M&A staff is driving our results, then we would expect such results to be generated by specialized staff hired recently prior to a transaction. Therefore, we *remove* transactions for which the acquiring firm hired specialized M&A staff within three years *before* an acquisition announcement. Given that it is highly unlikely that specialized staff was hired in anticipation of a transaction more than three years into the future, this empirical method provides a way of eliminating transactions that are most likely to be subject to non-random matching between acquirers and the hiring of specialized M&A staff. This empirical method is used by past studies looking at the association between the characteristics of top executive teams and acquisition performance (e.g., Huang, Jiang, Lie, and Yang, 2014, and Fields and Mkrtchyan, 2017). Re-estimating Model 2 of Table 4 with this restricted sample, Model 1 of Table 6 documents that firms with specialized M&A staff continue to have higher CARs. Importantly, the coefficient estimate on *Specialized M&A Staff* is economically similar to those obtained in Table 4. In Model 2 of Table 6, we take a step

further and eliminate acquisitions where specialized M&A staff was hired during the *five* years before an acquisition announcement. We find similar results with this more restricted subsample.

Second, we exploit the fact that mergers occur in waves, and merger wave-induced acquisition opportunities are less likely to be foreseen relative to acquisitions executed outside the wave period (e.g., Custodio and Metzger, 2013). Therefore, it is sensible to alleviate endogeneity concerns by differentiating between in-wave and out-of-wave M&As. To this end, we partition *Specialized M&A staff* into two variables based on whether an acquisition is announced within an industry hit by a merger wave or occurs outside of a wave and then re-estimate our baseline regressions. We define an acquisition as part of a wave if a transaction is announced between six months before the start of a merger wave and six months after the end of a merger wave, where merger waves are defined as in Harford (2005). We eliminate merger waves induced by deregulation. Using logistic regressions, untabulated analyses document that the acquisition likelihood of firms is higher by 11.87% during a wave period relative to out-of-wave periods after controlling for variables known to affect the acquisition propensity. Results are robust for firms with and without specialized staff. Hence, we conclude that merger waves indeed increase the acquisition propensity of firms considered in our sample. More importantly, in Model 3 of Table 6, we find that firms with specialized M&A staff make better acquisitions both during waves and outside waves.

Third, we consider the possibility that unobserved firm characteristics may explain the positive coefficient on the specialized M&A staff indicator. If one takes the view that the matching between firms and employment of specialized M&A staff is based on time-invariant firm characteristics, then a valid way to address this concern is to rely on within-firm variation by controlling for firm fixed effects. Towards this end, Model 4 of Table 6 focuses on a subsample of frequent acquirers with and without specialized M&A staff and includes firm fixed effects. It is important to note that this test is feasible only for acquirers that have within firm variation in the employment of specialized staff. Our results show that firms make better acquisitions during periods when they employ specialized M&A staff than during periods when they do not have such staff. For the *same* firm, average CAR over the [-2, +2] event window surrounding the M&A announcement date is 1.09% higher when the firm has specialized M&A staff than when it does not.

Fourth, we compare the acquisition performance of firms with specialized M&A staff to that of firms that have a similar propensity of having specialized staff but do not employ such staff. We first estimate a probit regression on observable acquirer and deal characteristics introduced in Section 2.3 with the employment of specialized M&A staff serving as our dependent variable. We then match acquirers using a nearest-neighbor matching estimator with replacement using the propensity scores obtained from the probit model. This method allows us to match acquisitions by firms with specialized M&A staff to similar acquisitions by similar acquirers, except that they do not employ specialized staff. Finally, we estimate OLS regressions on the control and matched sample of acquisitions using Model 2 of Table 4. Model 5 of Table 6 presents these results. Again, acquirers with specialized M&A staff make better acquisitions.

Next, we repeat the propensity score matching technique but, this time, we also match on acquisition likelihood of firms in a given year to mitigate the concern that the firms with specialized M&A staff are more likely to make acquisitions and this association may potentially bias our estimates. We obtain propensity scores from bivariate probit regressions that use the full sample of firms in CRSP/Compustat where the dependent variable takes the value of one if a firm announces at least one acquisition in year *t*, and of zero otherwise. As expected, firms employing specialized M&A staff in year *t-1* are more likely to execute an acquisition in year *t* relative to firms lacking such staff. We next repeat the nearest-neighbor matching estimator propensity score matching technique but now also control for a firm's acquisition likelihood in the probit model. We then use the propensity scores obtained from this "expanded" probit model to match acquisitions by firms with specialized M&A staff to similar acquisitions by similar acquirers (also with similar acquisition likelihoods) except that they do not employ such staff. In other words, control and matched acquirers are not only similar along firm- and deal-specific characteristics (except employment specialized M&A staff), but also similar with respect to their acquisition likelihood. Our results in Model 6 of Table 6 remain robust to this alternative matching technique.

Sixth, we conduct falsification tests to address the concern that our results may simply be an artifact of spurious correlations between the employment of specialized M&A staff and acquisition returns. To implement this test, we construct a binary indicator variable for firms employing specialized *product*

development staff. Product development staff differs from specialized M&A staff in that product development focuses on developing new markets, product, and partner strategies to influence a firm's product evolution and direction as opposed to acquisition-related functions. Similar to our main setting, we first identify product development managers by parsing the "Rolename" and "FulltextDescription" of individual profiles in *Boardex Individual* for the variants of "Product Development." Next, we classify firms as employing specialized product development staff if there exists at least one product development manager listed in *Boardex Individual*. We then re-estimate Model 2 of Table 4 with the falsified product development staff serving as the main independent covariate of interest. Model 7 of Table 6 does not find any significant relation between falsified specialized staff and shareholder gains from M&A announcements, indicating that our results are not a result of spurious correlations between specialized M&A staff and acquisition returns. Note that if the better acquisition performance of firms with specialized M&A staff were simply due to firms investing more in staffing functions in general, then product development staffing would be a proxy for the level of human capital through staffing in general and would be expected to be positive and significant. Consequently, the lack of significance on product development staff further suggests that our results are related to employing specialized M&A staff as opposed to such firms investing more in human capital through staffing functions.

Finally, in Panel B of Table 6, we use an instrumental variable approach implemented using two-stage least squares to further address concerns on non-random matching between specialized M&A staff and acquirers. To implement this approach, we need an instrumental variable that explains a firm's decision to have specialized staff in the first stage equation (the relevance condition) that does not explain acquisition performance in the second stage equation (the exclusion condition) outside of its effect on having specialized staff. Moreover, the instrument in the first stage should have sound economic justification. We use the *staggered* recognition of the inevitable disclosure doctrine (*IDD*) by U.S. state courts as our instrumental variable to predict exogenous variation in the employment of specialized M&A staff by U.S. firms. This doctrine states that a firm's former employees can be prevented from working at a rival firm if doing so may lead to inevitable disclosures of their former employer's trade secrets to rival firms (e.g.,

Hamler, 1999; Klasa, Ortiz-Molina, Serfling, and Srinivasan, 2018; Li, Qiu, and Shen, 2018). CEOs and surveys conducted by the U.S. Chamber of Commerce suggest that former employees represent the greatest source of trade secrets lost to rivals. More importantly for our setting, survey evidence shows that strategic plans and acquisition plans are among the most common types of trade secrets lost to rival firms[6] and firms even avoid sharing investment banks with industry rivals to avoid information leakages (Asker and Ljungqvist, 2010). Therefore, our expectation is that the staggered adoption of the IDD will encourage firms to employ specialized M&A staff by reducing the risk that former specialized M&A employees will pass along their strategic and M&A-specific proprietary information to competing firms.

To measure the legal protection of strategic plans and M&A specific trade secrets imposed by the IDD, we follow Klasa, Ortiz-Molina, Serfling, and Srinivasan (2018) and create an IDD index that is based on state-by-state identification of case laws encompassing trade secrets by US state courts from 1977 to 2011 for 21 unique states. The IDD index takes the value of one starting the year a state court recognizes the IDD in a precedent-setting case, and is zero otherwise. If a state court rejects a previously recognized IDD, then the index reverts from one to zero (3 rejection cases). The IDD index equals zero for all other state years. Consistent with past work, a firm's location is captured by the location of its headquarters (e.g., Pirinsky and Wang, 2006). Model 1 of Panel B in Table 6 presents the results of the first-stage regression where we control for IDD along with a set of firm and deal-specific characteristics introduced in earlier sections and the dependent variable is a binary indicator that takes the value of one for firms with specialized M&A staff and zero otherwise. For brevity, we only tabulate the coefficient on IDD and find that it is positive and highly significant (t-statistic of 16.67), satisfying the relevance condition. In economic terms, the recognition of IDD increases a firm's likelihood of having specialized staff by 17.34%. Furthermore, the F-statistic for weak instruments (Angrist and Pischke, 2009) is statistically significant at the 1% level (untabulated), suggesting that our model is properly identified. Consistently with the descriptive statistics presented in Table 2, untabulated results show that larger firms, firms with a higher Tobin's Q and firms

[6] See "Trends in Proprietary Information Loss," ASIS International 2002

operating in high-tech industries are more likely to employ specialized M&A staff. In addition, untabulated analyses show a positive association between the number of acquisitions a firm executed over the past ten years and employment of M&A staff, consistent with the importance of specialized staff for acquisitions.

Next, we obtain the predicted value of specialized M&A staff from the first-stage regression (*Specialized M&A Staff(predicted)*) and estimate the second stage regression that repeats model 2 of Table 4 with the *predicted* value of specialized M&A staff serving as our independent variable of interest.[7] Our second stage regression documents that *Specialized M&A staff (predicted)* continues to be positively and significantly associated with shareholder wealth gains surrounding M&A announcements.

A valid concern with this analysis is whether IDD affects acquisition opportunities for the acquirer as well as the value of having specialized staff. It is reasonable to think that IDD in the state of the target makes an acquisition of such target more valuable because IDD helps the acquirer retain target firm's employees and reduce the risks of post-acquisition employee turnovers. Consistently with this view, Chen, Gao and Ma (2020) find that IDD in target firm's states is positively associated with acquisition performance. Therefore, for robustness, we further drop targets in IDD states (not tabulated). When we do so, we find that our results remain robust (coefficient estimate on *Specialized M&A staff (predicted)* equals 2.02% with a t-statistic of 2.10).

Collectively, our analyses from this section suggest that it is unlikely that our results are explained by non-random matching between specializes staff and acquirers or some form of reverse causality. Overall, this evidence renders a causal interpretation reasonable—namely, that firms make better acquisitions because they employ specialized M&A staff and therefore is consistent with our value creation hypothesis.

[7] To the best of our knowledge, past research has not examined the association between IDD in acquiring firm's state and acquisition returns. Untabulated analyses find that this association is insignificant (coefficient estimate on IDD is negative), which suggests that our instrument satisfies the exclusion restriction.

3.4. Specialized M&A staff and acquisition performance: Cross-sectional analyses

Having established that firms with specialized M&A staff make better acquisitions, we next explore whether the relation between acquisition performance and attributes of such staff is as expected. Specifically, we would expect specialized M&A staff to be more valuable if its managers (i.e., corporate development managers) have longer experience and if the size of the specialized M&A staff is larger. We would also not expect specialized M&A staff to add significant value if the CEO is more powerful or more overconfident as such a CEO would be more likely to make decisions on his own with little to no input from lower-level employees such as specialized M&A staff. Lastly, we would not expect specialized staff to add value to acquisition performance in firms where agency costs of managerial discretion are higher. An important benefit of this analysis is that it not only adds more texture to our findings and identify settings where specialized staff value to acquisition outcomes, but also allows us to be even more confident that our main results are not driven by omitted variables or reverse causality.

