



Market Misvaluation, Managerial Horizon, and Acquisitions

Huasheng Gao*

This paper analyzes the impact of managerial horizon on mergers and acquisitions activity. The main predication is that acquiring firms managed by short-horizon executives have higher abnormal returns at acquisition announcements, less likelihood of using equity to pay for the transactions, and inferior postmerger stock performance in the long run. I construct two proxies for managerial horizon based on the CEO's career concern and compensation scheme, and provide empirical evidence supporting the above prediction. Moreover, I also demonstrate that long-horizon managers are more likely to initiate acquisitions in response to high stock market valuation.

The purpose of this paper is to analyze the motives and consequences of mergers and acquisitions from a managerial horizon perspective. In particular, I examine the effect of managerial horizon on acquirers' announcement returns, methods of payment in the transactions, and long-term performance following the acquisitions as well as acquisition frequency. Managers with a long horizon place additional emphasis on the firm's long-term value rather than the short-term value; they tend to make takeover decisions to increase the firm's long-run stock price. In contrast, short-horizon managers stress the firm's short-term performance and prefer acquisitions that enhance the firm's stock value in the short run. I test the above hypothesis using two proxies for managerial horizon and provide supporting evidence.

Managerial horizon determines whether the managers are more concerned with the firm's short-run stock price or with the long-run price. It significantly shapes acquisition decisions in an inefficient stock market where the firm's current market value (short-run value) deviates from its fundamental value (long-run value). Long-horizon managers tend to exploit overvalued stock prices by making equity transactions, while short-horizon executives are more inclined to boost the near-term stock price by catering to investor sentiments.

The existing literature proposes two channels through which managerial horizon influences takeover events. The first is the equity issuance channel. Long-horizon managers use overpriced equity to acquire the target's assets. Shleifer and Vishny (2003) provide a model of market-driven acquisitions to illustrate this idea. These mergers benefit the bidders' long-run shareholders as they cushion the subsequent drop of the overvalued stock price. One of the key assumptions in the model is that the acquiring firm managers act in the interests of the long-term shareholders (i.e., the managers have a long horizon). Their paper also suggests that short-horizon managers

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*Huasheng Gao is an Assistant Professor of Finance in the Nanyang Business School at the Nanyang Technological University in Singapore.

may avoid using equity for the acquisition if equity issuance reduces the short-term stock price by revealing signs of overvaluation to the market.

The second perspective is the catering channel. Short-horizon managers may undertake acquisitions that the market wants to see and enhance the firm's short-term stock price even though these mergers may cost the shareholders in the long run. As suggested by Jensen (2005), short-horizon managers tend to make financing and investment decisions to cater to market sentiment; they are likely to follow this sentiment and make risky negative net present value (NPV) investments that the market deems profitable.

The paper's main prediction is that long-horizon acquiring managers (as opposed to short-horizon ones) experience lower abnormal returns at merger announcements, are more likely to use equity as the payment mode, and have better postmerger stock performance. The key explanatory variable is managerial horizon, which I propose two proxies to measure. The first one is a dummy variable indicating whether or not the CEO is near retirement. Career concern is a natural factor correlated with managerial horizon. A near-retirement CEO usually has little time to remain in office and, therefore, is less likely to benefit from the firm's long-term performance (Dechow and Sloan, 1991; Gibbons and Murphy, 1992).

My second proxy is the value of the CEO's restricted stock and options that become vested during a given year as a percentage of the CEO's total pay. As suggested by existing literature, if a CEO has a sizable amount of incentive portfolio to be vested, they will probably cash out these equity positions within a short period of time and will be more concerned about the firm's short-run stock price (Hall and Murphy, 2000, 2002). While the first proxy measures managerial horizon from the perspective of career concern, the second one focuses on the executive compensation scheme.

The empirical results are consistent with my predictions. For example, a near-retirement bidding CEO (short horizon) is associated with about 0.79 percentage points higher bidders' announcement return, is 8 percentage points less likely to use stock for an acquisition, and incurs 10 percentage points poorer performance during the three years after the acquisitions.

I also examine the correlation between managerial horizon and acquisition frequency. The results indicate that long-horizon CEOs tend to make more acquisitions than the short-horizon ones do. This relationship becomes stronger when the acquirer's market valuation is high.

