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Does the education and experience of CEO matter? Evidence from M&As initiated by the Russian companies

Abstract. This paper contributes to the present literature by examining the impact of CEO education and experience on M&A performance in Russia. The study is based on a sample of 172 M&A transactions over 2000–2021. We use the event study method to assess the performance of M&A deals and regression analysis to reveal the effects of CEO education and experience on M&A outcomes. CEO education is defined by three variables: financial or economic education; technical education; PhD or MBA status of CEO. CEO's experience is described by the variables, reflecting previous experience in M&A deals and his (her) industry experience in the target company's industry. Our results show that economic/financial education of CEO obtained during the Soviet Union has a negative impact on the performance of transactions, while technical education has a positive effect. Interesting positive results were obtained about the presence of an MBA and PhD level in the education of the CEO. Our results also show that the previous deal experience increases the deal performance, while the CEO experience in the target company's industry reduces it.

Keywords: *M&A deals, CEO personal characteristics, CEO education, CEO experience, event study, Russian market.*

JEL Classification: G4, G34, M12.

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1. Introduction

The Russian M&A market was growing steadily for more than 20 years since 2000. Despite this, not all the deals lead to an increase in the value of the acquiring company. One important theory that reveals the reasons for this phenomenon is the behavioral theory. This theory argues that instead of being rational, people often make decisions based on cognitive biases.

A separate strand in the behavioral finance literature is research aimed at examining the impact of CEO personal characteristics on their decisions in M&A transactions. This is due to the fact that CEO is the key decision-maker at all stages of the transaction.

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Among the various personal characteristics, experience and education are of particular interest because they directly affect the CEO's ability to make competent decisions in transactions. According to Q. Ying and S. He (Ying, He, 2020) in recent years, it became a strategic choice for more and more companies to hire people with relevant experience as CEO. The authors provided empirical evidence of the positive impact of economic education on M&A performance using a sample of Chinese A-share listed companies from 2008 to 2016. In the same year, Bhattacharya et al. (Bhattacharya, Kao, Li, 2020) conducted a study in the U.S. market and found that if Board members of a buyer company have experience in the industry in which the target company operates, it had a positive effect on the stock market reaction to deal announcements, regardless of the CEO's experience in the target's industry.

Academics and practitioners are interested in the impact of CEO education and experience on M&A performance but emphasize this question only for companies from some developed (US, Denmark) and emerging capital markets (China, Saudi Arabia) (Ying, He, 2020; Altuwaijri, Kalyanaraman, 2020; Field, Mkrtchyan, 2017; Bhattacharya, Kao, Li, 2020).

We believe that these results cannot be extrapolated to the Russian companies, since the vast majority of the Russian managers of the 2000–2020s were educated in the USSR. Education in the USSR had several important features, for example, greater prevalence of technical specialties and faculties in comparison with economic. Detailed systematic evidence on CEO education in Russian publicly traded companies are presented by A. Muravyev and A. Zakharova where authors show that almost all CEOs have higher education and the majority of them have multiple degrees. And that was also previously shown by (Ovanesova, Zotov, 2017). The first degree is usually in Engineering & Science. The second degree is, however, more likely to be in Business & Economics. The authors also show that PhD degrees are very common among CEOs of the Russian companies. In their research PhD includes Russian lower and upper doctorate degrees as well as foreign PhDs. In contrast to the prevalence of PhD degrees among CEOs, the share of CEOs with MBA degrees is quite low (Muravyev, Zakharova, 2022). These characteristics point to some specific features of Russian CEOs' education that need to be studied separately. Addressing an identified gap in the existing M&A literature, this paper has a potential to contribute to an understanding of the implications of educational characteristics that can impact CEO performance and M&A success for Russian acquiring companies. We also contribute to the existing literature by examining the impact of CEO's PhD (which includes Russian lower and upper doctorate degrees as well as foreign PhDs) and MBA degree on M&A outcomes and by analyzing both education and CEO's experience on M&A success.

The remainder of the paper is organized as follows. Section 2 provides the theoretical background of the studied question, discusses the features of Russian education, and presents the results of recent empirical research on the effect of CEO education and experience on M&A performance as well as gives the hypotheses. The methodology section describes the measure of M&A performance and variables used in the regression model and show the criteria for the sample selection procedure. Section 4 provides a discussion of the results, and the penultimate section shows the limitations of the research, and suggests the directions for future research. The last section concludes the paper.

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2. Theoretical framework, literature review and hypotheses development

2.1. Theoretical and conceptual framework

The opinion of top managers, including the CEO, when making important strategic decisions under high uncertainty is often decisive (Tushman, 1977; Finkelstein, Hambrick, 1996). The authors describe how the experience of the individual team member has a strong influence on the decisions made. Furthermore, the aforementioned researchers conclude that if the CEO has a high degree of competence, he or she is the one who has the most influence on the decision-making process.

In recent times, companies have become increasingly dependent on the CEO's policies, behavior and characteristics. Top managers hold entire corporations in their hands and their decisions can determine the fate not only of their own company, but also of competitors and the market as a whole. The personal characteristics and behavior of the CEO often determine the success of the company. Top managers influence the diverse aspects of a company's operations, issues related to the company's strategy, capital structure and payout policy, and investment decisions. Thus, the role of the CEO and his (her) characteristics will also play an important role in a company's corporate control activity and influence the performance of its M&A transactions.

According to the "upper echelon" theory proposed by (Hambrick, Mason, 1984), a number of observable personal characteristics of top managers, such as education, experience, age and career history, can be used as proxy variables to determine their managerial ability, which in turn affects the managers' decisions and firm performance. The theory of the "upper echelons" is based on the research of the Carnegie school in relation to the issues of bounded rationality and behavioral decision-making theory. This theory implies that the decision-making is influenced by the values, principles, and style of behavior of the executive director. D. Hambrick and F. Mason argue that managers usually act based on their personalized perception of the situations they face. And how they interpret a particular situation directly depends on the experience, values and personal qualities of the leader. There is empirical evidence that goes in this direction and documents the impact of the characteristics of the CEO on the company's performance. Of the personal characteristics of a CEO, researchers are particularly interested in the education of the CEO.

In 2017 it was found that graduating from highly ranked universities and having more qualifications does not guarantee that a CEO is able to improve firm performance significantly (Morresi, 2017), while later (Jaggia, Thosar, 2021) concluded that an elite education leads to higher market performance as measured by Tobin's "Q" coefficient. In a number of papers written by researchers from the USA, special attention is paid to the quality of the selection of applicants and the classification of "selective" universities. The authors proved that companies in which CEOs attended colleges and universities with a reputation for a more thorough approach to the selection of students demonstrate higher performance indicators (Chevalier, Elkison, 1999).

The researchers also attempted to discover the relationship between the degree of education received and operational efficiency. The authors (Bhagat, Bolton, Subramanian, 2010), analyzing data for the USA, concluded that there is a slight boost in operational performance measured by ROA and Tobin's "Q" when newly appointed

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CEOs had an MBA degree. And conversely: companies in which new CEOs had a non-business master's degree showed a slight decline in operating performance.