In Panel A of Table 7, we focus on the cross-sectional variation in the characteristics of the specialized M&A staff. We report only the variables of interest to conserve space. First, we consider the experience of the corporate development managers who supervise specialized M&A staff. We expect that specialized M&A staff supervised by more experienced managers make better acquisitions. To test this conjecture, we first identify when corporate development managers are hired at a given firm, and then create a binary indicator variable that equals one if the employment experience of the corporate development manager at an acquirer is above the sample median of this measure in a given year (*Corporate Development Managers-High Firm experience)*.[8] Model 1 of Table 7 re-estimates Model 2 of Table 4 with the inclusion of this measure (in addition to *Specialized M&A Staff*) and finds that the firm-specific employment experience of the corporate development managers is incrementally informative about M&A performance. In economic terms, acquisitions by firms employing corporate development managers with longer tenure have a 0.87% higher return significant at the 1% level, and this effect is incremental to the positive association between

[8] For instances where a firm employs more than one corporate development manager, we calculate the average firm specific/total employment experience for all corporate development managers employed by a given firm.

announcement CARs and the firm having specialized M&A staff. In Model 2 of Table 7, we also consider the total employment experience of the corporate development managers and find similar results.

Next, we focus on a proxy for the size of the specialized M&A staff, namely the number of corporate development managers recorded by *Boardex Individual*. We take the view that larger staff should be supervised by more corporate development managers, and such staff should have better resources, including but not limited to, better datasets, access to a greater number of junior-level associates, and better administrative support. These resources should help the specialized M&A staff obtain a better and deeper understanding of the industry, build and maintain a better deal pipeline, and identify targets that deliver greater economic gains to the acquirers. Our findings document that the acquirer announcement returns are positively and incrementally associated with the size of the specialized M&A staff. The coefficient estimate on *No of Corporate Development Managers* suggests that a one standard deviation increase in the number of corporate development managers is associated with an incrementally 0.20% higher 5-day announcement CARs compared to acquirers without specialized M&A staff.

In Panel B of Table 7, we turn to CEO characteristics. We conjecture that more powerful CEOs or more overconfident CEOs would be less likely to pay attention to specialized M&A staff for acquisitions. Therefore, we expect the marginal effect of specialized staff to be eliminated when the CEO is powerful or overconfident. To test this conjecture, we proxy for CEO power using the pay differential between the CEO and other top executives based on total salary plus bonus (i.e., total compensation) in the most recent year prior to an acquisition. More specifically, a CEO is classified as powerful when she receives 100% or more total compensation compared to the next highest paid top executive (e.g., Filkelstein, 1992; Hayward and Hambrick, 1997; Golubov, Yawson, and Zhang 2015; among others). To measure CEO overconfidence, we draw upon stock option-based compensation measures employed by Malmendier and Tate (2008) and Campbell, Gallmeyer, Johnson, Rutherford, and Stanley (2011), where a CEO is defined as overconfident

if she holds stock options that are more than 67% in the money and she exhibits such option-holding behavior at least twice during the period preceding an acquisition announcement.[9]

To test our conjecture about the role of the CEO power or overconfidence on the value-added from specialized M&A staff, we re-estimate our baseline regression model (i.e., Model 2 of Table 4) but add our measures for CEO power or overconfidence as well as the interactions between these proxies and specialized M&A staff. The coefficient of interest is the sum of the coefficient estimates on *Specialized M&A Staff* and the interaction term. If specialized M&A staff do not add value to acquisition performance in firms led by powerful or overconfident CEOs, then we expect the sum of the coefficient on *Specialized M&A Staff* and the interaction to be insignificant. The empirical evidence presented in Panel B in Table 7 is consistent with both of these conjectures, suggesting that powerful or overconfident CEOs are more likely to make M&A decisions in relative isolation without input from lower-level staff such as specialized M&A staff, echoing the survey findings of Graham, Harvey, and Puri (2015).[10]

Finally, in Panel C of Table 7, we turn to proxies for agency costs of managerial discretion. We use three such proxies. First, we use the concentration of titles by the CEO where the CEO is both the chairman and the president or if she is the chairman and her firm has no president or Chief Operating Officer among the top executive team (e.g., Adams, Almedia, and Ferreira, 2005). Second, we use an indicator for firms with a dual-class share structure. Admittedly, dual-class shares may create shareholder wealth in some firms and destroy shareholder wealth in others. However, on average, Masulis, Wang and Xie (2009) and others document that separation of insiders' ownership and control rights through a dual class voting structure aggravates the agency conflicts between the top managers and shareholders. Lastly, we use an indicator variable for whether the board is not independent. Like Masulis and Reza (2015), we consider a board to be independent if at least 60% of the members are independent and the nominating committee members to

[9] Stock option holding behavior of CEOs is calculated using Execucomp as in Campbell, Gallmeyer, Johnson, Rutherford, and Stanley (2011) given that the proprietary CEO compensation data employed by Malmendier and Tate (2008) covers a small sample of US firms from 1980 to 1994, and our sample period starts in 2000.

[10] As expected from Malmendier and Tate (2008), our results also show that overconfident CEOs make value-destroying acquisitions.

be fully independent. Acquirers without such characteristics are defined as not having an independent board. We show the results in Panel C of Table 7. The results show that when the agency costs of managerial discretion are high, specialized M&A staff do not add significant value to acquisition performance. Particularly, we find that sum of the coefficients on *Specialized M&A Staff* and the interaction term with dual class share structure and firms without independent boards is insignificant, suggesting that specialized M&A staff do not add significant value for the shareholders of firms with higher agency costs of managerial discretion.

4. How does specialized M&A staff create value for acquirers?

Our analyses so far suggest that firms with specialized M&A staff make better acquisitions and that the effect of such staff is economically important. In this section, we shed light on potential mechanisms through which specialized M&A staff creates value for acquirers. In Section 4.1, we examine whether specialized M&A staff help identify targets that have higher synergies with the acquirer. In Section 4.2, we examine whether acquirers with specialized M&A staff capture higher value from targets through negotiating better terms, paying lower takeover fees, and capturing a higher fraction of combined deal synergies. In Section 4.3, we investigate whether specialized M&A staff reduces acquisition-related transaction costs.

4.1. Transaction synergies: Combined CARs and change in combined firm's post-acquisition operating performance

One important mechanism through which specialized M&A staff may create value for acquirers is by selecting targets with higher synergies with the acquirer. As discussed in Section 2.1, specialized M&A staff help acquirers manage an active deal pipeline, screen and identify potential targets, and estimate potential revenue and cost synergies. Therefore, it is plausible that specialized M&A staff translates into higher acquisition performance through the selection of targets with greater synergies with the acquirer.

Our first proxy to measure synergy gains is the value-weighted combined abnormal returns of the acquirer and the target firm, calculated as 5-day CARs over [-2, +2] event window relative to deal announcement date (e.g., Bradley, Desai, and Kim, 1988; Kale, Kini, and Ryan Jr., 2003; Harford, Humphery-Jenner, and Powell, 2012). This measure captures the synergies created by a transaction as perceived by the stock market. Because stock returns can be measured only for publicly traded firms, we focus only on acquisitions of public targets. Following past literature, our weights are based on the acquirer's and target's market capitalization on 50 trading days prior to the M&A announcement date. We then regress value-weighted combined CARs against a battery of firm and deal-specific characteristics and include industry-year paired fixed effects as in earlier sections.

Model 1 of Table 8 shows that transaction synergies are higher for firms with specialized M&A staff. The results are also economically significant. For instance, acquirers with specialized M&A staff are associated with 1.46% higher combined abnormal acquisition announcement returns, which represents roughly 77% of average 5-day combined CARs in this subsample of acquisitions of public targets. Other controls also generally behave as expected— acquirers with higher book leverage generate higher combined announcement returns, while acquisitions of larger firms and transactions financed with some equity elicit lower combined stock returns. When we measure the value-weighted combined CARs over the [-1, +1] event window, we continue to find similar results (untabulated).

Since combined announcement returns only reflect the measure of surplus perceived by the stock market around the short event-window surrounding acquisition announcement dates, we next examine an ex-post measure of operating synergies. To this end, we follow the approach used in earlier studies (e.g., Huang, Jiang, Lie, and Yang, 2014; Chen, Gao, and Ma, 2020, among others) and investigate the changes in the operating performance of the *combined* firm from pre-acquisition year to post-acquisition period for acquisitions of public targets. As in Section 3.2, operating performance is measured with industry-adjusted abnormal ROA. For the period before the acquisition, operating performance is the weighted-average abnormal ROA based on the total assets of acquirer and target firms in the fiscal year preceding the acquisition. For the post-acquisition period, we only focus on the operating performance of acquiring firms.

We then compare the changes in industry-adjusted ROA for the combined firm from the pre-acquisition year to up to three years following the acquisition completion. Columns 2 through 4 of Table 8 show that having specialized M&A staff is associated with improved operating performance for the combined firm. In economic terms, the combined firm generates 4.13% higher abnormal ROA in the post-acquisition year (t+1) relative to the year preceding the acquisition. Therefore, this evidence further supports the notion that specialized M&A staff help acquirers identify targets that generate greater synergies in the post-acquisition period.

4.2. Value Capture: Takeover Premiums and Bidder's Share of Combined Synergies

In this section, we examine whether value-capture from the targets also represents a mechanism through which specialized M&A staff creates value for acquirers. In particular, specialized staff may help acquirers design a better bidding and negotiation strategy after a target has been identified, leading to lower takeover premiums and a greater share of combined acquisition synergies captured by the acquirer.

We first focus on takeover premiums. We follow Schwert (2000) and measure the takeover premium as the difference between the price paid per share (as obtained from *SDC*) and the target firm's stock price 63 trading days prior to M&A announcement date. To mitigate concerns that the transaction process or the target stock price runup may start earlier than 63 trading days prior to the official announcement of an acquisition, we also measure the takeover premium using the stock price on 105 trading days preceding the M&A announcement date as suggested by Eaton, Liu and Officer (2019). As in Section 4.1, we can only perform this analysis for publicly traded targets.

Models 1 and 2 of Table 9 report the regression results. In Model 1, we find that the coefficient estimate for *Specialized M&A Staff* is statistically insignificant at conventional levels (t-statistic of 1.15). In Model 2, we obtain similar results when deal premiums are measured using the target firm's stock price at five months prior to M&A announcement. These findings are inconsistent with specialized M&A staff improving acquisition performance by helping the acquirer pay less to target shareholders.

As an alternative to acquisition premiums, in Model 3, we use the comparable industry transaction method of Officer (2007), which allows for the inclusion of all targets irrespective of their public status. We first obtain acquisition multiples based on deal value to sales from *SDC*. For each transaction, we then calculate the average deal value to sales multiple on matched transactions that are in the same two-digit SIC and occur within the three-year window of an acquisition's announcement (i.e., t-1, t, t+1), and has deal value that is within 20% of the original transaction. Acquisition premiums are then defined as the percentage difference between the multiple of the acquisition of interest and the average multiple for the portfolio of comparable industry-matched transactions. Our findings continue to show that specialized M&A staff is not significantly associated with premiums paid to target firms' shareholders.

Finally, we focus on the acquirer's share of the total takeover gains and examine whether specialized M&A staff affects acquirers' ability to capture a higher share of the combined abnormal shareholder wealth gains around M&A announcements. As in past studies, we calculate the bidder's share of the total wealth gain (*Bidder's Share of Total Gain*) as the total abnormal dollar gain to bidder shareholders scaled by the total combined abnormal dollar gain to the shareholders of the bidder and the target firms over [-2, +2] event window relative to acquisition announcement date. When the combined abnormal dollar gain is negative, the measure is defined as one minus *Bidder's Share of Total Gain* (e.g., Kale, Kini, and Ryan Jr., 2003). The coefficient estimate on *Specialized M&A Staff* is, once again, statistically insignificant, suggesting that transferring a greater proportion of transaction surplus to acquirers' shareholders (after a target has been identified) is unlikely to be a mechanism through which specialized staff improves acquisition performance.