This paper makes a number of contributions to the literature. First, it enhances the current literature regarding mergers and acquisitions by identifying managerial horizon as an important factor in the decision process. It also provides new insights into understanding the cause and effects of takeovers. Further, this paper suggests that career concern and compensation schemes are two determinants of managerial horizon. To the best of my knowledge, this is the first paper providing an empirical measure of managerial horizon. Moreover, my paper adds to the literature on corporate behaviors from the perspective of managerial characteristics (Bertrand and Schoar, 2003; Malmendier and Tate, 2008). Finally, this study contributes to the rapidly growing field of behavioral corporate finance, which views corporate policies as a response to market mispricing (Baker, Ruback, and Wurgler, 2007).

One limitation of my study is the endogeneity issue. A CEO's horizon could be endogenously determined by some unobservable factors that drive acquisition decisions. Although it is difficult to solve this problem completely, I am able to alleviate some endogeneity concerns by adding a number of additional controls in the regression. I demonstrate that my results are not driven by time trend effects, industry effects, firm effects (where possible), or tangible firm and CEO characteristics.

The paper proceeds as follows. I develop my hypothesis in Section I. Section II describes the proxies for managerial horizon. In Section III, I describe the data and sample construction. Section IV reports the empirical results while Section V provides my conclusions.

I. Main Hypothesis and Testable Implications

The current literature suggests that managerial horizon influences acquisitions through two channels: 1) the equity issuance channel and 2) the catering channel. My main hypothesis states that long-horizon bidding managers undertake acquisitions through the equity issuance channel while their short-horizon counterparts make use of the catering channel.

A. Equity Issuance Channel

Shleifer and Vishny (2003), Rhodes-Kropf, Robinson, and Viswanathan (2005), and Dong et al. (2006) suggest that stock market misvaluation is a significant driving force in merger activities. They provide evidence that an overvalued stock market stimulates managers to undertake more acquisitions, especially stock-financed acquisitions. Long-horizon managers tend to use their overpriced equity to acquire assets from targets to enhance bidders' long-term share price.

Managerial horizon plays an important role in whether the companies take advantage of their overvalued equity. Stein (1996) indicates that the impact of market inefficiency on financing and investment decisions depends upon whether managers have long or short horizons. When the stock market can only partially correct the overvaluation at the news of an equity issuance, stock-financed acquisitions benefit bidders' shareholders in the long run but harm those shareholders in the short run. The decrease in the short-term stock price is mainly due to price-pressure-related losses associated with an equity transaction. Stein (1996) interprets this price pressure as investors updating their beliefs when they see managers undertaking an equity transaction. Therefore, short-horizon managers, who are concerned about the firm's short-term stock price, are less likely to use equity in an acquisition, so that they can preserve the overvaluation in the short term. This argument can be also supported by Emery and Switzer (1999), who find that bidders tend to choose the method of payment that can produce higher expected abnormal returns.

B. Catering Channel

Market inefficiency can be exploited not only by issuing overvalued equity but also by making investments that cater to investor sentiment. Managers with a short horizon may make an acquisition that has a negative NPV (and avoid an acquisition that has a positive NPV) as long such a strategy increases stock price in the short run. Consistent with the above view, Polk and Sapienza (2009) confirm that short-horizon managers tend to make investments that can boost short-term stock prices by stimulating or catering to market optimism.

Although responding to present market demands may boost the near-term stock price, it generally costs the shareholders in the long run. As stated by Stein (1996), this catering behavior temporarily distorts the firm's financing and investment decisions and, therefore, misallocates resources. Consistent with this argument, Polk and Sapienza (2009) find that companies that make investments catering to market demands have low subsequent stock returns. Brandenburger and Polak (1996) and Hirshleifer (1993) also argue that concern for short-term stock price may lead managers to make decisions other than those suggested by their own superior information. Jensen (2005) particularly addresses the cost of catering in the acquisition market. He points out that when short-horizon managers choose the acquisition projects that cater to investor wishes, the value of the core business is usually compromised. Shareholders, in the long run, will be worse off even though the short-term stock price is boosted.

C. Testable Predictions

Based on the analysis above, I propose three testable implications:

- Implication 1.** The acquirers managed by short-horizon CEOs experience higher stock returns at acquisition announcements than do the acquirers managed by long-horizon CEOs.
- Implication 2.** The acquirers managed by short-horizon CEOs are less likely to make equity-financed acquisitions than are the acquirers managed by long-horizon CEOs.
- Implication 3.** The acquirers managed by short-horizon CEOs have lower long-run stock returns after the acquisitions than do the acquirers managed by long-horizon CEOs.