Proponents of the theory of resource dependence (Barney, 1991) argue that human capital is a competitive advantage that allows companies to increase performance. However, it is important that such human capital may be unique and scarce. According to (Barney, Arikan, 2001), given that the impact that top managers can have on a firm's strategy is outstanding. It follows that firms employing high-quality top managers are likely to outperform firms employing low-quality managers. The choice of highly qualified managers is strategically important and should be based on reasonable criteria, such as education or relevant experience. For example, experience in the relevant industry may be an indicator of an increase in the company's human capital, which will provide the company with a competitive advantage and lead to a significant increase in performance. The previous professional experience gives the CEO a clearer vision of the company's external environment, including its customers, suppliers and regulation in the legal environment (Anderson, Spataro, Flynn, 2008).

The CEO's experience makes possible to evaluate potential investment projects from the point of a compromise between risk and profitability (Orens, Reheu, 2013). CEOs with extensive professional experience are also more able to notice problems in the functioning of the company. It is important to indicate in which area the CEO had work experience: for example, CEO-lawyers have a broader vision of the legislative aspects of regulating their company's activities.

CEOs with business/finance experience are more knowledgeable in financial matters, while CEO engineers/scientists tend to invest more in R&D (Lin C., Lin F., Li, 2011). In other words, the CEO's previous experience increases the efficiency and "ability to survive" of the company, since special knowledge increases the general level of CEO competence and influences corporate strategy (Fischer, Pollock, 2004).

According to the theory of human capital (Becker, 1964; Mincer, 1958), a company can have a number of advantages that it receives from the cognitive abilities and productivity of an individual. One of the most important CEO personal characteristics is the level of education which reflects his potential productivity and is considered as one of the proxies for the quality of "human capital" (Waildersak, Suehiro, 2004). The authors (Bhagat, Bolton, Subramanian, 2010) found that the higher the level of education of the CEO, the greater the indicators of the financial leverage of the company. If the CEO has several levels of education (for example, bachelor's plus master's degree, bachelor's degree plus MBA etc.) while studying various specialized disciplines, he (she) is more able to bring new points of view, paradigms and ideas to the company for the professional development of employees (Anderson et al., 2011). In addition, mergers and acquisitions is a complex investment decision that requires deep financial knowledge in the field of business valuation, because it is important to acquire an asset at fair value, taking into account possible synergies. Financial education and an MBA degree allows CEOs to make strategic decisions that increase the value of their companies. This conclusion was reached by (Graham, Harvey, 2002), empirically proving that CEOs with an MBA degree understand complex investment valuation techniques, which increases the professionalism of CEOs when making important investment decisions for companies. The authors (Hayes, Abernathy, 2007) also show that managers with degrees in business, law or other social sciences pay great attention to choosing the

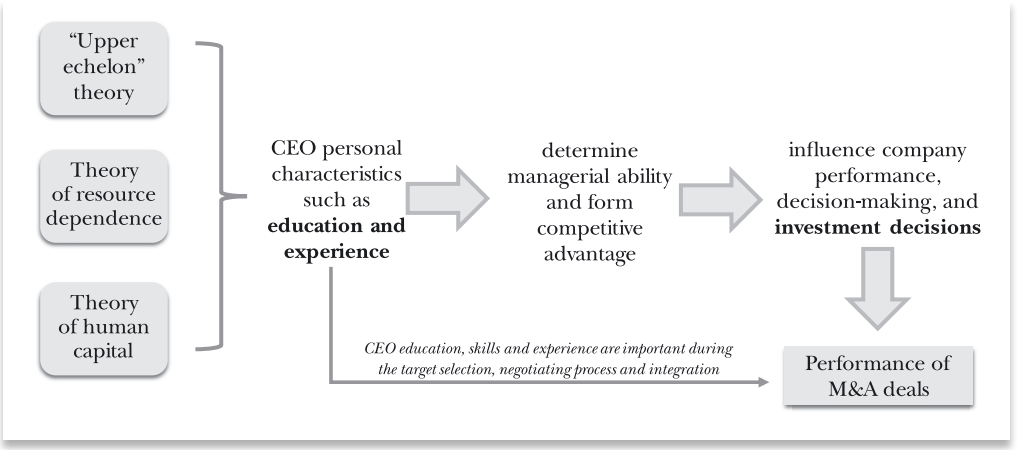

Fig. 1.
Conceptual framework of the impact of CEO education and experience on M&A performance

right projects that have a clear and quantifiable net present value. Based on the sample of Indian firms the article by (Gupta, Mahakud, Verma, 2021) proves the importance of CEO financial education for corporate investment decisions for Indian firms.

Considering the above arguments such personal characteristics of CEOs as education and experience significantly influence companies' performance, decision-making and investment decisions, among which M&A decisions are the most important in modern corporations, in which CEOs usually have the crucial decision-making power. CEO's knowledge, skills and experience have critical importance at the stage of deal preparation and negotiation (searching for the target company, target valuation, synergy valuation, deal premium estimation, method of payment selection) and at the stage of the integration process, which is considered as one of the important factors of the deal's performance (Figure 1).

2.2. Features of Russian education

Despite the high level of research on the impact of various CEO characteristics (age, gender, CEO tenure etc.) of M&A performance, education remains an understudied CEO characteristic. Analyzing the scientific literature, in which authors try to determine the impact of CEO education and experience on the performance of M&A deals, one can find that these works are performed on the data of deals initiated by companies from Europe, the USA and China, while there are no studies of Russian companies and, consequently, of Soviet-educated CEOs. Nevertheless, it is not possible to interpret the results obtained earlier for other countries in the realities of the post-Soviet space, since Soviet education in the 1980s (the time when CEOs holding their positions in 2000–2020 received higher education) had a number of distinctive features.

The State policy in higher education reflected the political and economic goals of the Soviet Union. According to the strategic goals of accelerating technological progress, it was deemed necessary to increase the training of technical personnel, particularly engineers. This led to an imbalance between the other specialties, in particular

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the economic ones, and technical education in favor of the latter. As a result, in the 1980s the number of engineering graduates was 44% of the total number of graduates (Alekhina, 2008).

While in the USSR the emphasis was on training specialists in natural sciences and technical professions rather than on training economists and lawyers, the opposite was true in Europe (Shishkin, Misko, 2015).

The explanation of this fact is: the centralized economy required fewer specialists in various fields of the economy than the market economy. Another reason for the fact that there were relatively few economists in the USSR is: senior managers were formed mainly from party nomenclature figures and employees of technical specialties. Such a system had both advantages and disadvantages. Managers with engineering education had a better understanding of the company's technological processes, while they were not effective in increasing the economic performance of the enterprise. Moreover, the lack of high-quality economic knowledge among some managers could have a noticeable negative impact on the company's activities during the period of perestroika, since the vertically integrated economy began to transform into a free market, and it was necessary to know how to act in the new reality.