4.3. Transaction Costs: Use of External Advice and Advisory Fees

In this section, we examine whether lower transaction costs may explain the value creation from specialized M&A staff to acquirers. Towards this end, we study the impact of specialized M&A staff on i) the number of retained external advisors and ii) acquisition-related advisory fees.

Advisory units of investment banks play a prominent role in the takeover market. If investment banks and specialized M&A staff are perfect substitutes for acquisition-related functions, then acquirers with specialized staff would be less likely to retain external advisors for executing M&As. Alternatively, it is also plausible that specialized M&A staff and investment banks are not perfect substitutes, and acquirers with specialized M&A staff still hire investment banks to execute some of the acquisition-related functions. These functions include approaching and negotiating with targets, arranging meetings between acquirers and targets, setting up online data rooms, financial due diligence, finalizing deal terms, and so forth. Consistent with this view, Marks, Slee, and Blees (2012) argue that M&As typically represent a "choreographed" dance between specialized M&A staff and investment bankers employed by external advisors. If so, we do not expect acquirers with specialized M&A staff to have a lower need for retaining external advisors. However, in this case, we expect advisory fees to be lower since firms with specialized M&A staff are likely to use fewer acquisition-related functions by investment banks. For instance, target identification is likely to be performed by the specialized M&A staff of acquirers, so that investment banks are less likely to be used for that function. In sum, ex ante, it is unclear whether specialized M&A staff improve acquisition performance by lowering transactions costs as a result of having a lower need for retaining investment banks or paying lower advisory fees.

To assess whether specialized staff reduces the use of investment banks and advisory fees, we first estimate a regression where the dependent variable equals the number of external advisors retained for a transaction. Our econometric model includes the firm and deal characteristics of Model 2 of Table 4 except for investment bank-specific variables (*Top Tier Advisor, No of Advisors*). Model 1 of Table 10 shows that specialized M&A staff is not significantly related to the number of retained external advisors. In untabulated analyses, we re-estimate the regression with a negative binomial model and find similar results. These results are inconsistent with the view that specialized M&A staff and investment bankers are perfect substitutes for each other in the takeover market.

We then attempt to understand the impact of specialized staff on advisory fees conditional on the acquiring firm retaining at least one investment bank. Because investment banking advisory fees are

typically charged as a percentage of deal value, we measure transaction costs as total advisory fees paid by the acquirer (as obtained from *SDC*) scaled by the total transaction dollar value. The mean of investment banking fees is 1.01% for acquirers with specialized M&A staff compared to 1.48% for acquirers without such staff (t-statistic for the difference is 3.33). Next, we use a multivariate setting where our key independent variable of interest is a binary indicator that equals one if firm *j* employs specialized staff in year *t*, zero otherwise. We then regress advisory fees as a percentage of deal value against our key independent variable along with acquirer- and deal-specific characteristics. We also include the natural logarithm of deal value (*Ln (Deal Value)*) as an independent covariate since McLaughlin (1990) shows that advisory fees as a percentage of deal value are negatively related with the transaction size. Model 2 of Table 10 shows a negative and significant coefficient estimate on specialized M&A staff, suggesting that specialized M&A staff reduces advisory fees for acquiring firms. In economic terms, the advisory fees of acquirers with specialized M&A staff are lower by 0.38% compared to advisory fees on acquisitions executed by firms without such staff, a reduction of almost 26% from the sample mean of 1.48% advisory fees in transactions by acquirers without specialized M&A staff. We also confirm the findings in past studies—percentage transactions fees are negatively associated with the deal size and top tier investment banks charge higher percentage advisory fees.

5. Why do not all firms have specialized M&A staff?

Our evidence up to this point shows that firms with specialized M&A staff make better acquisitions, and this result is unlikely to be spurious or explained by omitted variables. In other words, the evidence suggests that the relation between specialized M&A staff and acquisition performance is likely causal. However, this evidence raises the question of why not all firms employ specialized staff. In this section, we attempt to gain a better understanding of this question by investigating whether the employment of specialized M&A staff is correlated with firm, CEO and director attributes we would expect to be associated with the employment of specialized M&A staff for firms executing acquisitions.

Towards this end, we expand the analyses of determinants of specialized M&A staff employment introduced in the first-stage regression of Panel B of Table 7 (with the inclusion of IDD) through the addition of new variables of interest that measure i) relative importance of firm acquisition strategy for corporate growth, ii) management's specialized knowledge relevant to acquisitions, and iii) CEO's and directors' busyness.[11] As a result of data availability, the sample size is reduced to 7,029 acquisitions. These variables and their expected signs are as follows:

1) Average ratio of total dollars spent on M&A to that spent on total investment over the past ten years: We expect specialized M&A staff to be more likely to be employed by firms for which inorganic growth through acquisitions represents a more important component of corporate growth strategy.
2) CEO and directors have longer industry experience, CEO and directors have industry experience in the target's industry and have investment banking experience: We expect that firms led by CEOs with such specialized acquisition relevant knowledge (e.g., Custodio and Metzger, 2013; Huang, Jiang, Lie and, Yang, 2014; Fields and Mkrtchyan, 2017) to have a lower likelihood of employing specialized staff. Moreover, if directors have more specialized knowledge pertaining to acquisitions as proxied by these characteristics, then we also expect the CEO to rely more on such knowledge for acquisitions instead of employing specialized M&A staff.
3) CEO and director busyness: A busier CEO is less likely to devote substantial time and effort on specific acquisition related functions and, therefore, is more likely to rely on specialized M&A staff for such functions. Likewise, a busier board of directors is expected to be less helpful to the CEO for acquisitions, so that the CEO is again more likely to delegate acquisition related tasks to specialized M&A staff. We measure busyness by the extent of appointments in other boards to

[11] Our regression further controls for the CEO specific characteristics introduced in model 3 of Table 4 (i.e., CEO tenure, CEO gender, CEO-Chairman duality).

capture CEO and directors' busyness (e.g., Fich and Shivdasani, 2006; Hauser, 2018, among others).

In Table 11, we only tabulate the coefficient estimates on these new variables of interest. It is immediately clear that firms with a strategy that relies more on acquisitions for corporate growth are more likely to have specialized staff. The coefficient is positive and significant for the fraction of investment expenses represented by acquisitions over the past ten years (t-statistic of 4.15). We also find that the more specialized acquisition knowledge the CEO and the directors have, the less likely a firm employs specialized M&A staff. In particular, the length of CEO and directors' industry experience, CEO and directors' investment banking experience, and their experience in the target's industry are negatively associated with the employment of specialized staff. Coefficient estimates on all of these characteristics are statistically significant at conventional levels. Finally, we also find that CEO and board busyness are positively and significantly related to the firm having specialized M&A, consistent with the view that such firms delegate acquisition related tasks to specialized M&A staff. In untabulated analyses, we find that neither CEO-Chairman duality nor CEO tenure is related to whether a firm has specialized staff. [12]

6. Conclusion

In this paper, we attempt to penetrate the black box of intra-firm decision-making for investments. We expect that firms with specific skills and organizational structure devoted to a type of investment make better investments of that type. Our focus is on acquisitions. In this context, our value creation hypothesis predicts that firms with specialized M&A staff make better acquisitions while our agency hypothesis predicts that specialized M&A staff facilitates management's empire-building behavior and therefore, firms

[12] Importantly, IDD continues to be an economically and statistically predictor of specialized M&A staff employment. Moreover, if we use this expanded regression in our two-stage least squares regression in Table 7, the predicted value of specialized M&A staff continues to be positively and significantly associated with CARs in the second stage regressions. Results are available upon request.

with such staff do not make better acquisitions. In the US, corporate development professionals, which we call specialized M&A staff, are involved in major aspects of the corporate inorganic growth strategy, starting from target identification to the post-acquisition integration process. We find that specialized M&A staff is an economically important driver of acquisition performance as measured by shareholder wealth creation around acquisition announcements, long-term stock returns, changes in long-term operating performance, changes in consensus analyst earnings forecasts around acquisitions, and announcement of transactions with large shareholder wealth losses.

We find evidence that, on average, firms with specialized M&A staff make better acquisitions, consistent with the value creation hypothesis. However, specialized M&A staff does not help firms make better acquisitions in all cases. Specifically, we show that specialized staff is not associated with higher acquisition performance for firms with higher agency costs of managerial discretion or firms headed by more overconfident or powerful CEOs. Plausible explanations for these exceptions are that specialized staff does not help create value when management is more likely to pursue private benefits at the expense of shareholders and such CEOs are more likely to ignore their advice.

We also show that a causal interpretation is reasonable, namely that firms make better acquisitions because they have specialized M&A staff. To make that case, we first show that specialized M&A staff does not proxy for firm or deal characteristics known to affect acquisition performance. The effect we document is distinct from what has been reported in the literature. We then provide evidence to help rule out the possibility that potential non-random matching between specialized M&A staff and firms (or omitted characteristics) explains our results. Towards this end, we provide a series of tests supporting our interpretation that specialized M&A staff causes firms to have better acquisition performance. Perhaps most importantly, we use a source of exogenous variation in the employment of specialized M&A staff, namely the staggered recognition of the inevitable disclosure doctrine (IDD) by courts. In our context, recognition of IDD makes it harder for specialized M&A personnel to walk away from her employer and bring her knowledge of the firm's M&A strategy and practices to rival firms. As expected, we show that firms are

more likely to employ specialized M&A staff following the staggered recognition of IDD. Accounting for this source of exogenous variation strengthens our results.

We explore why firms with specialized staff make better acquisitions. We find that the quality of the specialized staff is also incrementally related to acquisition performance. Specialized M&A staff supervised by more experienced corporate development managers add even more value to acquisition performance. When we examine how specialized staff makes acquisitions better, we establish that the acquisitions made by firms with specialized M&A staff have greater synergies. Specialized staff does not appear to help acquirers capture more of synergies from targets. There is no evidence that firms with specialized M&A staff pay less for acquisitions, but there is evidence that firms with specialized staff pay less for investment banking services, presumably because their work substitutes for some services that investment banks would otherwise provide.

Finally, we investigate why not every firm employs specialized M&A staff. Our findings show that firms for which acquisitions represents a more important component of their corporate growth strategy are more likely to employ specialized M&A staff. Further considering the acquisition relevant knowledge possessed by CEO and directors, we find that CEO's and directors' industry and investment banking experience as well as experience in the target's industry is negatively associated with the likelihood of employing such staff. Firms with busier CEOs and directors are also more likely to employ such staff, consistent with such firms delegating acquisition related functions to specialized M&A staff.

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Appendix. Variable descriptions

Variable	Definition
Specialized M&A Staff	Indicator variable is one if a firm has one or more corporate development managers, zero otherwise. Information on corporate development managers is from Boardex Individual and data is supplemented from LinkedIn.com, Bloomberg, Reuters, and Marquis Who's Who databases.
Acquirer Characteristics	
Acquirer Size	Market value of acquirer's equity 4 weeks prior to the acquisition announcement date obtained from SDC. Information market value of equity is obtained from *CRSP*.
Stock Price Runup	CRSP value-weighted index adjusted buy-and-hold abnormal return (BHAR) of the acquirer firm's stock over the [-205, -6] event window relative to the acquisition announcement date. Stock price data is from *CRSP*.
Sigma	Standard deviation of the acquirer's CRSP value-weighted index adjusted buy-and-hold abnormal return (BHAR) over the [-205, -6] event window relative to the acquisition announcement date. Stock price data is from *CRSP*.
Book Leverage	Total debt (current liabilities plus long-term debt) scaled by book value of total assets in the fiscal year preceding the acquisition announcement. Information is from Compustat.
Tobin's Q	Market value of the acquirer's assets divided by book value of its assets in the fiscal year preceding the acquisition. The market value of assets is calculated as the sum of book value of assets and market value of common stock minus the book value of common stock minus deferred taxes in the balances sheet. The data are from CRSP and Compustat
ROA	Acquirer's net income divided by book value of its total assets for the fiscal year before the acquisition announcement. Information is from Compustat.
Book-to-Market	Acquirer's book value of equity (in the fiscal year before the acquisition announcement) divided by the market value of four weeks preceding the acquisition announcement. The data are from CRSP and Compustat.
Institutional Holding	Total percentage Institutional ownership of the acquirer in the quarter before the acquisition announcement. The data are from WRDS.
Cash Flows-to-Equity	Income before extraordinary items plus depreciation minus dividends scaled by the book value of assets in the fiscal year before the acquisition announcement. Information is from Compustat.
No of M&As (past 10 years)	Number of acquisitions executed by the acquirer over the past ten years preceding the announcement date of the current acquisition. Information is from SDC.