II. Proxy for Managerial Horizon

Managerial horizon, like many other managerial characteristics, is naturally hard to observe. The first proxy is a dummy variable indicating whether or not the CEO is about to retire. This measure is fairly intuitive as a near-retirement CEO typically has a short horizon. Similar to Gibbons and Murphy (1992), I define *MHI* as a dummy variable that takes the value of one if the CEO is less than 62 years old and zero otherwise. In other words, *MHI* equals one if the CEO is three years beyond reaching age 65 or older than age 65 implying a long horizon. Consistent with this view, Dechow and Sloan (1991) find that CEOs who are near retirement tend to cut the firm's research and development (R&D) and advertising in order to increase the near-term earnings. Gibbons and Murphy (1992) also argue that managers become more short-term oriented when they approach retirement.

However, simply treating near-retirement CEOs as short-horizon managers might be problematic since several forces could be in play in the opposite direction. First of all, those CEOs who survive in their positions for a long time are likely to be quite successful. These managers, as a group, may have a longer horizon than young managers as taking actions that maximize long-run value should lead to greater long-term success. To address this concern, I add CEO tenure as one independent variable in the regression analysis to control for the effect of past CEO work experience. Second, a founder CEO may have a long horizon even when they are retiring. Thus, I construct a dummy variable to determine whether or not the CEO is the firm's founder, and use this variable as a control.

Moreover, CEOs in smaller and younger firms and CEOs with lower compensation tend to be more ambitious. They may hope to achieve short-run success with the hope of being rewarded with a more lucrative position in a larger company. Responding to this possibility, I control for firm size, firm age, and CEO compensation level. Finally, Graham and Narasimhan (2004) and Malmendier and Tate (2005) find that CEOs from the Great Depression cohort tend to be more conservative in assessing external markets. The interpretation of this result is that early macroeconomic experience influences individuals' economic decisions, even much later in life. To separate the effect of my horizon proxy from that of the Great Depression, I include in the regressions a dummy variable that flags the CEOs from that group.

My second proxy for managerial horizon is the value of the CEO's restricted stock and options that become vested during a given year normalized by the CEO's total pay. Stock and options form the majority of a CEO's compensation. Newly granted stock and options are always restricted from being sold or exercised until they become vested. If the CEO has little vested equity portfolio at hand, they may not be very concerned about the firm's near-term stock price as it will not have much direct impact on their personal wealth. In contrast, if a sizable amount of the CEO's incentive portfolio becomes vested, they may be more concerned about the current stock price as a high short-term price would increase their proceeds when they cash out. This notion is especially true when managers are underdiversified and risk averse. Hall and Murphy (2000, 2002) argue that

managers, who are risk-averse individuals and hold portions of their own firms' equity, are quite eager to sell/exercise their vested stock and options. Malmendier and Tate (2005) also suggest that those managers should minimize their vested equity holdings in order to divest themselves of idiosyncratic risk. If a CEO has a large amount of stock and options that have recently become vested, they will probably cash out these positions within a short period of time and, consequently, will be more concerned about the firm's short-run stock price.

III. Sample Selection and Data Description

The sample of acquisitions comes from the SDC US Mergers and Acquisitions Database. I begin with all completed deals announced from January 1, 1993 to December 31, 2004. I only select deals whose value is no less than \$10 million and for which the acquirer controls more than 50% of the target's shares after the acquisition. Deal value is defined by SDC as the total value paid by the acquiring firm excluding fees and expenses. I also require that bidders have an available stock price from CRSP, accounting information from Compustat, and CEO compensation and age data from ExecuComp. To identify the acquisitions that may have significant impact on shareholders' and managers' wealth, I eliminate those in which the deal value is less than 1% of the bidder's total assets (market value) prior to the acquisition. I end up with a sample of 2,894 deals.

In my sample, 481 deals are made by bidding CEOs who are age 62 or older ($MH1 = 1$). To construct my second horizon proxy, $MH2$, I first compute an executive's total compensation (*Totalpay*) in a given year as the sum of their salary, bonuses, long-term incentive plans, the grant-date value of their restricted stock, and the Black-Scholes value of their granted options. I then calculate $Value_VestingEquity(t)$, the value of the restricted stock and options that turn to be vested in Year t , as $Value_VestingEquity(t) = Unvested_Equity(t - 1) + EquityGrant(t) - Unvested_Equity(t)$. The variables $Unvested_Equity(t)$ and $Unvested_Equity(t - 1)$ are the value of unvested stock and options in Year t and $t - 1$, respectively. $EquityGrant(t)$ is the value of newly granted stock and options in Year t . I then define $VestingEquity$ as $Value_VestingEquity$ divided by *Totalpay*. The information regarding the CEO's total pay, unvested equity portfolio, and newly granted stock and options is obtained from ExecuComp. The variable, $VestingEquity$, captures the value of the turn-vested stock and options as the proportion of the CEO's total pay. Finally, I compute $MH2$ as $MH2 = 1 - VestingEquity$. The negative sign in front of $VestingEquity$ indicates that a CEO with a larger $VestingEquity$ variable has a relatively shorter horizon. A higher $MH2$ value indicates a longer horizon. The correlation coefficient between $MH1$ and $MH2$ is around 0.01, implying that these two variables are not highly correlated.