However, it can be expected that due to some similarities in the economies and education systems of the USSR and China, it is worth assuming similar results of empirical studies aimed at studying the influence of CEO education on the performance of M&A deals. Nevertheless, despite the fact that the USSR and China had a number of common features: a strong role of the state in the economy, the absence of market relations etc. and despite the fact that Chinese universities largely borrowed the pedagogical experience of the USSR, it seems impossible to apply the research results obtained for China, because Chinese educational reform began much earlier and significantly affected many aspects of the educational system.

If we turn to the results of existing empirical studies examining the impact of CEO education on the performance of Russian companies, we can notice that the authors mostly do not confirm the significance of such an impact (Ovanesova, Zotov, 2017; Ruzhanskaya, Sizikov, 2020; Prosvirkina, Wolfs, 2021).

Additionally, the Soviet education at that time was an illustrative example of the impact of socio-economic problems of society on education. It has become a main stream to get an obligatory higher education as people wanted to improve their lives by raising social status through receiving research degrees. Due to this trend Russia quickly became the leader in proportion of people with higher education and research degrees.

An interesting observation was noticed in the article by (Muravyev, Zakharova, 2022). The authors found that PhD degrees are very popular among CEOs of public companies in Russia. It is worth to mention that in Russia PhD includes Russian lower and upper doctorate degrees ("candidate of science" and "doctor of science") as well as foreign PhDs. According to the authors, CEOs are mostly holders of Russian degrees, of which the predominant degree is "candidate of science". The authors also found that these degrees are twice more popular as MBA degrees. Despite the popularity of higher education, access to MBA programs was difficult due to the closed borders. In addition, the relevance of the MBA to the realities of the USSR was debatable, so not many people aimed to receive it. However, such popularity of PhD and MBA distinguishes Russia from other countries. The results of empirical studies are mixed on whether

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executives with MBAs are more effective. However, there is empirical evidence that the degree in management improves CEO's understanding of complex investment evaluation techniques that can affect M&A performance (Graham, Harvey, 2002).

All these points necessitate a study based on a thorough understanding of the historical features of Russian education and its impact on M&A performance.

2.3. Literature Review and Hypotheses

The M&A performance was a key issue among academics and practitioners for many years. A particular focus of researchers was on this issue in emerging capital markets. The increasing share of these markets in the global transaction volume, as well as their specificity and complexity due to weak institutional environment, high operational and investment risks, uncertainty, information asymmetry, government interference, as well as weak corporate governance and less effective market mechanisms require a special approach to studying them. To date, however, the number of papers examining the performance of transactions in these markets is significantly lower than in developed capital markets, and the results show the ambiguity of researchers' opinions on this issue (Thanos, Papadakis, 2012; Yaghoubi et al., 2016a, 2016b; Grigorieva, 2020). This is also the case for Russian M&A transactions. The limited data on Russian companies, the prevalence of deals in which non-public companies are acquired, and the low liquidity of firms are important factors explaining the small number of empirical papers based on Russian market data, as well as their contradictory conclusions (Bertrand, Betschinger, 2012; Maricheva, Rogova, 2016; Mikhalchuk, 2020). The majority of papers studying the performance of M&A deals in the Russian market are based on the event study method, examining how the market reacts to announcements of M&A deals (Bertrand, Betschinger, 2012; Maricheva, Rogova, 2016; Reznichenko, 2022). The use of this method seems most appropriate given the limited data on the deals themselves and their participants. In this study, we also employ event study analysis to assess the performance of M&As. The Russian stock market is quite young, and the issues of regulation and valuation companies are relatively opaque, which often causes the market to overestimate or underestimate the prospects of a particular transaction at the negotiation stage. However, several studies show a positive reaction of the Russian market to transactions announcement (Nikitushkina, Bolotnikova, 2011; Chirkova, Chuvstvina, 2011; Reznichenko, 2022).

In this study, we also expect a positive stock market reaction to the announcements of M&As initiated by Russian firms in view of the fact that in an imperfect institutional environment large and diversified companies, which are formed, among others, as a consequence of M&As, can be valuable because they can mimic the useful functions of different institutions in the developed markets and thus create a potential source of value growth for integrated firms (Khanna, Palepu, 1997). Moreover, our expectation of the positive market reaction is target firms being private in most M&As. A number of previous studies showed that, on average, acquiring companies received higher returns when acquiring private firms since they suffer from the discount for lack of marketability, have lower bargaining power vis-à-vis acquirers because of higher failures in the market for corporate control of private firms, and less transparency that creates more opportunities for acquirers for exploiting private information (Faccio,

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McConnel, Stolin, 2006; Carpon, Shen, 2007; Moeller, Schlingemann, Stulz, 2008; Chirkova, Chuvstvina, 2011). Hence, we expect that:

H1: *The Russian stock market positively reacts to the announcements of M&A deals.*

As we mentioned earlier, we will use the event study method to assess the performance of M&A deals and calculate cumulative average abnormal returns (CAAR) for the sample of deals to understand the market reaction to the M&A transactions, so the null hypothesis $\mathbf{H}_0$ and alternative $\mathbf{H}_1$ are:

$\mathbf{H}_0$**:** $E[CAAR] = 0$;

$\mathbf{H}_1$**:** $E[CAAR] > 0$.

If $\mathbf{H}_0$ is rejected in favor of the alternative $\mathbf{H}_1$, it can be concluded that *the market reacts positively to the announcements of M&As.* A more detailed description of the method and its application in our empirical study is provided below, in the methodology section.

Analyzing the influence of personal characteristics of the CEO related to education and work experience on the performance of M&A deals, one can find that this topic was not widely studied. So, by now there is a limited number of scientific papers on the subject.

Ying Q.W. and S.Y. He (Ying, He, 2020) wrote one of the first papers on this topic where the main question was whether having a financial or accounting education affects the performance of M&A deals. Based on the sample of Chinese companies, the authors found that managers with such education keep the effective performance of M&A transactions.

A key element in M&A deals is the estimation of a synergetic effect of a transaction, which often aims to increase the value of a company. To assess the synergetic effect, it is necessary to value the target company correctly and think over the process of asset consolidation applying financial theory and accounting in particular in (Morkoetter, Wetzer, 2015). Education is one of the most important channels for obtaining professional knowledge. Though companies may hire outside consultants to provide financial advice, this carries risks of poor due diligence, misjudgment or fraud (Ying, He, 2020). Therefore, financial and economic education of CEO, as a key decision maker, should influence the success of the deal. Thus, we assume that:

H2: *The reaction of the Russian stock market to M&As of companies the CEOs of which have a degree in economics or finance will be greater than that of companies the CEOs of which do not have such a degree.*

Some researchers point out that CEOs with technical education are often better managers for the companies as long as they better understand the specifics of the production process (Shishkin, Misko, 2015). The same may characterize M&As. For companies across a number of industries in both telecommunications and manufacturing, it is very important to properly integrate the target company's resources, which implies a deep understanding of the technology of the acquired company. In this regard, an M&A transaction can be more effective acquiringб if the CEO has education in technology.