Large Bidders	Indicator variable is one if the size of an acquirer is above the sample median of this measure, zero otherwise
M&A to Total investment Ratio (past 10 years)	Average ratio of total dollars spent on M&A to that spent on total investment over the past ten years. The information is from Compustat.
Dual-Class	Indicator variable is one if the acquirer has a dual-class share structure. The information is from Riskmetrics.
Deal Characteristics	
Relative Size	Value of the acquisition (as obtained from SDC) divided by market value of acquirer's equity four weeks prior to the acquisition announcement date. Information on market value of equity is obtained from *CRSP*.
Private	Indicator variable is one for an acquisition of private target, zero otherwise. Information is from SDC.
Public	Indicator variable is one for an acquisition of a publicly traded target, zero otherwise. Information is from SDC.
Subsidiary	Indicator variable is one for an acquisition of a subsidiary, zero otherwise. Information is from SDC.
Hostile	Indicator variable is one for hostile acquisitions, zero for unsolicited acquisitions. Information is from SDC.
Top tier Advisor	Indicator variable is one if the acquirer retained a top tier investment bank for an acquisition, zero otherwise. To define top tier banks, we calculate the total value of deals by each investment bank over 2000 and 2017 and define an investment bank as top tier if it ranks in the top 10 over the sample period based on the total value of deals it advises. Information is from SDC.
No of Advisors	Number of investment banks retained for an acquisition by the acquiring firm. Information is from SDC.
Payment-All Cash	Indicator variable is one if the acquisition is paid for with all cash, zero otherwise. Information is from SDC.
Payment-Includes Stock	Indicator variable is one if the acquisition is paid for with some equity, zero otherwise. Information is from SDC.
Diversifying	Indicator variable is one if the acquirer and target do not belong to the same two-digit SIC code, zero otherwise. Information is from SDC, CRSP and Compustat.
CEO/Director Characteristics	
CEO tenure	The number of years for which the acquirer's CEO have worked in the acquiring firm prior to the announcement of an acquisition. The information is from Boardex, Riskmetrics, and Execucomp.
Female CEO	Indicator variable is one if the acquirer's CEO is a female, zero otherwise. The information is from Boardex and Riskmetrics.
CEO with experience in target's industry	Indicator variable is one if CEO worked in the target's industry where industries are defined based on the two-digit SIC code, zero otherwise. The information is from Boardex, Riskmetrics, and Execucomp.

CEOs' financial experience	The number of years for which the acquirer's CEO worked in the financial services industry in a finance-related role (as CFO, treasurer, VP of finance, or accountant) or in a top tier auditing firm including PwC, E&Y, Deloitte, KPMG, Arthur Anderson, Coopers, Touche Ross, or Peat Marwick. The information is from Boardex, Riskmetrics, and Execucomp.
CEO with investment banking experience	Indicator variable is one if the acquirer's CEO worked as an investment banker, zero otherwise. Investment banking experience is defined as in Huang, Jiang, Lie and Yang (2014). The information is from Boardex, Riskmetrics, and Execucomp.
Powerful CEO: Pay>100% Closest Executive	Indicator variable is one if the acquirer's CEO receives 100% or more total compensation compared to the next highest paid top executive prior the acquisition announcement date. The information is from Execucomp.
Chairman& President	Indicator variable is one if the acquirer's CEO is both the chairman and the president or if she is the chairman and her firm has no president or Chief Operating Officer among the top executive team. The information is from Execucomp.
Overconfident CEO	Indicator variable is one if the acquirer's CEO holds stock options that are more than 67% in the money and she exhibits such option-holding behavior at least twice during the period preceding an acquisition announcement. The information is from Execucomp.
Firm without independent board	Indicator variable is zero if at least 60% of the members are independent and the nominating committee members are fully independent, one otherwise. The information is from Boardex, Riskmetrics, and Execucomp.
CEO Total industry Experience	The number of years for which CEO of the acquirer worked in the acquirer's industry (excluding the focal firm). The information is from Boardex, Riskmetrics, and Execucomp.
CEO Busyness	The number of external board seats CEO of an acquirer has at year t-1 relative to the acquisition announcement date. The information is from Boardex, Riskmetrics, and Execucomp.
Average Director Busyness	Average number of external board seats directors of an acquirer have at year t-1 relative to the acquisition announcement date. The information is from Boardex, Riskmetrics, and Execucomp.
Percentage of directors with financial experience	The percentage of directors with financial experience (defined as for CEOs) prior to the acquisition announcement date.
Percentage of directors with investment banking experience	The percentage of directors with investment banking experience at year t-1 relative to the acquisition announcement date. Investment banking experience is defined as in Huang, Jiang, Lie and Yang (2014).
Percentage of directors with experience in target's industry	The percentage of directors who worked in the target's industry (as defined for CEOs) at year t-1 relative to the acquisition announcement date.
Specialized M&A Staff Characteristics	
Corporate Development Manager - High Firm experience	Indicator variable is one if the employment experience of corporate development managers at an acquirer is above the sample median of this measure preceding an acquisition announcement, zero otherwise. For instances where a firm employs more than one corporate development manager, we calculate the average firm-specific employment experience for all corporate development managers employed by a

	given acquirer. Information on corporate development managers is from Boardex Individual and data is supplemented from LinkedIn.com, Bloomberg, Reuters, and Marquis Who's Who databases.
Corporate Development Manager- High Employment experience	Indicator variable is one if the total employment experience of corporate development managers is above the sample median of this measure in a given year, zero otherwise. For instances where a firm employs more than one corporate development manager, we calculate the average total employment experience for all corporate development managers employed by a given acquirer. Information on corporate development managers is from Boardex Individual and data is supplemented from LinkedIn.com, Bloomberg, Reuters, and Marquis Who's Who databases.
No of Corporate Development Managers	The number of corporate development managers at an acquirer preceding an acquisition announcement. Information on corporate development managers is from Boardex Individual and data is supplemented from LinkedIn.com, Bloomberg, Reuters, and Marquis Who's Who databases.

Table 1. Sample Distribution

This table reports summary statistics for the distribution of specialized M&A staff, number and percentage of firms employing specialized M&A staff, the number of M&As, and the percentage of M&As executed by firms with specialized M&A staff over 2000 and 2017. Specialized M&A staff equals one if a firm has at least one corporate development manager, zero otherwise. Information on corporate development managers is from *Boardex of Management Diagnostic Limited Individual* with supplementary data from *LinkedIn.com*, *Bloomberg*, *Reuters*, and *Marquis Who's Who* databases. M&A sample is drawn from the *Thomson One Platinum Securities Data Company* M&A database (SDC) and includes a sample of U.S. public, private, and subsidiary acquisitions announced over the period January 1, 2000, to December 31, 2017. We require M&As to be completed, the bidder to own less than 50% of the target six months prior to M&A announcement and control more than 50% of the target following the transaction, and the deal value to exceed $1 million and represent at least 1% of the acquirer's market capitalization on the 42nd trading day prior to the acquisition announcement date. Refer to the Appendix for a detailed description of variables.

Year	No of Corporate Development Managers	No of Firms with Specialized M&A Staff	% Firms with Specialized M&A Staff	No of M&As	% M&As by firms with Specialized M&A Staff
2000	1672	1042	25.51%	733	43.52%
2001	1832	1155	27.75%	576	49.48%
2002	1953	1239	29.46%	658	39.51%
2003	2076	1335	31.26%	682	46.63%
2004	2237	1459	32.78%	735	49.12%
2005	2490	1556	33.54%	847	50.06%
2006	2587	1625	34.35%	816	45.47%
2007	2708	1679	35.72%	783	50.06%
2008	2679	1653	37.49%	509	49.71%
2009	2552	1550	37.63%	409	56.72%
2010	2568	1563	39.65%	562	53.38%
2011	2644	1575	41.60%	548	49.09%
2012	2558	1564	42.47%	660	46.06%
2013	2508	1571	43.01%	530	44.91%
2014	2486	1600	42.78%	630	45.56%
2015	2402	1610	42.81%	555	43.60%
2016	2188	1518	41.28%	431	44.78%
2017	1927	1409	39.01%	434	38.48%
Total	8566	3593	36.56%	11,098	47.01%

Table 2. Descriptive Statistics

This table reports descriptive statistics over 2000 and 2017. Panels A and B present the mean and median for acquirer- and deal-specific characteristics, respectively. Column 1 presents the statistics for the whole sample, and Column 2 (3) for M&As executed by firms with (without) specialized M&A Staff. Specialized M&A staff equals one if a firm has at least one corporate development manager, zero otherwise. Information on corporate development managers is from *Boardex of Management Diagnostic Limited Individual* with supplementary data from *LinkedIn.com*, *Bloomberg*, *Reuters*, and *Marquis Who's Who* databases. The M&A sample is drawn from the *Thomson One Platinum Securities Data Company* M&A database (SDC) and includes a sample of U.S. public, private, and subsidiary acquisitions announced over the period January 1, 2000, to December 31, 2017. We require M&As to be completed, the bidder to own less than 50% of the target six months prior to M&A announcement and control more than 50% of the target following the transaction, and the deal value to exceed $1 million and represent at least 1% of the acquirer's market capitalization on the 42nd trading day prior to the acquisition announcement date. Statistical tests for differences in means and equality of medians for each bidder and deal specific characteristics across M&As with and without specialized M&A staff are also presented. Differences in means are based on a *t* -test. Differences in medians are based on Wilcoxon rank sum test. Refer to the Appendix for a detailed description of variables.