The dummy, *Founder*, takes the value of one if the CEO is one of the firm's founders and zero otherwise. Since ExecuComp does not provide information as to whether the CEO is a founder, I follow the model of Adam, Almeida, and Ferreira (2005) to construct this variable. In particular, the *Founder* dummy is set to zero if the firm was incorporated 64 years or more prior to the current year or if the CEO joined the company at least four years after the firm's incorporation. Clearly, the current CEO cannot be the founder in the above two cases. For the remaining firm-year observations, I check the information about the firm's founder from proxy statements, annual reports, and Internet searches. In my sample, 245 deals are made by founder CEOs of bidders.

To flag the CEOs from the Great Depression cohort, I construct the *Depression* dummy equal to one if the CEO is born during the 1930s or earlier and zero otherwise. In my sample, CEOs from the Great Depression group undertake 171 acquisitions.

Other bidders' characteristics, such as firm size, ROA, leverage, firm age, and stock return, are constructed from Compustat and CRSP. All of the variables are measured at the fiscal year-end

prior to the acquisition announcements. To ensure that some outliers in the data are not driving my results, I winsorize all the continuous variables at one percentage tails.

Table I presents the descriptive statistics of my sample. Panel A reveals that acquisitions tend to be cyclical as both the total number and median deal value of mergers closely follow the business cycle expansion over the late 1990s. The evidence suggests significant time series clustering of acquisition activity, especially the gathering of stock-financed mergers. The number of stock-financed acquisitions declines sharply in the early 2000s, coinciding with the decline of the overall stock market.

Panel B reports the characteristics of acquiring firms. The median bidder is quite large; its annual sales volume is \$919 million. Bidding firms are performing well with the median market-to-book ratio (M/B) of 2.5, the past-year stock return of 21.6%, and a ROA of 14%. The median *FirmAge* is about 14 years.

The median CEO is 54 years old with a tenure of six years. They are holding a *VestingEquity* of 0.23, implying that the value of stock and options that have just become vested is about 23% of their total annual pay. Their total annual compensation is \$2,278 thousand and their ownership in the firm (inclusive of options) is 1.73%.

Following standard event study methods, I estimate the three-day cumulative abnormal returns (*CAR3*) over the event windows $(-1, 1)$ around the announcement date (Day 0) based on the market model using CRSP value-weighted index returns. The parameters are estimated within an $(-200, -60)$ event window relative to the announcement date. The *CAR3* of the bidder is slightly positive with a mean of 0.3% and a median of 0.2%.

Following Barber and Lyon (1997) and Barber, Tsai, and Lyon (1999), I employ the control firm approach using control firm size, book-to-market ratio, and prior-year stock return as the benchmarks for postmerger stock performance. Barber and Lyon (1997) report that the control firm approach not only eliminates the skewness bias associated with the long-term buy-and-hold abnormal returns but also yields well-specified statistics. The bidder's three-year buy-and-hold abnormal return (*BHAR3*) following the acquisition has a mean of -6.3% and a median of -6.5% , suggesting that the acquirer underperforms its control by a considerable magnitude.

Table II reports my univariate comparison of merger performance sorted by managerial horizon; it demonstrates that long-horizon bidding CEOs have lower announcement returns, but better postmerger long-run performance. In Panel A, I sort the sample by *MHI*. The average *CAR3* in the subsample with *MHI* = 1 (long horizon) is about 0.1%. This number is significantly less than 0.9%, the average *CAR3* in the subsample with *MHI* = 0 (short horizon). The comparison of medians provides the same results. The difference in median *CAR3* between long-horizon bidders and their short-horizon counterparts is about -0.5% . This difference is statistically significant at the 1% level. The mean *BHAR3*, when *MHI* = 1, is -5% , about 6 percentage points larger than the value when *MHI* = 0. The difference is significant at the 10% level. The comparison of *BHAR3* in medians provides a similar, but less significant result.