H3: *The reaction of the Russian stock market to M&As of companies the CEOs of which have a degree in technical sciences will be greater than that of companies the CEOs of which do not have such a degree.*

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The experience in acquisitions enriches the quality of CEO's strategic decisions and consequently deal performance. There are several researchers providing evidence that CEO's prior acquisition experience positively impacts on M&A success. The authors (Harford, Schonlau, 2013) conclude that firms consider the number of transactions previously conducted by a CEO a valuable characteristic. They tend to hire a CEO with acquisition experience, no matter that experience was positive or negative. These results are also consistent with (Field, Mkrtchyan, 2016 2017), who also show that CEO experience has a positive and significant relationship with acquisition announcement returns. Moreover, CEO's previous experience in M&A transactions that did not destroy the value of the company, but rather increased it, having a positive effect on further deals conducted by this CEO, according to (Kupatadze, Rogova, 2019).

H4: *The reaction of the Russian stock market to M&As of companies the CEOs of which have previous experience in M&A will be greater than that of companies the CEOs of which do not have such an experience.*

The results of empirical studies examining the effectiveness of managers with an MBA degree are mixed. While some studies show that an MBA degree does not necessarily provide competencies important for improving CEO effectiveness (Lindorff, Jonson, 2013). Most studies show that such degree improves a CEO's understanding of complex investment valuation techniques (Graham, Harvey, 2002).

A study of companies in Saudi Arabia shows the importance of having a PhD for a CEO, but the importance of an MBA is not confirmed (Altuwaijri, Kalyanaraman, 2020). Lack of consensus among researchers determines the verification of the presence of this dependence in the Russian market. The importance of this is confirmed by the fact that CEOs holding positions in 2000–2021 mostly passed the first stage of higher education during the period of Soviet Union, when the market functioned within a command economy, and, accordingly, higher education involved the study of relevant disciplines. However, subsequent degrees of education were obtained after the transition to a market economy. Thus, we expect that:

H5: *The reaction of the Russian stock market to M&As of companies the CEOs of which have PhD in economics or MBA degree will be greater than that of companies the CEOs of which do not have such degrees.*

Experience in any particular industry is accompanied by an understanding of the opportunities, competitive environment, advanced technologies and rules specific to this industry, as well as the valuable connections with other industry participants, making industry experience the most important form of managerial experience (Harris, Helfat, 1997). Acquirers with CEOs with industry experience of the target company yield an average return of 1.16% if the Board has no industry experience, and more than 3.91% if the Board also has industry experience (Bhattacharya, Kao, Li, 2020). Thus, the industry experience of the CEO should be a significant factor influencing the performance of the deal.

H6: *The reaction of the Russian stock market to M&As of companies the CEOs of which have industry experience in the target company's industry will be greater than that of companies the CEOs of which do not have such an experience.*

So, despite the academic community's interest in the impact of CEO's education and experience on M&A deals and key investment decisions, the theme is not

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well developed. First, the analysis comes with limited explanatory factors. In addition, many characteristics, such as the CEO's PhD or MBA degree, are not considered at all when the authors examine the impact of CEO personal characteristics on M&A performance.

3. Methodology and Data

3.1. Event study methodology and regression analysis

Our study involves a two-step procedure. At the first step, we use the standard event study analysis (MacKinlay, 1997; Weston, Siu, Johnson, 2002) to assess the stock market reaction to the announcements of M&A deals, initiated by Russian companies. Stock market reaction is a popular proxy for M&A performance measure and allows us to test our hypothesis 1 (H1), in which we expect a positive reaction to M&A announcements, expressed by positive values of cumulated abnormal returns of acquiring firms. At the second step the abnormal returns are then used as the depended variables in the regression model in order to reveal the impact of CEO education and experience on company performance and test our hypotheses H2–H6. The following is a detailed description of the two phases of our study.

Event study analysis was chosen for several reasons:

1) this method is one of the most popular in assessing the performance of M&As (Zollo, Meier, 2008; Krishnakumar, Sethi, 2012; Grigorieva, 2020; King et al., 2021);

2) it directly measures shareholder value analysing stock performance (Kale, Dyer, Singh, 2002; Malhotra, Sivakumar, Zhu, 2011; Narayan, Thenmozhi, 2014);

3) this method is not subject to manipulation by companies compared with methods using accounting measures to evaluate the impact of acquisitions on corporate performance. The method is simple in implementation, allows the successful examination of cross-border deals, when the accounting standards of merged firms are different (Cording, Christman, King, 2008; Thanos, Papadakis, 2012);

4) a number of empirical studies confirm a statistically significant positive relationship between post-M&A operating performance and cumulative abnormal returns (CAR) at the announcement date, indicating that investors' expectations are effective and they can correctly estimate possible synergies (Healy, Palepu, 1992; Krishnan, Krishnan, Lefanowicz, 2009).

However, this approach has a significant implicit assumption that might be treated as a disadvantage. The event study method is based on the efficient market hypothesis (EMH), where short-term excess returns or lack of returns thereof can be observed, which is an indicator of a successful transaction. Furthermore, event studies measure market expectations of an M&A deal and not its actual performance. This measure of performance can be used only for public companies and not for private ones. Finally, this method is more often used to catch only the short-term reaction of the stock market because of challenges connected with the requirement to eliminate the impact of other events in the analyzed period. Despite the above drawbacks, the short-term event window studies remain one of the main methods used by researchers to assess M&A performance, including emerging capital markets for which this

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method should be used with caution. Given that most of the companies in our sample are non-public, the use of an alternative popular method of assessing the performance of M&As – accounting studies – is not feasible.

Normal (predicted) returns are generated using the market model, which is the most popular among the researchers (MacKinlay, 1997; Hamza, 2009; Grigorieva, 2020):

$$R_{jt} = \alpha_j + \beta_j R_{mt} + \varepsilon_{jt}, \quad (1)$$

where R_m is the return on a market index (MOEX Russia Index) on day t; β_j measures the sensitivity of firm j to the market; α_j measures the mean return over the period that is not explained by the market; $t \in (t_1; t_n)$ is the estimation period; ε_{jt} is the statistical error; $E(\varepsilon_{jt}) = 0$, $\text{var}(\varepsilon_{jt}) = \sigma^2$.

We take 120 trading days prior to the event window as the estimation period, which corresponds to the half-year before the announcement and which (in empirical studies) use data on companies from emerging markets (Grigorieva, Morkovin, 2014; Stepanova, Savelyev, Shaikhutdinova, 2018). The chosen length of the estimation period is also partly due to the fact that quotes for many stocks are available for a short period of time.

The next step is to calculate the abnormal return, $AR_{j\tau}$, for each day in the window and for each company:

$$AR_{j\tau} = R_{j\tau} - \hat{\alpha}_j + \hat{\beta}_j R_{m\tau}, \quad (2)$$

where $R_{j\tau}$ is the actual return, $\tau \in (T_1; T_m)$ is the event window.