Panel A: Acquirer Characteristics

	Full Sample (N=11,098) (1)		Specialized M&A staff (N=5,215) (2)		No Specialized M&A staff (N=5,883) (3)		Differences (2)-(3)	
Variable	Mean	Median	Mean	Median	Mean	Median	p-value of Mean	p-value of Median
Size (in $million)	11136.680	1457.860	18346.660	2471.320	4745.390	1008.250	<.0001	<.0001
Stock Price Runup	0.129	0.040	0.142	0.042	0.118	0.038	0.0293	0.2543
Sigma	0.024	0.020	0.024	0.020	0.024	0.019	0.0145	0.9494
Book Leverage	0.254	0.228	0.230	0.203	0.276	0.254	<.0001	<.0001
Tobin's Q	2.638	2.006	2.931	2.179	2.379	1.889	<.0001	<.0001
ROA	0.100	0.114	0.106	0.118	0.095	0.109	0.0002	<.0001
Book-to-Market	0.532	0.420	0.466	0.377	0.590	0.461	<.0001	<.0001
Cash Flows-to-Equity	0.023	0.048	0.035	0.051	0.012	0.044	<.0001	<.0001
No of M&As (past 10 years)	6.002	3.000	6.554	4.000	5.511	3.000	<.0001	<.0001
High Tech	0.294	0.000	0.366	0.000	0.230	0.000	<.0001	<.0001
Institutional Ownership	0.554	0.654	0.572	0.673	0.539	0.636	<.0001	0.0004

Panel B: Deal Characteristics

	Full Sample (N=11,098) (1)		Specialized M&A staff (N=5,215) (2)		No Specialized M&A staff (N=5,883) (3)		Differences (2)-(3)	
Variable	Mean	Median	Mean	Median	Mean	Median	p-value of Mean	p-value of Median
Relative Size	0.163	0.050	0.139	0.039	0.184	0.057	<.0001	<.0001
Public	0.164	-	0.185	-	0.145	-	<.0001	
Private	0.490	-	0.482	-	0.497	-	0.1117	
Subsidiary	0.346	-	0.333	-	0.358	-	0.0058	
Hostile Takeover	0.002	-	0.002	-	0.002	-	0.7027	
Diversifying	0.479	-	0.433	-	0.520	1.000	<.0001	<.0001
All-Cash	0.358	-	0.405	-	0.315	-	<.0001	
Payment-Includes Stock	0.216	-	0.220	-	0.212	-	<.0001	
No of Advisors	0.382	-	0.441	-	0.331	-	<.0001	
Top Tier Advisor	0.257	-	0.319	-	0.201	-	0.3658	

Table 3. Specialized M&A Staff and Acquisition Announcement Returns

This table presents market model adjusted cumulative abnormal returns (CARs) over [-2, +2] event window surrounding the M&A announcement dates where the parameters of the market model are estimated using CRSP value-weighted index over [-240, -41] days relative to the acquisition announcement date. Panel A presents the CARs for the full sample, Panel B presents CARs based on Target Status (Public, Private, and Subsidiary), and Panel C shows CARs based on mode of payment (no stock vs. with some stock financing). In Panel D, we split the subsamples in Panel B by the mode of payment. Specialized M&A staff equals one if a firm has at least one corporate development manager, zero otherwise. Information on corporate development managers is from *Boardex of Management Diagnostic Limited Individual* with supplementary data from *LinkedIn.com*, *Bloomberg*, *Reuters*, and *Marquis Who's Who* databases. The M&A sample is drawn from the *Thomson One Platinum Securities Data Company* M&A database (SDC) and includes a sample of U.S. public, private, and subsidiary acquisitions announced over the period January 1, 2000, to December 31, 2017. We require M&As to be completed, the bidder to own less than 50% of the target six months prior to M&A announcement and control more than 50% of the target following the transaction, and the deal value to exceed $1 million and represent at least 1% of the acquirer's market capitalization on the 42nd trading day prior to the acquisition announcement date. Refer to the Appendix for a detailed description of variables.

Panel A: Full Sample

Year	Full Sample (N=11,098) (1)	Specialized M&A staff (N=5,215) (2)	No Specialized M&A staff (N=5,883) (3)	Difference (2)-(3)
% CAR [-2, +2]	0.28***	0.75***	-0.12	0.86***
p-value	(<.0001)	(<.0001)	(0.20)	(<.0001)

Panel B: Target Status

Public Targets

Year	Full Sample (N=1,820) (1)	Specialized M&A staff (N=966) (2)	No Specialized M&A staff (N=854) (3)	Difference (2)-(3)
% CAR [-2, +2]	-0.94***	-0.48**	-1.45***	0.97***
p-value	(<.0001)	(0.03)	(<.0001)	(0.00)

Private Targets

Year	Full Sample (N=5,439) (1)	Specialized M&A staff (N=2,514) (2)	No Specialized M&A staff (N=2,925) (3)	Difference (2)-(3)
% CAR [-2, +2]	0.44***	0.91***	0.03	0.87***
p-value	(<.0001)	(<.0001)	(0.78)	(<.0001)

Subsidiary Targets

Year	Full Sample (N=3,839) (1)	Specialized M&A staff (N=1,735) (2)	No Specialized M&A staff (N=2,104) (3)	Difference (2)-(3)
% CAR [-2, +2]	0.65***	1.19***	0.21	0.98***
p-value	(<.0001)	(<.0001)	(0.18)	(0.00)

Panel C: Mode of Payment

No Stock Payment

Year	Full Sample (N=8,703) (1)	Specialized M&A staff (N=4,070) (2)	No Specialized M&A staff (N=4,633) (3)	Difference (2)-(3)
% CAR [-2, +2]	0.36***	0.76***	0.01	0.76***
p-value	(<.0001)	(<.0001)	(0.94)	(<.0001)

With Stock Payment

Year	Full Sample (N=2,395) (1)	Specialized M&A staff (N=1,145) (2)	No Specialized M&A staff (N=1,250) (3)	Difference (2)-(3)
% CAR [-2, +2]	0.02	0.67**	-0.56*	1.25***
p-value	(0.90)	(0.02)	(-0.07)	(0.00)

Panel D: Mode of Payment and Target Status

No Stock Payment

Public Target

Year	Full Sample (N=979) (1)	Specialized M&A staff (N=571) (2)	No Specialized M&A staff (N=408) (3)	Difference (2)-(3)
% CAR [-2, +2]	0.17	0.41*	-0.15	0.57
p-value	(0.32)	(0.07)	(0.57)	(0.11)

Private Target

Year	Full Sample (N=4,286) (1)	Specialized M&A staff (N=1,950) (2)	No Specialized M&A staff (N=2,336) (3)	Difference (2)-(3)
% CAR [-2, +2]	0.30***	0.76***	-0.01	0.84***
p-value	(0.00)	0.0001	0.874	<.0001

Subsidiary Target

Year	Full Sample (N=3,438) (1)	Specialized M&A staff (N=1,549) (2)	No Specialized M&A staff (N=1,889) (3)	Difference (2)-(3)
% CAR [-2, +2]	0.48***	0.90***	0.15	0.75***
p-value	(0.00)	(0.00)	(0.35)	(0.00)

With Stock Payment

Public Target

Year	Full Sample (N=841) (1)	Specialized M&A staff (N=395) (2)	No Specialized M&A staff (N=446) (3)	Difference (2)-(3)
% CAR [-2, +2]	-2.24***	-1.78***	-2.64***	0.86
p-value	(<.0001)	(<.0001)	(<.0001)	(0.13)

Private Target

Year	Full Sample (N=1,153) (1)	Specialized M&A staff (N=564) (2)	No Specialized M&A staff (N=589) (3)	Difference (2)-(3)
% CAR [-2, +2]	0.95***	1.41***	0.50	0.91
p-value	(0.00)	(0.00)	(0.34)	(0.18)

Subsidiary Target

Year	Full Sample (N=401) (1)	Specialized M&A staff (N=186) (2)	No Specialized M&A staff (N=215) (3)	Difference (2)-(3)
% CAR [-2, +2]	2.12***	3.65***	0.79	2.86**
p-value	(0.00)	(0.00)	(0.26)	(0.01)

Table 4. Specialized M&A Staff and Acquisition Announcement Returns

This table presents ordinary least squares (OLS) regression analyses of cumulative abnormal returns (CARs) on Specialized M&A staff, acquirer-, and deal-specific characteristics. The dependent variable is market model adjusted CARs over the [-2, +2] event window surrounding the M&A announcement date where the parameters of the market model are estimated using CRSP value-weighted index over [-240, -41] days relative to the M&A announcement. Specialized M&A staff equals one if a firm has at least one corporate development manager, zero otherwise. Information on corporate development managers is from *Boardex of Management Diagnostic Limited Individual* with supplementary data from *LinkedIn.com*, *Bloomberg*, *Reuters*, and *Marquis Who's Who* databases. The M&A sample is drawn from the *Thomson One Platinum Securities Data Company* M&A database (SDC) and includes a sample of U.S. public, private, and subsidiary acquisitions announced over the period January 1, 2000, to December 31, 2017. We require M&As to be completed, the bidder to own less than 50% of the target six months prior to M&A announcement and control more than 50% of the target following the transaction, and the deal value to exceed $1 million and represent at least 1% of the acquirer's market capitalization on the 42nd trading day prior to the acquisition announcement date. Refer to the Appendix for a detailed description of variables. *T*-statistics are in parentheses. Industry and year fixed effects are included. *, **, and *** indicate statistical significance at 10%, 5%, and 1%, respectively.

	(1)	(2)	(3)	(4)
Specialized M&A Staff	1.312***	1.312***	1.119***	1.124***
	(7.903)	(7.366)	(5.557)	(5.573)
Stock Price Runup	-0.367*	-0.442**	-0.736***	-0.731***
	(-1.774)	(-1.994)	(-2.821)	(-2.801)
Sigma	-23.002	-21.472*	-15.099	-15.285
	(-1.578)	(-1.656)	(-1.111)	(-1.123)
Ln (Acquirer Size)	-0.298***	-0.254***	-0.287***	-0.368***
	(-3.277)	(-2.637)	(-3.590)	(-3.576)
Relative Size	2.496*	2.724*	1.464*	1.441*
	(1.887)	(1.934)	(1.873)	(1.840)
Private	1.776***	1.943***	1.667***	1.654***
	(5.977)	(6.229)	(5.575)	(5.518)
Subsidiary	1.865***	1.967***	1.896***	1.884***
	(6.955)	(7.021)	(6.306)	(6.244)
Hostile	-0.253	0.541	1.701	1.671
	(-0.188)	(0.407)	(1.204)	(1.192)
Book Leverage	1.069*	1.145*	1.287**	1.250**
	(1.912)	(1.881)	(2.079)	(2.006)
Tobin's Q	-0.023	-0.040	0.027	0.029
	(-0.513)	(-0.840)	(0.438)	(0.469)
ROA	-0.985	-1.004	1.546	1.558
	(-0.633)	(-0.632)	(0.828)	(0.834)
Book-to-Market	0.018	0.022	-0.270	-0.273
	(0.080)	(0.094)	(-1.016)	(-1.025)
Cash Flows-to-Equity	0.129	0.297	0.240	0.254
	(0.357)	(0.749)	(0.433)	(0.460)
Top tier Advisor	0.144	0.092	0.444*	0.443*
	(0.505)	(0.305)	(1.684)	(1.678)
No of Advisors	-0.178	-0.242	-0.166	-0.161
	(-0.948)	(-1.247)	(-0.869)	(-0.843)
Payment-All Cash	0.181	0.320*	0.058	0.064
	(1.099)	(1.828)	(0.303)	(0.332)
Payment-Includes Stock	-0.383	-0.344	-0.462	-0.455
	(-1.358)	(-1.157)	(-1.344)	(-1.321)

No of M&As (past 10 years)	0.008	0.006	0.012	0.013
	(1.056)	(0.725)	(0.960)	(1.052)
High Tech	0.140	0.153	0.068	0.071
	(0.684)	(0.706)	(0.297)	(0.310)
Diversifying	-0.207	-0.153	-0.471*	-0.471*
	(-1.153)	(-0.740)	(-1.828)	(-1.827)
Institutional Ownership	-0.519**	-0.421*	0.127	0.133
	(-2.244)	(-1.675)	(0.385)	(0.395)
Large Bidders (indicator)				0.318
				(0.977)
Ln (Acquirer Size-squared)				0.000
				(1.330)
Industry Fixed Effects	Y	N	N	N
Year Fixed Effects	Y	N	N	N
Industry-Year Fixed Effects	N	Y	Y	Y
CEO and Director Characteristics	N	N	Y	Y
R^2	4.50%	13.90%	17.28%	17.30%
N	9,906	9,906	7,034	7,034

Table 5. Specialized M&A Staff and Alternative Measures of Acquisition Performance