In Panel B of Table II, the acquisition sample is sorted into quintiles based on *MH2*. Panel B reports the means and medians of *CAR3* and *BHAR3* for the largest and smallest quintiles. Although the difference in *CAR3* is not statistically significant, the mean *BHAR3* in the largest quintile is about 12.7 percentage points higher than that of the smallest quintile. The insignificance of the mean test in *CAR3* also suggests that it is important to control for some confounding variables in the regression analysis.

Overall, the univariate test provides supportive evidence that long-horizon bidders experience poorer performance in the short run but better outcomes in the long run than do short-horizon bidders.

Table I. Summary Statistics of Corporate Acquisitions

The sample includes 2,894 completed US acquisitions from January 1, 1993 to December 31, 2004. Panel A includes those acquisitions listed by the SDC, where the acquiring firm gains control of the target firm and whose deal value is at least \$10 million and 1% of the bidder's total assets (market value). Deal value is defined by SDC as the total value of consideration paid by the acquiring firm, excluding fees and expenses. The sample includes bidding firms for which stock price data are in CRSP, accounting data are in Compustat, and CEO compensation and age data are in ExecuComp. Stock (Cash) refers to deals where the payments to the targets are all by stock (cash). Mixed refers to deals in which both cash and stock are used. In Panel B, *VestingEquity* is the value of the CEO's restricted stock and option holdings that become vested in a given year normalized by the CEO's total annual pay. *TotalPay* (\$K) is the CEO's total annual compensation. *Ownership* is the fraction of the firm's shares owned by the CEO inclusive of options. *Tenure* is the number of years that the CEO has served in their position. *Sales* (\$million) refers to the firm's annual sales volume. *M/B* is the ratio of market value of equity over book value of equity. *ROA* is the accounting return on assets obtained as the ratio of earnings before interest and taxes to total assets. *Leverage* is the ratio of total debt over total assets. *FirmAge* refers to the age of the company. *PastReturn* denotes the compound stock return of acquiring firms over the year prior to the acquisition announcement. All of the above variables are measured at the fiscal year-end prior to the acquisition announcement. *CAR3* is the three-day accumulative abnormal returns over the event window (-1, 1) around the announcement date (Day 0) based on the market model using CRSP value-weighted index returns. The parameters are estimated within a (-200, -60) event window relative to the announcement date. *BHAR3* is the three-year buy-and-hold abnormal return following the acquisition. Matching firms are formed based on size, book-to-market ratio, and stock return.

Panel A. Distribution of Mergers and Acquisitions by Announcement Year

Year	Number of Acquisitions (%)	Median Deal Value (\$ Millions)	Method of Payment		
			Stock	Cash	Mixed
1993	23 (0.8)	43	8	5	10
1994	167 (5.8)	128	44	54	69
1995	252 (8.7)	92	95	61	96
1996	271 (9.4)	122	74	69	128
1997	316 (11)	196	100	68	148
1998	310 (10.7)	201	100	61	149
1999	337 (11.6)	241	100	69	168
2000	296 (10.2)	240	91	49	156
2001	232 (8)	120	38	57	137
2002	238 (8.2)	93	22	87	129
2003	224 (7.7)	121	18	88	118
2004	228 (7.9)	129	20	91	117
Total	2,894 (100)	142	710	759	1425

Panel B. Acquiring Firm Characteristics

Year	Mean	Std.	5th Pct	Median	95th Pct
<i>CEO age</i>	54.3	7.3	42	54	67
<i>VestingEquity</i>	0.19	2.21	0	0.23	2.72
<i>TotalPay</i> (\$K)	4,748	7,378	444	2,278	17,661
<i>Ownership</i>	4.14%	6.46%	0.16%	1.73%	18.2%
<i>Tenure</i>	7.6	6.8	1	6	21
<i>Sales</i>	3005	5783	104	919	13544
<i>M/B</i>	3.9	5.1	0.9	2.5	11.7
<i>ROA</i>	14%	9%	2%	14%	29%
<i>Leverage</i>	22%	17%	0	21%	53%
<i>FirmAge</i>	17.9	13.3	2	14	46
<i>PastReturn</i>	34.9%	71.7%	-42.7%	21.6%	157.9%
<i>CAR3</i>	0.3%	6%	-9.9%	0.2%	10.2%
<i>BHAR3</i>	-6.3%	114%	-185%	-6.5%	175%