Following the previous researchers we use a 3-days [−1; +1], 21-days [−10; +10], 31-days [−15; +15], and 41-days [−20; +20] *event windows* to calculate cumulative abnormal returns (CARs) (MacKinlay, 1997; Weston, Siu, Johnson, 2002; Hamza, 2009; Narayan, Thenmozhi, 2014; Reznichenko, 2022). The selected event window (−20; +20) is wider than the windows considered in the research papers in developed countries, due to the unique characteristics of emerging markets. Because of their lower efficiency, information about deals may hit the market earlier than the official announcement, or it may take longer for the market to react to the news and reproduce it in the share price. We therefore also consider little longer windows in our research.

To calculate cumulative abnormal returns (CAR) we use the following formula:

$$CAR = \sum_{\tau=T_1}^{T_m} AR_{i\tau}. \quad (3)$$

If not one event is used, but a group of N homogeneous events, the average abnormal return (AAR) and the cumulative average abnormal return (CAAR) is calculated over the whole sample.

To test our expectation of a positive stock market reaction to M&As announcements, we test the statistical hypothesis of a significant difference from zero the expected value of the CAAR. Therefore, the final step of the event study method algorithm can be written as follows (as we also showed above):

$\mathbf{H_0}$: $E[CAAR] = 0$;

$\mathbf{H_1}$: $E[CAAR] > 0$.

The null hypothesis is rejected if the value of the actual t-statistic is greater than the t-table value. In this case it can be concluded that the market reacts positively to the

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announcements of M&As. To check the significance, we use the standard one-tailed *t*-test (MacKinlay, 1997).

At the second step, we build the regression model to identify the impact of CEO education and experience on M&A outcomes. Our model considers different levels and types of CEO education and experience, as well as control variables:

$$CAR_i = \alpha_0 + \beta_1 FeEd_i + \beta_2 TechEd_i + \beta_3 MAexp_i + \beta_4 PhDMBA_i + \\ + \beta_5 IndExp_i + \beta_6 CEOage_i + \beta_7 CEOtenure_i + \beta_8 DeputyChairman_i + \\ + \beta_9 BS_i + \beta_{10} RelativeSize_i + \beta_{11} CB_i + \beta_{12} Pay_i + \beta_{13} ROA_i + \varepsilon_i. \quad (3)$$

According to the proposed hypotheses, the independent variables include: *FeEd* – a binary variable that takes the value 1 if CEO has financial or economic education, and 0 otherwise (Ying, He, 2020); *TechEd* – a binary variable that takes the value 1 if CEO has technical education, and 0 otherwise (Fabbri, Beber, 2012); *MAexp* – a binary variable that takes the value 1 if CEO has M&A experience, and 0 otherwise (Field, Mkrtchyan, 2017); *PhDMBA* – a binary variable that takes the value 1, if CEO has a PhD in economics (both Russian lower and upper doctorate degrees ("candidate of science" and "doctor of science") as well as foreign PhDs or MBA status, otherwise it is 0 (Bhagat, Bolton, Subramanian, 2010); *IndExp* – if CEO of the acquiring firm has experience as an executive director in a firm that has the same 4-digit SIC code as the target firm within five years prior to acquisition, the value of *IndExp* is 1, otherwise it is 0 (Bhattacharya, Kao, Li, 2020).

To check the adequacy of the model, it is necessary to include control variables. There are three types of control variables in total: 1) of CEO and board of directors, 2) the deal characteristics and 3) the acquiring company characteristics.

Control variables of the first type: *CEOage* – CEO's age at the time of the deal. As CEOs become less risky with age, age is expected to have a negative impact on the performance of M&A deals (Ding et al., 2021); *CEOtenure* – the number of years CEO has been in office. As the CEO gains experience and competence over time, a positive impact is expected (Walters, Kroll, Wright, 2007); *DeputyChairman* – a binary variable that takes the value 1, if CEO is also a Deputy Chairman of the Board of Directors. According to the agency theory, a negative relationship is expected (Jensen, Meckling, 1976); *BS* – number of members on the board of directors. Since a large board is associated with an inability to negotiate and a lack of coordination, a negative impact is expected (Jensen, 1993).

Control variables of deals' characteristics (second type): *RelativeSize* – the ratio of the transaction volume to the market capitalization of the acquiring company. Large deals result (average) in value creation for shareholders and confirm the existence of size effect in acquisition announcement returns (Moeller, Schlingemann, Stulz, 2004). That is why a positive relationship is assumed. *CB* – a binary variable that takes the value 1, if transaction is cross-border, and 0 otherwise. Cross-border transactions enables companies to exploit differences in tax systems and to capture rents resulting from market inefficiencies (Servaes, Zenner, 1994); *Pay* – a binary variable that takes the value 1, if the payment for the transaction was in stock, and 0, if it was in cash. Bidders prefer to pay in stock when they believe the market is overvaluing their stock and in cash when the stock is undervalued, which is an important signal to the market (Myers, Majluf, 1984).

Control variables of acquirer's characteristics (third type): *ROA* – return on assets of the acquiring company. The coefficient shows the ability of an organization to

create profit without taking into account the structure of its capital (financial leverage), as well as the quality of asset management (Ding at al., 2021).

3.2. Sample selection procedure

For further research we use the Zephyr M&As database from Bureau Van Dijk, Bloomberg, Thomson Reuters and Capital IQ to identify an initial sample of 1937 publicly traded deals that fit into the categories of complete transaction during the period of 2000–2021. We further require that:

1) only acquirers are publicly traded firms;

2) the acquiring firm controls less than 50% of the shares of the target firm before the deal and more than 50%+1 after the deal;

3) the size of the deals is more than $1 million as small transactions do not have a significant impact on performance and can be neglected (Ahn, Jiraporn, Kim, 2010; Masulis, Wang, Xie, 2007; Teti et al., 2017);

4) acquirers do not belong to financial and utility sectors. We follow the literature to omit deals with acquirers operating in the finance (SIC codes 6000–6999)) or utility (SIC codes 4000–4999) industries. Since financial firms are often subject to specific regulations and because they file their financial reports under different accounting standards, and utility firms are often state or municipal organizations (Defrancq, Huyghebaert, Luypaert., 2016; Ding et al., 2021; Bhattacharya, Kao, Li, 2020);

5) the deals were not initiated during the crises of 2008, 2014, 2020.

We also removed outliers. Our requirements yield the sample of 172 transactions.

Descriptive statistics of the main variables are presented in Table 1. The maximum average value of cumulative abnormal returns (CAR) refers to the window [−1; 1] and is 0.33%, and the minimum — to the window [−20; 20] and is −0.13%.

Table 1.