This table presents ordinary least squares (OLS) regression analyses of alternative measures of M&A performance on specialized M&A staff, acquirer and deal-specific characteristics across columns 1 and 11. In Column 1 (2), the dependent variable is market model adjusted CARs over the [-20, +2] ([-42, +2]) event window surrounding the M&A announcement where the parameters of the market model are estimated using CRSP value-weighted index over [-240, -41] days relative to the M&A announcement. In Column 3, we estimate a logistic regression where the dependent variable equals one if the acquirer makes a large loss M&A defined as a transaction for which shareholders of acquirers lost more than $500 million in 2017 dollars over the [-2, +2] event window surrounding acquisition announcement date, zero otherwise. In Columns 4, 5, and 6, the dependent variable is the DGTW buy-and-hold abnormal returns (BHAR) over the [-2, +Close], the [-2, +126], or the [-2, +256] event window surrounding the M&A announcements. In column 7, we estimate a logistic regression where the dependent variable is a binary indicator that equals one if the acquirer makes a divestiture in the same two-digit SIC industry as the target within three years following an acquisition's effective closing date, zero otherwise. In column 8, the dependent variable is the change in consensus analyst annual between six months preceding M&A announcement date and six months following the closing date. In Column 9, 10, and 11, the dependent variable is the changes in industry adjusted ROA for the acquiring firms from the pre-acquisition year (t-1) to one, two, and three years following the deal completion. Specialized M&A staff equals one if a firm has at least one corporate development manager, zero otherwise. Information on corporate development managers is from *Boardex of Management Diagnostic Limited Individual* with supplementary data from *LinkedIn.com*, *Bloomberg*, *Reuters*, and *Marquis Who's Who* databases. The M&A sample is drawn from the *Thomson One Platinum Securities Data Company* M&A database (SDC) and includes a sample of U.S. public, private, and subsidiary acquisitions announced over the period January 1, 2000, to December 31, 2017. We require M&As to be completed, the bidder to own less than 50% of the target six months prior to M&A announcement and control more than 50% of the target following the transaction, and the deal value to exceed $1 million and represent at least 1% of the acquirer's market capitalization on the 42nd trading day prior to the acquisition announcement date. Refer to the Appendix for a detailed description of variables. *T*-statistics are in parentheses. Industry and year fixed effects are included. *, **, and *** indicate statistical significance at 10%, 5%, and 1%, respectively.

	CAR [-20, +2]	CAR [-42, +2)]	Large Loss Acquisition	DGTW BHAR [-2, Close]	DGTW BHAR [-2,+126]	DGTW BHAR [-2, +252]	Divestment	Δ in Consensus Analyst EPS forecast	Change in Industry Adjusted ROA [-1, +1]	Change in Industry Adjusted ROA [-1, +2]	Change in Industry Adjusted ROA [-1, +3]
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Specialized M&A Staff	1.469***	1.659***	-11.040**	1.845***	4.458***	4.756***	-188.260***	2.349***	1.692***	1.609***	1.423**
	(4.715)	(3.753)	(-2.253)	(4.483)	(6.081)	(4.185)	(-16.719)	(3.277)	(3.287)	(4.015)	(2.348)
Bidder Characteristics	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Deal Characteristics	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Industry-Year Fixed Effects	**Y**	**Y**	Y	Y	Y	Y	Y	Y	Y	Y	Y
R^2	15.98%	21.94%	13.80%	14.14%	17.55%	18.80%	56.99%	20.45%	11.52%	19.40%	17.62%
N	9,906	9,906	9,906	8,975	8,996	9,017	9,906	7,456	9,906	8,141	7,615

Table 6. Specialized M&A Staff and Acquisition Announcement Returns: Non-Random Matching between Specialized M&A Staff and Acquirers

This table presents ordinary least squares (OLS) regression analyses of cumulative abnormal returns (CARs) on Specialized M&A staff, acquirer, and deal-specific characteristics. The dependent variable is market model adjusted CARs over the [-2, +2] event window surrounding the M&A announcement date where the parameters of the market model are estimated using CRSP value-weighted index over [-240, -41] days relative to the M&A announcement. In Panel A, we present a number of identification tests. In model 1(2), we *remove* transactions for which the acquiring firm's specialized M&A staff is put in place within three (five) years before an acquisition. Model 3 differentiates between in-wave and out-of-wave acquisitions. Model 4 focuses on a subsample of frequent acquirers with and without specialized M&A staff and includes firm fixed effects. Model 5 (6) compares firms with specialized M&A staff to firms that have a similar propensity of having specialized staff (also with similar acquisition likelihoods). Model 7 presents falsification tests where falsified product development staff replaces Specialized M&A staff as our main independent variable of interest. In Panel B, we test the relationship between Specialized M&A staff and acquisition returns with instrumental variable analyses in a two-stage framework. In the first-stage regression, our dependent variable equals one if a firm employs Specialized M&A staff, zero otherwise and the staggered recognition of the inevitable disclosure doctrine (*IDD*) by US state courts serves as our instrument. In the second-stage regression, we replace Specialized M&A staff with its predicted value from the first-stage regression (*Specialized M&A staff (predicted)*) where the dependent variable is market model adjusted CARs over the [-2, +2] event window. Specialized M&A staff equals one if a firm has at least one corporate development manager, zero otherwise. Information on corporate development managers is from *Boardex of Management Diagnostic Limited Individual* with supplementary data from *LinkedIn.com*, *Bloomberg*, *Reuters*, and *Marquis Who's Who* databases. The M&A sample is drawn from the *Thomson One Platinum Securities Data Company* M&A database (SDC) and includes a sample of U.S. public, private, and subsidiary acquisitions announced over the period January 1, 2000, to December 31, 2017. We require M&As to be completed, the bidder to own less than 50% of the target six months prior to M&A announcement and control more than 50% of the target following the transaction, and the deal value to exceed $1 million and represent at least 1% of the acquirer's market capitalization on the 42nd trading day prior to the acquisition announcement date. Refer to the Appendix for a detailed description of variables. *T*-statistics are in parentheses. Industry and year fixed effects are included. *, **, and *** indicate statistical significance at 10%, 5%, and 1%, respectively.

Panel A: Identification

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Specialized M&A Staff (eliminate <=3 years)	1.398***						
	(6.607)						
Specialized M&A Staff (eliminate <=5 years)		1.264***					
		(4.941)					
Specialized M&A Staff (during M&A Wave)			1.316***				
			(3.988)				
Specialized M&A Staff (outside M&A Wave)			1.311***				
			(7.049)				
Specialized M&A Staff (with firm fixed effects)				1.091***			
				(4.965)			
Specialized M&A Staff (Propensity Score match)					1.089***		
					(7.414)		
Specialized M&A Staff (Propensity Score with Acquisition Propensity)						1.221***	

						(8.091)	
Specialized Product Staff (Falsification)							-0.147
							(-0.169)
Firm Controls	Y	Y	Y	Y	Y	Y	Y
Deal Specific Controls	Y	Y	Y	Y	Y	Y	Y
Industry-Year Fixed Effects	Y	Y	Y	N	Y	Y	Y
Industry Fixed Effects	N	N	N	N	N	N	N
Year Fixed Effects	N	N	N	Y	N	N	N
Firm Fixed Effect	N	N	N	Y	N	N	N
R^2	15.81%	17.57%	13.90%	25.90%	15.13%	14.50%	13.90%
N	7,634	6,537	9,906	5,048	9,578	8,570	9,906

Panel B: Instrumental Variable Analyses: Two Stage Least Squares

	First Stage Regression Specialized M&A Staff	Second Stage Regression CAR [-2, +2]
Inevitable disclosure doctrine	17.348***	
	(16.675)	
Specialized M&A Staff (predicted)		2.221**
		(2.252)
Firm Controls	Y	Y
Deal Specific Controls	Y	Y
Industry-Year Fixed Effects	Y	Y
R^2	26.99%	13.40%
N	9,906	9,906

Table 7. Specialized M&A Staff and Acquisition Announcement Returns: Cross-Sectional Analyses

This table presents ordinary least squares (OLS) regression analyses of cumulative abnormal returns (CARs) on specialized M&A staff, acquirer-, and deal-specific characteristics. The dependent variable is market model adjusted CARs over the [-2, +2] event window surrounding the M&A announcement date where the parameters of the market model are estimated using CRSP value-weighted index over [-240, -41] days relative to the M&A announcement. Specialized M&A staff equals one if a firm has at least one corporate development manager, zero otherwise. Information on corporate development managers is from *Boardex of Management Diagnostic Limited Individual* with supplementary data from *LinkedIn.com*, *Bloomberg*, *Reuters*, and *Marquis Who's Who* databases. The M&A sample is drawn from the *Thomson One Platinum Securities Data Company* M&A database (SDC) and includes a sample of U.S. public, private, and subsidiary acquisitions announced over the period January 1, 2000, to December 31, 2017. We require M&As to be completed, the bidder to own less than 50% of the target six months prior to M&A announcement and control more than 50% of the target following the transaction, and the deal value to exceed $1 million and represent at least 1% of the acquirer's market capitalization on the 42nd trading day prior to the acquisition announcement date. Refer to the Appendix for a detailed description of variables. *T*-statistics are in parentheses. Industry and year fixed effects are included. *, **, and *** indicate statistical significance at 10%, 5%, and 1%, respectively.

Panel A. Specialized M&A Staff Characteristics

	(1)	(2)	(3)
Specialized M&A Staff	0.938***	1.069***	1.120***
	(4.264)	(4.945)	(5.644)
Corporate Development Manager - High Firm experience	0.872***		
	(3.752)		
Corporate Development Manager- High Employment experience		0.522**	
		(2.353)	
No of Corporate Development Managers			0.124**
			(2.005)
Firm specific Controls	Y	Y	Y
Deal specific Controls	Y	Y	Y
Industry-Year Fixed Effects	Y	Y	Y
R^2	14.03%	13.95%	13.94%
N	9,906	9,906	9,906

Panel B: Specialized M&A Staff and CEO Characteristics

	(1)	(2)
Specialized M&A Staff	1.34***	1.21***
	(4.88)	(4.58)
*Specialized M&A Staff * Powerful CEO: Pay>100% Closest Executive*	-1.05***	
	(-2.81)	
Powerful CEO: Pay>100% Closest Executive	0.34	
	(1.15)	
*Specialized M&A Staff * Overconfident CEO*		-0.87**
		(-2.34)
Overconfident CEO		-0.88***
		(-2.90)
Specialized M&A Staff + Interaction	0.292	0.349
	(1.044)	(1.280)
Firm specific Controls	Y	Y

Deal specific Controls	Y	Y
Industry-Year Fixed Effects	Y	Y
R^2	18.23%	19.20%
N	5681	5923

Panel C: Specialized M&A Staff and Agency costs of managerial discretion

	(1)	(2)	(3)
Specialized M&A Staff	1.18***	0.894***	1.655***
	(4.36)	(4.521)	(7.830)
*Specialized M&A Staff * Chairman & President*	-0.78**		
	(-2.09)		
Chairman & President	-0.09		
	(-0.29)		
*Specialized M&A Staff * Dual-Class*		-1.571**	
		(-2.203)	
Dual-Class		-0.199	
		(-0.371)	
*Specialized M&A Staff * Firm without independent board*			-1.123**
			(-2.428)
Firm without independent board			-0.320
			(-0.874)
Specialized M&A Staff + Interaction	0.400	-0.676	0.532
	(1.407)	(-0.972)	(1.234)
Firm specific Controls	Y	Y	Y
Deal specific Controls	Y	Y	Y
Industry-Year Fixed Effects	Y	Y	Y
R^2	18.27%	21.52%	21.79%
N	5681	5,303	4,861

Table 8 Specialized M&A Staff and Synergies with the Target: Combined Announcement Returns and Change in Combined Firm's Operating Performance

This table test the association between Specialized M&A Staff and identifying targets with higher synergies with the acquirer. Columns 1 through 4 presents the estimates from ordinary least squares (OLS) regression analyses of transaction synergies on *Specialized M&A Staff*, acquirer-, and deal-specific characteristics. In column 1, the dependent variable equals the value-weighted combined cumulative abnormal returns (CARs) of the acquirer and the target firm over the [-2,+2] event window relative to the acquisition announcement date where the parameters of the market model are estimated using CRSP value-weighted index over [-240, -41] days relative to the M&A announcement. In columns 2, 3, and 4, the dependent variable is the changes in the combined firm's industry adjusted ROA from the pre-acquisition year (t-1) to one, two, and three years following the deal completion. Specialized M&A staff equals one if a firm has at least one corporate development manager, zero otherwise. Information on corporate development managers is from *Boardex of Management Diagnostic Limited Individual* with supplementary data from *LinkedIn.com*, *Bloomberg*, *Reuters*, and *Marquis Who's Who* databases. The M&A sample is drawn from the *Thomson One Platinum Securities Data Company* M&A database (SDC) and includes a sample of U.S. public, private, and subsidiary acquisitions announced over the period January 1, 2000, to December 31, 2017. We require M&As to be completed, the bidder to own less than 50% of the target six months prior to M&A announcement and control more than 50% of the target following the transaction, and the deal value to exceed $1 million and represent at least 1% of the acquirer's market capitalization on the 42nd trading day prior to the acquisition announcement date. Refer to the Appendix for a detailed description of variables. *T*-statistics are in parentheses. Industry and year fixed effects are included. *, **, and *** indicate statistical significance at 10%, 5%, and 1%, respectively.