Table II. Managerial Horizon and Merger Performance

The sample includes 2,894 completed US acquisitions from January 1, 1993 to December 31, 2004. Panel A sorts all selected deals into subsamples based on *MH1*, where *MH1*, my first proxy for managerial horizon, equals one if the CEO is less than 62 years old and zero otherwise. A CEO with *MH1* = 1 is expected to have a longer horizon than a CEO with *MH1* = 0. *CAR3* is the three-day accumulative abnormal return around the announcement date. *BHAR3* is the three-year buy-and-hold abnormal return following the acquisition. The middle and final columns report the difference of the two means and the two medians, respectively. Panel B sorts all selected deals into quintiles based on *MH2*. The variable *MH2* is my second proxy for managerial horizon; it is computed as $1 - \text{VestingEquity}$, where *VestingEquity* is the value of the CEO's restricted stock and option holdings that becomes vested in a given year normalized by the CEO's total annual pay. A CEO with a larger value of *MH2* is expected to have a longer horizon. I report the means and medians for the largest and smallest quintiles. The middle and final columns report the difference of the two means and the two medians, respectively. The tests of means are based on *t*-statistics; the tests of medians are based on Wilcoxon signed tests.

<i>Panel A. Sorting Sample by MH1</i>						
	Mean			Median		
	<i>MH1</i> = 1 (1)	<i>MH1</i> = 0 (2)	Difference (1)–(2)	<i>MH1</i> = 1 (4)	<i>MH1</i> = 0 (5)	Difference (4)–(5)
<i>CAR3</i>	0.1%	0.9%	–0.8%***	0.1%	0.6%	–0.5%***
<i>BHAR3</i>	–5%	–11%	6%*	–6.4%	–8.6%	2.4%

<i>Panel B. Sorting Sample by MH2</i>						
	Mean			Median		
	Largest <i>MH2</i> (1)	Smallest <i>MH2</i> (2)	Difference (1)–(2)	Largest <i>MH2</i> (4)	Smallest <i>MH2</i> (5)	Difference (4)–(5)
<i>CAR3</i>	0.2%	–0.04%	0.24%	0.02%	0.2%	–0.18%
<i>BHAR3</i>	–0.8%	–13.5%	12.7%**	–5%	–9%	4%

***Significant at the 0.01 level.
 **Significant at the 0.05 level.
 *Significant at the 0.10 level.

IV. Empirical Results

A. Abnormal Returns during Announcement Periods

I run several cross-sectional OLS regressions using the following model:

$$\begin{aligned}
 CAR3 = & \delta_0 + \delta_1 Horizon + \delta_2 PastrReturn + \delta_3 M/B + \delta_4 ROA \\
 & + \delta_5 FirmSize + \delta_6 Leverage + \delta_7 Tender + \delta_8 Depression + \delta_9 Founder \\
 & + \delta_{10} \ln(Totalpay) + \delta_{11} Firmage + \delta_{12} Tenure + \delta_{13} Ownership \\
 & + YearDummies + IndustryDummies + \varepsilon,
 \end{aligned} \tag{1}$$

where the dependent variable is the bidder's three-day announcement abnormal returns (in percentage). *Tender* is a dummy variable that equals one if the acquisition is a tender offer and zero

Table III. Regression Analysis on Announcement-Period Abnormal Returns

The sample includes 2,894 completed US acquisitions from January 1, 1993 to December 31, 2004. The dependent variable is three-day $(-1,1)$ accumulative abnormal returns (in percentage) as defined in Table I. The variables *Tender*, *Depression*, and *Founder* are dummies that take the value of one if the deal is a tender offer, if the CEO is born during the 1930s or earlier, and if the CEO is one of the firm's founders, respectively, and zero otherwise. Industry dummies are based on the 48-industry classification of Fama and French (1997). Corresponding p -values from Huber-White robust standard errors are reported in parentheses.