Descriptive statistics

Variables	Mean	Median	SD	Minimum	Maximum
Panel A: deal characteristics					
CAR [−1; +1]	0.00326	0.00015	0.02875	−0.06469	0.08686
CAR [−10; +10]	0.00012	−0.00523	0.08223	−0.21867	0.27521
CAR [−15; +15]	−0.00094	−0.00872	0.09465	−0.18999	0.25325
CAR [−20; +20]	−0.00130	−0.00380	0.10959	−0.34022	0.29601
Relative Size	0.02970	0.00574	0.08661	1.30E-05	0.86686
Pay	0.15116	0.00000	0.35925	0.00000	1.00000
CB	0.25581	0.00000	0.43759	0.00000	1.00000
Panel B: CEO and board characteristics					
FeEd	0.51020	1.00000	0.50161	0.00000	1.00000
TechEd	0.34014	0.00000	0.47537	0.00000	1.00000
MAexp	0.87075	1.00000	0.33663	0.00000	1.00000
PhDMBA	0.53061	1.00000	0.50077	0.00000	1.00000
IndExp	0.55102	1.00000	0.49909	0.00000	1.00000
CEOage	47.9122	47.0600	8.99511	29.2100	68.6500
CEOtenure	5.25340	4.38000	4.18396	0.71000	18.7200

Table 1. End

Variables	Mean	Median	SD	Minimum	Maximum
Panel B: CEO and board characteristics					
DeputyChairman	0.90476	1.00000	0.29455	0.00000	1.00000
BS	9.81633	10.0000	1.95854	5.00000	15.0000
Panel C: acquirer characteristics					
ROA	0.11604	0.10090	0.07214	−0.04280	0.35680

Source: authors' calculations.

All companies in the sample are managed by male CEOs. About 34% of deals are made by CEOs who have degree of a specialist in technical sciences, and 51% of deals — by CEOs with a degree of a specialist in economic sciences. 53% of deals are made by CEOs who have a PhD or MBA degree. In 87% of cases, the CEO already had deal experience, and in 55% of cases, he had industry experience in the target company. On average, CEOs hold this position at this company for 5.3 years before the transaction, and the average age of CEOs at the time of the transaction was 48. Most often, the CEO is also a Deputy Chairman of the Board of Directors.

The analysis of the sample shows that the period when the CEO received his first education can be attributed to the Soviet period. Since it was only in 1987 that the project of reform of higher and secondary specialized education was developed in order to improve the quality of teaching and, among other things, to introduce elements of market economy into the planned mechanism on which the system of specialist training was based (Kuzminov, Yudkevich, 2021). The transition from teaching Marxist-Leninist political economy to studying the theory of market economy took place in the Russian universities in the early 1990s. It was largely facilitated by non-state educational centers. The first such center, the "Economic School", was established in 1991 on the basis of the St. Petersburg State University of Economics and Finance. In 1992–1994, several hundred teachers from many cities of Russia and CIS countries were retrained there. In 1992, a non-state educational institution "Russian Economic School (Institute) — NES" was founded in Moscow. In the same year the Higher School of Economics (HSE) Master's Training center was established, and later was transformed into a state university. In 1991, the youngest CEO in our sample was already 21 years old, indicating that the education he and the other directors in the sample received can be more attributed to the Soviet period.

The average value of "Relative Size" is 3% and does not vary much across the sample. The same indicator of the binary variable "Pay" is 15%, which indicates that most transactions were paid in cash. A quarter of the transactions from the sample were cross-border. The average ROA value for the selected trades is 12% and this parameter is also characterized by a low standard deviation.

In the sample, 34% of companies belong to the oil and gas sector; 22% of companies — to telecommunications; 14% — to the mining and metallurgical industry. The remaining part is made up of construction companies, chemical industry companies, retail and others. In the dynamics of the number of transactions by year, the peak values fall on 2006 and 2013, in which 18 and 19 transactions were carried out, respectively (Figure 2). The minimum average daily trading volume for the sample is 80 million

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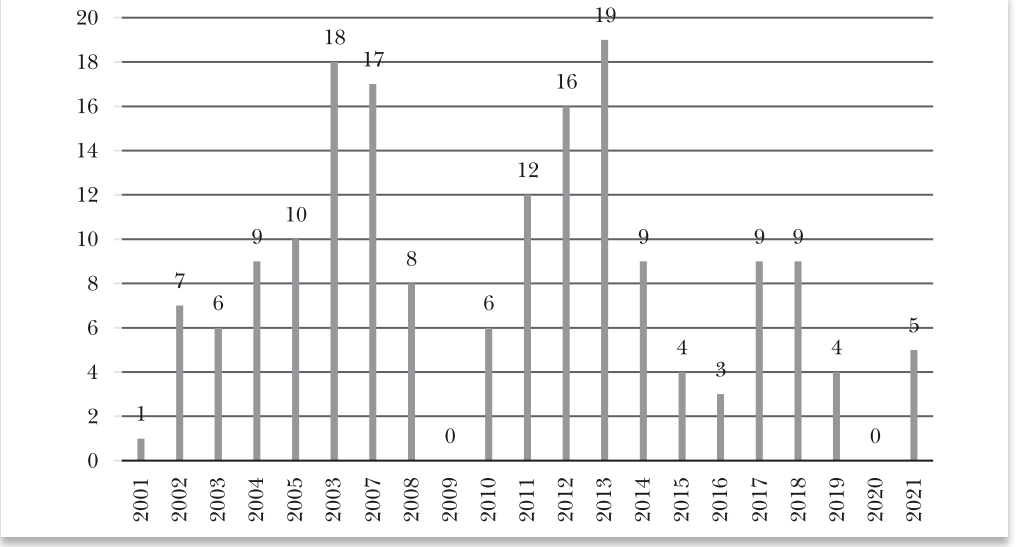

Fig. 2.
Number of deals over the period on vertical axis – number of M&As

Rubles, which satisfies the liquidity conditions. Of the 172 deals, 78 are characterized by the coincidence of the target and acquirer industries. On average, the sample companies conducted transactions under the guidance of the same CEO about three times.

Below we present the changes in the educational characteristics of CEOs who participated in the transactions. The Figure 3 shows the percentage of CEOs with an MBA or PhD degree as a percentage of the total number of CEOs in the sample for

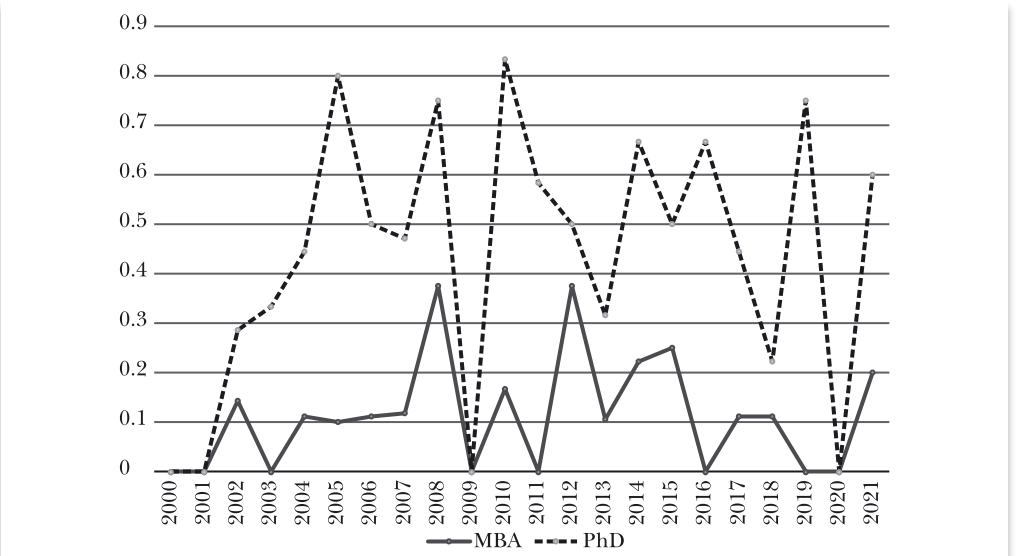

Fig. 3.
The dynamics of different characteristics of CEO education over the period (with the exception of 2009 and 2020 due to the crisis)