	Synergy Gain: Acquirer & Target combined CARs [-2,+2] (1)	Change in Combined Firm's Industry-adjusted ROA [-1,+1] (2)	Change in Combined Firm's Industry-adjusted ROA [-1,+2] (3)	Change in Combined Firm's Industry-adjusted ROA [-1,+3] (4)
Specialized M&A Staff	1.461***	4.131***	3.239***	2.602**
	(2.686)	(2.613)	(3.074)	(2.168)
Stock Price Runup	-0.156	-5.171	-1.960	-1.191
	(-0.225)	(-1.385)	(-1.343)	(-1.020)
Sigma	70.879	-160.875	88.243	153.303*
	(1.471)	(-1.338)	(1.049)	(1.784)
Ln (Acquirer Size)	-0.171	-1.104*	-0.426	-0.035
	(-0.784)	(-1.747)	(-1.092)	(-0.088)
Relative Size	2.656***	-2.207	-3.366**	-3.398**
	(2.998)	(-1.495)	(-2.232)	(-2.166)
Hostile	0.753	2.344	-2.469	4.434
	(0.448)	(0.586)	(-1.225)	(0.813)
Book Leverage	2.142	1.749	3.619	3.663
	(1.273)	(0.378)	(1.095)	(1.080)
Tobin's Q	-0.184	-0.768	-0.219	0.084
	(-0.936)	(-1.117)	(-0.687)	(0.268)
ROA	2.866	-0.574	-30.774***	-34.189***
	(1.077)	(-0.060)	(-3.843)	(-2.993)
Book-to-Market	1.031	-1.793	-0.420	0.180
	(1.480)	(-1.285)	(-0.445)	(0.168)
Cash Flows-to-Equity	-0.693	-21.423***	-13.103**	-16.832***
	(-0.316)	(-3.659)	(-2.304)	(-5.112)

Top tier Advisor	0.626	-0.515	1.303	0.848
	(1.001)	(-0.304)	(1.174)	(0.748)
No of Advisors	0.218	-0.926	-0.723	-0.250
	(0.648)	(-1.284)	(-1.367)	(-0.469)
Payment-All Cash	-0.022	-0.977	1.693	-0.345
	(-0.031)	(-0.606)	(1.037)	(-0.228)
Payment-Includes Stock	-2.133**	-0.977	1.503	-0.201
	(-2.522)	(-0.575)	(0.941)	(-0.143)
No of M&As (past 10 years)	-0.002	-0.006	0.007	0.024
	(-0.077)	(-0.091)	(0.130)	(0.487)
High Tech	-0.388	-0.682	-0.571	-0.512
	(-0.483)	(-0.358)	(-0.489)	(-0.394)
Diversifying	-0.648	0.323	-1.199	-1.110
	(-1.161)	(0.216)	(-1.251)	(-1.059)
Institutional Ownership	0.570	-0.264	0.194	-0.454
	(0.773)	(-0.142)	(0.127)	(-0.278)
Industry-Year Fixed Effects	Y	Y	Y	Y
R^2	35.90%	37.85%	52.28%	52.72%
N	1,500	1,081	1,011	1,008

Table 9. Specialized M&A staff and Value Capture from Target: Takeover Premiums and Bidder's Share of Combined Synergies

This table presents ordinary least squares (OLS) regression analyses of specialized M&A staff and value capture from target firms. In Column 1 (2), the dependent variable equals the takeover premium calculated as the difference between the price paid per share and target firm's stock price 63 (105) trading days prior to M&A announcement. InColumn 3, the dependent variable is defined as the percentage difference between the multiple of acquisition of interest and the average multiple for the portfolio of comparable industry-matched transactions. In Column 4, the dependent variable is the bidder's share of total wealth gain (*Bidder's Share of Total Gain*) and calculated as the total abnormal dollar gain to bidder shareholders scaled by the total combined abnormal dollar gain to the shareholders of the bidder and target firms over the [-2, +2] event window relative to deal announcement date where the parameters of the market model are estimated using CRSP value-weighted index over [-240, -41] days relative to the M&A announcement. Specialized M&A staff equals one if a firm has at least one corporate development manager, zero otherwise. Information on corporate development managers is from *Boardex of Management Diagnostic Limited Individual* with supplementary data from *LinkedIn.com*, *Bloomberg*, *Reuters*, and *Marquis Who's Who* databases. M&A sample is drawn from the *Thomson One Platinum Securities Data Company* M&A database (SDC) and includes a sample of U.S. public, private, and subsidiary acquisitions announced over the period January 1, 2000, to December 31, 2017. We require M&As to be completed, the bidder to own less than 50% of the target six months prior to M&A announcement and control more than 50% of the target following the transaction, and the deal value to exceed $1 million and represent at least 1% of the acquirer's market capitalization on the 42nd trading day prior to the acquisition announcement date. Refer to the Appendix for a detailed description of variables. *T*-statistics are in parentheses. Industry and year fixed effects are included. *, **, and *** indicate statistical significance at 10%, 5%, and 1%, respectively.

	M&A Premium (Target's Price at day -63)	M&A Premium (Target's Price at day -105)	M&A Premium (Deal Multiple: P/S)	Buyer's Share of Synergy Gains (CARs: [-2, +2])
Specialized M&A staff	8.030	7.264	-4.889	-39.546
	(1.158)	(1.007)	(-0.798)	(-0.440)
Stock Price Runup	8.937	23.991**	7.853	-27.392
	(1.552)	(2.496)	(1.558)	(-0.686)
Sigma	-919.445**	-1138.703***	-278.265	2936.735
	(-2.396)	(-3.163)	(-0.997)	(1.379)
Ln (Acquirer Size)	-2.573	-0.176	2.569	-19.642
	(-1.034)	(-0.060)	(0.863)	(-0.962)
Relative Size	-6.188	-1.449	-9.316	-1.770
	(-1.105)	(-0.202)	(-0.992)	(-0.018)
Private	6.927	22.063		103.529
	(0.330)	(1.012)		(0.669)
Subsidiary	1.945	-12.410		219.205**
	(0.171)	(-0.450)		(2.443)
Hostile	-34.861	-41.987*		161.163*
	(-1.226)	(-1.864)		(1.659)
Book Leverage	-18.684	-38.770**	12.434	13.303
	(-1.373)	(-2.077)	(0.710)	(0.138)
Tobin's Q	-0.838	0.033	4.164*	-2.708
	(-0.686)	(0.011)	(1.675)	(-0.353)

ROA	-19.194	-13.374	-6.354	181.726
	(-0.820)	(-0.474)	(-0.252)	(1.251)
Book-to-Market	-8.130	-5.290	-0.156	-48.497
	(-1.423)	(-0.840)	(-0.025)	(-0.983)
Cash Flows-to-Equity	5.407	3.989	-4.953	55.634
	(0.457)	(0.424)	(-0.249)	(1.050)
Top tier Advisor	-4.699	-8.648	-3.385	120.865
	(-0.609)	(-1.050)	(-0.413)	(1.519)
No of Advisors	-1.426	-3.030	-3.445	-52.893
	(-0.436)	(-0.855)	(-0.639)	(-1.541)
Payment-All Cash	-19.598	-38.236	-3.881	121.618
	(-0.644)	(-1.521)	(-0.563)	(1.325)
Payment-Includes Stock	-31.935	-40.737*	3.396	-82.437
	(-1.132)	(-1.752)	(0.408)	(-0.839)
No of M&As (past 10 years)	-0.583**	-0.665**	0.246	-0.108
	(-2.238)	(-2.159)	(0.308)	(-0.020)
High Tech	2.992	3.439	21.509***	179.661
	(0.471)	(0.475)	(3.146)	(1.106)
Diversifying	-11.171*	-7.252	-1.908	-38.973
	(-1.892)	(-1.309)	(-0.300)	(-0.388)
Institutional Ownership	-0.972	-7.237	-0.677	-31.565
	(-0.127)	(-0.725)	(-0.069)	(-0.250)
Industry-Year Fixed Effects	Y	Y	Y	Y
R^2	27.45%	35.83%	41.30%	23.27%
N	1,359	1,350	1,002	1,500

Table 10 Specialized M&A staff and Transaction Costs: Use of External Advisors and Advisory Fees

This table presents ordinary least squares (OLS) regression analyses of specialized M&A staff and transaction costs. In column 1, the dependent variable equals the number of investment banks retained for a transaction by the acquirer. In column 2, the dependent variable is the total advisory fees paid by the acquirer scaled by the dollar transaction value. Specialized M&A staff equals one if a firm has at least one corporate development manager, zero otherwise. Information on corporate development managers is from *Boardex of Management Diagnostic Limited Individual* with supplementary data from *LinkedIn.com*, *Bloomberg*, *Reuters*, and *Marquis Who's Who* databases. The M&A sample is drawn from the *Thomson One Platinum Securities Data Company* M&A database (SDC) and includes a sample of U.S. public, private, and subsidiary acquisitions announced over the period January 1, 2000, to December 31, 2017. We require M&As to be completed, the bidder to own less than 50% of the target six months prior to M&A announcement and control more than 50% of the target following the transaction, and the deal value to exceed $1 million and represent at least 1% of the acquirer's market capitalization on the 42nd trading day prior to the acquisition announcement date. Refer to the Appendix for a detailed description of variables. *T*-statistics are in parentheses. Industry and year fixed effects are included. *, **, and *** indicate statistical significance at 10%, 5%, and 1%, respectively.

	No of External Advisors (1)	Advisory Fees as of Deal Value (2)
Specialized M&A staff	1.795	-0.389**
	(1.348)	(-2.025)
Stock Price Runup	0.102	-0.187
	(0.096)	(-1.200)
Sigma	-175.610*	10.272
	(-1.841)	(0.435)
Ln (Acquirer Size)	6.293***	-0.353***
	(11.253)	(-3.840)
Relative Size	56.705***	-1.653***
	(14.563)	(-3.383)
Private	-42.415***	-0.068
	(-19.139)	(-0.094)
Subsidiary	-34.385***	-0.624
	(-14.690)	(-1.004)
Hostile	10.566	-0.500
	(0.582)	(-0.910)
Book Leverage	0.471	0.791
	(0.126)	(0.815)
Tobin's Q	-1.094***	-0.003
	(-4.468)	(-0.113)
ROA	0.086	0.765
	(0.016)	(0.218)
Book-to-Market	-5.740***	1.374*
	(-4.094)	(1.751)
Cash Flows-to-Equity	1.959	-8.280**
	(0.895)	(-1.983)
Top tier Advisor		0.601**
		(2.215)
No of Advisors		0.112
		(0.927)
Payment-All Cash	9.220***	-0.358
	(6.695)	(-1.202)
Payment-Includes Stock	26.743***	-0.406
	(13.332)	(-1.270)

No of M&As (past 10 years)	-0.663***	0.007
	(-8.581)	(0.448)
High Tech	1.259	-0.241
	(0.779)	(-0.859)
Diversifying	-0.409	0.131
	(-0.306)	(0.539)
Institutional Ownership	2.863	0.128
	(1.413)	(0.339)
Log (Deal Value)		-0.435**
		(-2.418)
Industry-Year Fixed Effects	Y	Y
R2	37.45%	56.58%
N	9,906	1,012

Table 11 Why doesn't every firm employ Specialized M&A staff?