	(1)	(2)	(3)	(4)	(5)	(6)
<i>MH1</i>	-0.71 (0.019)	-0.71 (0.017)	-0.76 (0.022)			
<i>MH2</i>				-0.05 (0.098)	-0.11 (0.006)	-0.12 (0.04)
<i>PastReturn</i>		0.01 (0.004)	0.01 (0.003)		0.007 (0.003)	0.007 (0.002)
<i>M/B</i>		-0.09 (0.012)	-0.1 (0.004)		-0.09 (0.01)	-0.12 (0.01)
<i>ROA</i>		3.63 (0.027)	3.48 (0.04)		3.76 (0.02)	3.63 (0.03)
<i>Size</i>		-0.35 (0.000)	-0.39*** (0.001)		-0.36 (0.000)	-0.36 (0.004)
<i>Leverage</i>		1.11 (0.16)	1.08 (0.19)		1.49 (0.06)	1.15 (0.17)
<i>Tender</i>		-0.05 (0.91)	-0.14 (0.73)		0.04 (0.92)	0.07 (0.71)
<i>Depression</i>			0.49 (0.46)			0.44 (0.46)
<i>Founder</i>			-0.85 (0.04)			-0.81 (0.06)
$\ln(\text{Totalpay})$			0.06 (0.68)			0.01 (0.94)
<i>FirmAge</i>			-0.002 (0.84)			0.001 (0.94)
<i>Tenure</i>			-0.005 (0.81)			0.005 (0.83)
<i>Ownership</i>			1.62 (0.51)			1.59 (0.53)
Year & industry dummies	Yes	Yes	Yes	Yes	Yes	Yes
Intercept	0.82 (0.29)	6.89 (0.000)	6.71 (0.005)	0.44 (0.58)	6.37 (0.000)	6.73 (0.006)
<i>N</i>	2,893	2,833	2,734	2,839	2,779	2,626
Adjusted R^2	2.2%	3.5%	3.4%	2.2%	3.7%	3.6%

*** Significant at the 0.01 level.

otherwise. Year dummies are employed to account for economy-wide shocks. Industry dummies based on the 48-industry classification of Fama and French (1997) are employed to control for industry effects. According to Implication 1, I expect δ_1 to be negative. Corresponding p -values are computed based on Huber-White robust standard errors.

The primary result from Table III is that the coefficients on *Horizon*, proxied by *MH1* and *MH2*, are negative and significant in all of the six models. In Regression (1), I include *MH1* as well as year and industries dummies as the independent variables. The coefficient on *MH1* is -0.71 with

a p -value of 0.019. In Regression (2), I include *PastReturn*, *M/B*, *ROA*, *FirmSize*, *Leverage*, and *Tender* as additional control variables. The coefficient of *MHI* is -0.71 with a p -value of 0.017.

In Regression (3), I add *Depression*, *Founder*, $\ln(\text{TotalPay})$, *FirmAge*, *Tenure*, and *Ownership* as additional controls. The coefficient on *MHI* is -0.76 and is significant at the 5% level. *CAR3* is decreased by 0.76 percentage points when *MHI* changes from zero to one as compared to the sample mean of 0.3%.

In Regressions (4)-(6), I substitute *MHI* with *MH2* to test Implication 1 under this alternative proxy for managerial horizon. The coefficients on *MH2* are -0.05 , -0.11 , and -0.12 , respectively, and all of them are significant at the 10% level, indicating that managerial horizon measured by *MH2* is also negatively associated with bidders' announcement returns. Taking Model 6 as another example, the coefficient on *MH2* indicates that an increase in *MH2* by one standard deviation (2.21) is expected to decrease *CAR3* by 0.26 percentage points.

Like Dong et al. (2006), I find that bidders of high *M/B* ratio experience lower announcement returns. Dong et al. (2006) interpret this result to mean that overvalued bidders have more negative returns at acquisition announcements. In addition, my regression indicates that larger bidders have lower *CAR3*, consistent with the size effects of acquirers documented by Moeller, Schlingemann, and Stulz (2004). Notably, the *Founder* dummy has a significantly negative coefficient signifying that a founder CEO experiences poorer announcement returns than do other CEOs. Overall, my findings support the prediction that acquiring firms managed by short-horizon CEOs experience higher abnormal returns at merger announcements.

B. Probability of Equity Payment

I use logit regressions to test whether or not long horizon CEOs are more likely to pay with equity for acquisitions. Specifically, I estimate the following model:

$$\begin{aligned} \text{Pr}(\text{Allstock}) = F(\text{Horizon}, \text{PastReturn}, \text{M/B}, \text{ROA}, \text{FirmSize}, \text{Leverage}, \\ \text{Tender}, \text{Depression}, \text{Founder}, \ln(\text{TotalPay}), \text{FirmAge}, \text{Tenure}, \\ \text{Ownership}, \text{YearDummies}, \text{IndustryDummies}). \end{aligned} \quad (2)$$

The dependent variable, *Allstock*, takes on a value of one if the acquisition is paid only by equity and zero otherwise. The variable, F , denotes the logit cumulative distribution function. Based on Implication 2, the coefficients on *Horizon* are expected to be positive.