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a given year. For 2009 and 2020 the value indicator is zero, that is because deals conducted during these years were removed from the sample. In other cases, zero values for a particular type of education indicate that the CEOs who managed transactions in a given year did not receive such education. It is worth noting that the number of CEOs with a PhD degree significantly exceeds the number of those who received an MBA during the entire study period. Such dynamics could be explained by Russia's late transition to the Bologna education system, as well as by the fact that MBA programs began to develop in Russia relatively recently. However, such a hypothesis cannot be confirmed due to the lack of growth in the popularity of MBA programs (Muravyev, Zakharova, 2022).

A series of tests were carried out to verify the model and the results. In order to perform a regression analysis, it is necessary to check the residuals of the model for normality. The Jarque–Bera test showed that the distribution became normal after the outliers were removed. In addition, the absence of multicollinearity was confirmed using the variance inflation factor (VIF) test.

4. Empirical results

The first step in our empirical analysis is devoted to M&A performance estimation, using the event study analysis. Table 2 shows that the stock market reacts ambiguously to the announcements of M&A deals on the Russian market. CAARs for a 3- and 21-days event windows are positive, while CARs for a 31- and 41-days event windows are negative. Taking into account the fact that CAARs for all event windows are statistically insignificant, based on the one-tailed t-test our null hypothesis H_0: $E(CAAR) = 0$ is not rejected. So the market does not react to the event. Our results are consistent with the results of previous researchers (Bertrand, Betschinger, 2012; Fedorova, Rybalkin, Bedretdinova, 2016).

Table 2.

CAARS for the bidder on different event windows

Event window	%	t-statistics
[−1; +1]	0.3257	0.1614
[−10; +10]	0.0124	0.0117
[−15; +15]	−0.0940	−0.2836
[−20; +20]	−0.1299	−0.0254

Source: authors' calculations.

Table 3 shows four models for different event windows. The models for event windows [−1, +1], [−5; +5] and [−10; +10]) are significant at the level of 1%. The model for event window [−20, +20] is significant at the level of 5%. The results of our regression analysis presented in Table 3 show a significant negative impact of CEOs economic/financial education on acquirer's CARs for one out of the four event windows.

Thus, the hypothesis 2 about the positive influence of CEOs economic/financial education on M&A performance is rejected for a sample of M&As initiated by Russian firms at 10% level for 31-days event window. This result may be explained by the fact that economic education was received, on average, during the period, when the planned economy prevailed in the Soviet Union. Thus, the knowledge acquired may not be as useful and may not be properly applied in the work of a CEO in a market economy. This negative effect is consistent with (Malmendier, Tate, 2008) study, in which the authors also found a negative relationship between business education and M&A performance, explain-

Table 3.

Regression analysis results

Variable	Event window			
	[−1;+1]	[−10;+10]	[−15;+15]	[−20;+20]
FeEd	−0.009383 (0.005970)	−0.026914 (0.016805)	−0.031762* (0.019591)	−0.028209 (0.023086)
TechEd	0.013395** (0.006159)	0.023195 (0.017339)	0.035605* (0.020214)	0.037213 (0.023821)
MAexp	0.010259 (0.006782)	0.032763* (0.019093)	0.037405* (0.022259)	0.043075* (0.026230)
PhDMBA	0.006420 (0.006081)	0.025408 (0.017119)	0.038937** (0.019958)	0.045594* (0.023518)
IndExp	−0.005329 (0.004685)	−0.048201*** (0.013188)	−0.046125*** (0.015375)	−0.050675*** (0.018118)
CEOage	−3.48E-05 (0.000329)	−0.001801** (0.000926)	−0.001631* (0.001080)	−0.001415 (0.001272)
CEOtenure	−0.000726 (0.000585)	0.001789 (0.001647)	0.000181 (0.001920)	0.001488 (0.002263)
DeputyChairman	−0.013989** (0.007143)	−0.050679*** (0.020108)	−0.045680** (0.023442)	−0.028070 (0.027624)
BS	−0.002810** (0.001365)	−0.001379 (0.003842)	−0.006585 (0.004479)	−0.006780 (0.005278)
RelativeSize	0.009429 (0.025763)	0.098345 (0.072526)	0.083669 (0.084551)	0.020913 (0.099635)
CB	−0.004531 (0.005283)	0.006423 (0.014874)	0.013166 (0.017340)	0.026759 (0.020433)
Pay	−0.011899* (0.006308)	−0.024531 (0.017758)	−0.029604 (0.020702)	0.001240 (0.024396)
ROA	0.062035* (0.032638)	0.036697 (0.091879)	0.049065 (0.107113)	0.108824 (0.126223)
c	0.038113* (0.020394)	0.131741** (0.057411)	0.163524** (0.066930)	0.111526 (0.078870)
Adj. R^2	0.091769	0.120069	0.097340	0.064810
F-statistic	2.329079	2.794873	2.628748	1.911587
Prob (F-statistic)	0.007350	0.001285	0.001868	0.032373

*** Significant at the 1% level; ** Significant at the 5% level; * Significant at the 10% level.

Source: authors' calculations.

ing that such education increases CEO overconfidence and the number of deals in which CEO is involved.

The opposite results were found for technical education. As can be seen in Table 3 the presence of such education contributes to a positive stock market reaction to deal announcements, implying that this type of education allows CEOs to better understand the production process and make better decisions on company development and target company choice. Thus, our proposed hypothesis 3 cannot be rejected at 5% level for 3-days event window and at 10% level for 31-days event window. This result corresponds to the theory of human capital (Becker, 1964; Mincer, 1958) accord-

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ing to which level of CEO education reflects his potential productivity and is considered as one of the proxies for the quality of "human capital" (Waildersak, Suehiro, 2004).

Our fourth hypothesis tests the effects of previous CEO's experience in M&A transactions on M&A success. As the data in Table 3 shows, such experience has a positive impact on CARs for [–10, +10], [–15, +15] and [–20; +20] event windows at 10% level, which allow us not to reject our hypothesis 3. This result is consistent with (Field, Mkrtchyan, 2017), who argued that prior experience in acquisitions improves the quality of strategic decision-making by company CEOs. Previous experience gives the CEO an understanding of the specifics of mergers and acquisitions, as well as methods of evaluating companies, which is consistent with the theory of resource dependence (Barney, 1991) as well as with the "upper echelon" theory (Hambrick, Mason, 1984).