This table tests the relationship between the employment of specialized M&A staff and CEO/director characteristics through expanding the analyses of specialized M&A staff employment used in the first-stage regression of Panel B of Table 7. Our dependent variable equals one if a firm employs specialized M&A staff, zero otherwise. Specialized M&A staff equals one if a firm has at least one corporate development manager, zero otherwise. Information on corporate development managers is from *Boardex of Management Diagnostic Limited Individual* with supplementary data from *LinkedIn.com*, *Bloomberg*, *Reuters*, and *Marquis Who's Who* databases. The M&A sample is drawn from the *Thomson One Platinum Securities Data Company* M&A database (SDC) and includes a sample of U.S. public, private, and subsidiary acquisitions announced over the period January 1, 2000, to December 31, 2017. We require M&As to be completed, the bidder to own less than 50% of the target six months prior to M&A announcement and control more than 50% of the target following the transaction, and the deal value to exceed $1 million and represent at least 1% of the acquirer's market capitalization on the 42nd trading day prior to the acquisition announcement date. Refer to the Appendix for a detailed description of variables. *T*-statistics are in parentheses. Industry and year fixed effects are included. *, **, and *** indicate statistical significance at 10%, 5%, and 1%, respectively.

	Specialized M&A Staff
M&A to Total investment Ratio (past 10 years)	6.290***
	(4.152)
CEO with Experience in Target Firm's industry	-3.812**
	(-2.297)
CEO with Investment Banking Experience	-13.943***
	(-2.797)
CEO Industry Experience	-0.306***
	(-3.006)
CEO Busyness	1.582***
	(7.695)
% Directors with Experience in Target industry	-4.552**
	(-2.262)
% Directors with Investment Banking Experience	-82.260***
	(-4.961)
Average Director Industry Experience	-0.465**
	(-2.547)
Average Director Busyness	2.576***
	(4.765)
Firm Controls	Y
Deal Specific Controls	Y
Industry-Year Fixed Effects	Y
R2	41.96%
N	7,029

Appendix Table 1. Specialized M&A staff and Acquisition Announcement Returns: Alternative Event Window

This table presents ordinary least squares (OLS) regression analyses of cumulative abnormal returns (CARs) on specialized M&A staff, acquirer-, and deal-specific characteristics. The dependent variable is market model adjusted CARs over the [-1, +1] event window surrounding the M&A announcement date where the parameters of the market model are estimated using CRSP value-weighted index over [-240, -41] days relative to the acquisition announcement. Specialized M&A staff equals one if a firm has at least one corporate development manager, zero otherwise. Information on corporate development managers is from *Boardex of Management Diagnostic Limited Individual* with supplementary data from *LinkedIn.com*, *Bloomberg*, *Reuters*, and *Marquis Who's Who* databases. The M&A sample is drawn from the *Thomson One Platinum Securities Data Company* M&A database (SDC) and includes a sample of U.S. public, private, and subsidiary acquisitions announced over the period January 1, 2000, to December 31, 2017. We require M&As to be completed, the bidder to own less than 50% of the target six months prior to M&A announcement and control more than 50% of the target following the transaction, and the deal value to exceed $1 million and represent at least 1% of the acquirer's market capitalization on the 42nd trading day prior to the acquisition announcement date. Refer to the Appendix for a detailed description of variables. *T*-statistics are in parentheses. Industry and year fixed effects are included. *, **, and *** indicate statistical significance at 10%, 5%, and 1%, respectively.

	(1)	(2)	(3)	(4)
Specialized M&A staff	0.631***	0.654***	0.602***	0.607***
	(5.077)	(4.767)	(3.976)	(4.003)
Stock Price Runup	0.360**	0.218	0.147	0.150
	(2.028)	(1.136)	(0.555)	(0.566)
Sigma	9.677	12.159	30.840*	30.922*
	(0.799)	(0.951)	(1.716)	(1.720)
Ln (Acquirer Size)	-0.121	-0.097	-0.052	-0.133
	(-1.413)	(-1.005)	(-0.701)	(-1.586)
Relative Size	2.006	2.134	1.103*	1.085*
	(1.459)	(1.439)	(1.850)	(1.819)
Private	1.333***	1.403***	1.293***	1.280***
	(4.991)	(5.066)	(5.613)	(5.560)
Subsidiary	1.341***	1.349***	1.367***	1.353***
	(6.340)	(6.400)	(6.182)	(6.117)
Hostile	0.326	0.831	1.472	1.429
	(0.298)	(0.696)	(1.163)	(1.144)
Book Leverage	0.484	0.366	0.438	0.377
	(1.050)	(0.697)	(0.917)	(0.783)
Tobin's Q	0.014	-0.001	-0.017	-0.015
	(0.396)	(-0.029)	(-0.294)	(-0.272)
ROA	-0.796	-0.930	1.686*	1.716*
	(-0.591)	(-0.672)	(1.664)	(1.691)
Book-to-Market	-0.151	-0.247	-0.297	-0.297
	(-0.876)	(-1.351)	(-1.391)	(-1.391)
Cash Flows-to-Equity	0.342	0.407	0.651**	0.662**
	(1.288)	(1.423)	(2.169)	(2.229)
Top tier Advisor	-0.107	-0.116	0.074	0.069
	(-0.422)	(-0.435)	(0.388)	(0.360)
No of Advisors	-0.068	-0.099	-0.106	-0.103
	(-0.425)	(-0.590)	(-0.771)	(-0.755)
Payment-All Cash	0.065	0.114	-0.029	-0.024
	(0.509)	(0.847)	(-0.200)	(-0.163)
Payment-Includes Stock	-0.438*	-0.492**	-0.381	-0.372
	(-1.929)	(-2.016)	(-1.531)	(-1.493)

No of M&As (past 10 years)	0.007	0.007	0.007	0.009
	(1.250)	(1.053)	(0.755)	(0.884)
High Tech	0.274*	0.267	0.152	0.157
	(1.737)	(1.564)	(0.860)	(0.891)
Diversifying	-0.134	-0.085	-0.177	-0.175
	(-0.913)	(-0.485)	(-0.918)	(-0.903)
Institutional Ownership	-0.293	-0.285	-0.056	-0.075
	(-1.644)	(-1.462)	(-0.220)	(-0.295)
Large Bidders (indicator)				0.371
				(1.516)
Ln (Acquirer Size-squared)				0.000
				(1.050)
Industry Fixed Effects	Y	N	N	N
Year Fixed Effects	Y	N	N	N
*Industry*Year Fixed Effects*	N	Y	Y	Y
CEO and Director Characteristics	N	N	Y	Y
R^2	3.80%	11.52%	15.98%	16.02%
N	9,906	9,906	7,034	7,034

Appendix Table 2. Specialized M&A staff and Acquisition Announcement Returns: Sample Splits

This table presents ordinary least squares (OLS) regression analyses of cumulative abnormal returns (CARs) on specialized M&A staff, acquirer-, and deal-specific characteristics. The dependent variable is market model adjusted CARs over the [-2, +2] event window surrounding the M&A announcement date where the parameters of the market model are estimated using CRSP value-weighted index over [-240, -41] days relative to the acquisition announcement. Specialized M&A staff equals one if a firm has at least one corporate development manager, zero otherwise. Information on corporate development managers is from *Boardex of Management Diagnostic Limited Individual* with supplementary data from *LinkedIn.com*, *Bloomberg*, *Reuters*, and *Marquis Who's Who* databases. The M&A sample is drawn from the *Thomson One Platinum Securities Data Company* M&A database (SDC) and includes a sample of U.S. public, private, and subsidiary acquisitions announced over the period January 1, 2000, to December 31, 2017. We require M&As to be completed, the bidder to own less than 50% of the target six months prior to M&A announcement and control more than 50% of the target following the transaction, and the deal value to exceed $1 million and represent at least 1% of the acquirer's market capitalization on the 42nd trading day prior to the acquisition announcement date. Refer to the Appendix for a detailed description of variables. *T*-statistics are in parentheses. Industry and year fixed effects are included. *, **, and *** indicate statistical significance at 10%, 5%, and 1%, respectively.

	2000-2008		2009-2017	
Specialized M&A staff	1.572***	1.478***	1.023***	1.097***
	(7.016)	(6.183)	(4.058)	(4.111)
Stock Price Runup	-0.246	-0.274	-0.619*	-0.893**
	(-1.017)	(-1.083)	(-1.694)	(-2.165)
Sigma	-8.853	-13.301	-51.601*	-42.113*
	(-0.566)	(-0.787)	(-1.829)	(-1.734)
Ln (Acquirer Size)	-0.314***	-0.328***	-0.336**	-0.237
	(-3.821)	(-3.701)	(-2.363)	(-1.546)
Relative Size	0.342	0.344	4.488*	4.932*
	(0.707)	(0.715)	(1.928)	(1.943)
Private	1.508***	1.521***	2.054***	2.314***
	(4.632)	(4.449)	(4.356)	(4.677)
Subsidiary	1.436***	1.408***	2.367***	2.438***
	(4.518)	(4.179)	(5.843)	(5.687)
Hostile	0.252	1.029	1.052	0.131
	(0.176)	(0.691)	(0.724)	(0.050)
Book Leverage	1.405**	1.704**	1.622**	1.023
	(2.052)	(2.358)	(1.988)	(1.147)
Tobin's Q	-0.049	-0.057	0.178	0.079
	(-1.053)	(-1.127)	(1.205)	(0.499)
ROA	1.852	1.661	-6.105**	-5.886*
	(1.357)	(1.143)	(-1.993)	(-1.864)
Book-to-Market	0.194	0.214	0.049	-0.123
	(0.762)	(0.805)	(0.120)	(-0.292)
Cash Flows-to-Equity	-0.027	0.042	0.783	1.363
	(-0.068)	(0.094)	(0.920)	(1.620)
Top tier Advisor	0.259	0.312	0.166	0.010
	(0.828)	(0.954)	(0.363)	(0.021)
No of Advisors	-0.073	-0.260	-0.172	-0.177
	(-0.329)	(-1.120)	(-0.651)	(-0.654)
Payment-All Cash	0.278	0.367	-0.027	0.065

	(1.284)	(1.601)	(-0.112)	(0.249)
Payment-Includes Stock	-0.225	-0.161	-0.770	-0.885
	(-0.695)	(-0.482)	(-1.435)	(-1.521)
No of M&As (past 10 years)	-0.001	0.003	0.027*	0.018
	(-0.074)	(0.333)	(1.919)	(1.124)
High Tech	0.222	0.326	-0.034	-0.120
	(0.769)	(1.071)	(-0.119)	(-0.397)
Diversifying	-0.343	-0.295	0.008	0.048
	(-1.586)	(-1.297)	(0.026)	(0.127)
Institutional Ownership	-0.796***	-0.723**	-0.219	-0.053
	(-2.727)	(-2.292)	(-0.563)	(-0.128)
Industry Fixed Effects	Y	N	N	N
Year Fixed Effects	Y	N	N	N
*Industry*Year Fixed Effects*	N	Y	N	Y
R^2	3.84%	11.50%	9.26%	18.88%
N	5,700	5,700	4,206	4,206

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