Significant positive results were also obtained if the CEO had a PhD in economics or an MBA (see Table 3). Thus, our hypothesis 5 is not rejected for the 31- and 41-days event windows at the 5% and the 10% levels correspondingly. This result is consistent with the findings of (Graham, Harvey, 2002), who found that such a degree enhances understanding of the complex processes involved in a transaction. This result also corresponds to the theory of human capital (Becker, 1964; Mincer, 1958).

In contrast to the positive influence of the CEO's previous experience on M&As on the deals success, we found that the CEO's prior experience in the target company's industry has a negative effect on the stock market's response to M&A announcements. According to the results in Table 3 we observe negative coefficients for the *IndExp* variable for three out of the four event windows. Thus, our hypothesis 6 is rejected at the 10% level. The observed negative effect can be explained by the CEO overconfidence when he or she overestimates his or her industrial experience, which leads to a decrease in M&A performance.

5. Limitations and future research

Our study has a number of limitations that should be addressed in the future research.

This study is the first to examine the impact of CEO education and experience on M&A performance in the Russian market. We obtained interesting results, but we do not claim to have fully explored the issue, as we used only one method to evaluate M&A performance and our results were not always robust when looking at different event windows (as in case of financial education), suggesting the need for further investigation of this issue. Moreover, the event study analysis shows the short-term market reaction to the announcements of M&A deals, leaving open the question of value creation due to M&A transactions on a long-term time horizon.

We also want to draw attention to the fact that we consider the effect of each transaction separately, while the same CEO can conduct several transactions during his term of office. From a theoretical point of view, it would be worth considering together all the mergers and acquisitions that are conducted by each CEO.

Another limitation of our work is the problem of distinguishing a person's talent and his education. Not always talented people with pronounced abilities have a certain higher education and vice versa. Moreover, in our study, we do not consider obtaining several types of education, for example, simultaneous financial and technical educations, as well as we do not include control variables for industry and state

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ownership. This is due to the fact that there are very few such managers in our sample, so with a sample of 172 observations, the quality of the model deteriorates greatly, and it is not possible to conduct econometric analysis. The addition of control variables described above also worsened the model.

In addition, we do not consider the quality of education and university rankings. So, in the future, this study can be expanded by assessing the impact of the quality of higher education and higher education institutions.

6. Conclusion

Practitioners and researchers have been discussing the factors that influence the performance of M&A deals for many years and have not yet reached a consensus. In this paper, we assess the impact of CEO personal characteristics on deal success, focusing on different levels of CEO education and experience. In contrast to the previous literature, we first examine this issue for deals made by Russian companies. Most of today's CEOs have a Soviet education, which imposes its own specifics on their knowledge, skills, abilities, and decision-making style generating interest in exploring the issue; second, we study the impact of both education and CEO experience on M&A success; third, we test the influence of CEO's PhD and MBA degree on deals performance, and fourth, we study the longest period for the Russian market, from 2000 to 2021.

Based on a sample of 172 M&A deals initiated by Russian firms, we find that CEO economic/financial education, obtained mostly during the Soviet Union, has a negative impact on the performance of M&As, while the technical education can have a positive impact on M&As outcomes. This is in line with the findings of (Shishkin, Misko, 2015), who argued that understanding the production process is essential for implementing strategic decisions. A PhD in economics and an MBA degree has a positive impact on deal success, unlike a first degree in finance or economics, suggesting that this education, obtained at a later stage, in a market economy. This type of education allows top management to make better decisions that increase the value of companies during mergers and acquisitions. Our results also show that the prior deal experience increases M&A performance, while the CEO experience in the target company's industry reduces the success of transactions. A possible reason is the CEO's overconfidence, which leads to ineffective strategic decisions.

To achieve significant positive results from M&A deals, companies need to pay attention to their human resources policies and governance structure. This will facilitate more informed decisions regarding M&A transactions that can increase the value of the company rather than destroy it. When hiring a CEO, leadership abilities, interpersonal skills, and the ability to think strategically are important qualities, but these qualities are difficult to measure. So boards and shareholder meetings rely on the characteristics they can observe when hiring a CEO, — education and experience. These CEO characteristics are critical at important stages of a deal such as finding the target company, valuing it, evaluating synergies, assessing the deal premium, selecting the payment method and the integration process, which together are determinants of a deal success.

The results we obtained in this study show that the type and level of education and experience of the CEO matters in M&A transactions. Investors react favorably to deal announcements initiated by companies where the CEO has a higher level of edu-

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cation and experience. These results can be useful for acquiring companies to analyze and compare the skills and qualities of CEO candidates in order to choose the future CEO during whose tenure the greatest M&A performance will be achieved. For example, data on current level of education can be an indicator of academic knowledge and specialization, which has great potential to contribute to future M&A performance. The CEO's work experience is also an important factor that can be taken into account when evaluating his or her performance in mergers and acquisitions. For example, if a candidate has a proven track record of successful M&A transactions, this may indicate his (her) ability to effectively manage resources, analyze risk and make the right strategic decisions.

Thus, the results obtained on the current level of education and experience of the CEO can be used as additional criteria in the choice of candidates for leadership positions and in assessing their potential in mergers and acquisitions. This will help acquiring companies make informed decisions and reduce the risk of inappropriate personnel policies.

In addition, the results of this study can serve as a recommendation and guidance on the level and scope of education for people applying for executive positions in large M&A companies.

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Имеет ли значение образование и опыт генерального директора? Примеры сделок слияний и поглощений, инициированных российскими компаниями

Аннотация. Данная статья вносит вклад в литературу, исследуя влияние образования и опыта генерального директора (CEO) на эффективность сделок слияний и поглощений (M&A) в России. Исследование основано на выборке 172 сделок, совершенных в период 2000–2021 гг. Мы используем метод событий (event study) для оценки эффективности сделок M&A и регрессионный анализ для выявления влияния образования и опыта генерального директора (CEO) на успешность слияний и поглощений. Образование CEO определяется тремя переменными: финансовое или экономическое, техническое образование, PhD или MBA. Опыт генерального директора описывается переменными, которые отражают предыдущий опыт участия конкретного CEO в сделках слияний и поглощений и его (ее) опыт в отрасли, в которой ведет свою деятельность компания-цель. Наши результаты показывают, что экономическое/финансовое образование генерального директора, полученное в Советском Союзе, отрицательно влияет на результативность сделок, в то время как техническое образование положительно влияет на успешность или эффективность слияний и поглощений. Интересные положительные результаты были получены в отношении наличия степени MBA и PhD в образовании CEO. Наши результаты также показывают, что предыдущий опыт заключения сделок повышает эффективность слияний и поглощений, в то время как опыт работы генерального директора в отрасли целевой компании не способствует успеху в сделках.

Ключевые слова: *слияния и поглощения (M&A), персональные характеристики* генерального директора *(CEO), образование CEO, опыт CEO, метод событий, российский рынок.*

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