The regression results are reported in Table IV, where the coefficients are estimates of the marginal effect on the probability when all of the other independent variables are at their mean value.¹ Table IV indicates that the probability of equity payment increases with managerial horizon. In all six of the models, the coefficients on *MHI* and *MH2* are positive and significant, and their economic magnitude is also quite sizable.

In Models (1)-(3), I use *MHI* and some control variables. The coefficient on *MHI* is 0.08 and is significant at the 1% level in Model (1) where the control variables just include year dummies and industry dummies. This result implies that an increase of *MHI* from zero to one will increase the probability of equity payment by about 8 percentage points. Given the fact that the unconditional probability of an acquisition in my sample being financed entirely by equity is 24.5% (see Table I), this marginal effect is definitely remarkable. In Model (2), I include *PastReturn*, *M/B*, *ROA*, *Size*, *Leverage*, *Cash*, and *Tender* as additional explanatory variables. The variable *MHI*

¹ I also create a subsample where acquisitions with mixed payments are excluded and rerun the logit regressions in Table IV. The results remain almost entirely the same.

Table IV. Logit Regression Analysis on the Likelihood of Stock Payment

This table reports logit models predicting the probability of stock payment in acquisitions. The sample includes 2,894 completed US acquisitions from January 1, 1993 to December 31, 2004. The dependent variable is a dummy variable that equals one if acquirers pay the targets all by stock and zero otherwise. The coefficients are estimates of the marginal effect on the probability when all of the independent variables are at their mean value. Corresponding p -values from Huber-White robust standard errors are reported in parentheses.

	(1)	(2)	(3)	(4)	(5)	(6)
<i>MH1</i>	0.08 (0.000)	0.067 (0.000)	0.07 (0.005)			
<i>MH2</i>				0.008 (0.042)	0.005 (0.055)	0.004 (0.056)
<i>PastReturn</i>		0.000 (0.36)	0.000 (0.18)		0.000 (0.25)	0.000 (0.89)
<i>M/B</i>		0.013 (0.000)	0.014 (0.000)		0.014 (0.000)	0.014 (0.000)
<i>ROA</i>		-0.25 (0.012)	-0.31 (0.002)		-0.23 (0.019)	-0.28 (0.007)
<i>Size</i>		0.003 (0.64)	0.004 (0.61)		0.001 (0.85)	0.001 (0.86)
<i>Leverage</i>		-0.21 (0.000)	-0.21 (0.000)		-0.22 (0.000)	-0.18 (0.000)
<i>Tender</i>		-0.16 (0.000)	-0.16 (0.000)		-0.16 (0.000)	-0.16 (0.000)
<i>Depression</i>			-0.009 (0.86)			-0.059 (0.09)
<i>Founder</i>			0.051 (0.03)			0.056 (0.04)
$\ln(\text{Totalpay})$			0.01 (0.17)			0.016 (0.19)
<i>FirmAge</i>			-0.000 (0.90)			-0.000 (0.98)
<i>Tenure</i>			-0.01 (0.48)			-0.02 (0.45)
<i>Ownership</i>			0.03 (0.82)			-0.06 (0.66)
Year & industry dummies	Yes	Yes	Yes	Yes	Yes	Yes
N	2,894	2,765	2,666	2,818	2,680	2,546
Pseudo R^2	18.7%	23.3%	23.6%	18.7%	23.4%	23.1%

has a coefficient of 0.067, which is significant at the 1% level. I further add *Depression*, *Founder*, $\ln(\text{Totalpay})$, *FirmAge*, *Tenure*, and *Ownership* in Model (3) in which the coefficient on *MH1* is significant and has a value of 0.07.

In Models (4)-(6), I use *MH2* instead of *MH1* in the regression analysis; the results are similar to those in the previous three models. In Model (4), for example, the coefficient on *MH2* is 0.008 and the p -value is 0.042, indicating that an increase in *MH2* from the mean by one standard deviation is expected to increase the probability of equity payment by about 1.8 percentage points.

Of the remaining control variables, *M/B* ratio is positively associated with the use of stock. This result is consistent with the prior literature suggesting that high-valuation firms are more likely to

use equity to make acquisitions (Dong et al., 2006). Firms with higher *ROA* are less likely to use equity. This finding supports the premise that bidders tend to use cash in acquisitions when they have greater cash flow (Martin, 1996). The coefficient on *Leverage* is negative and is significant signifying that less levered bidders enter into more stock-financed acquisitions. As in the prior literature, I find that a tender offer is usually associated with cash payment. Moreover, founder CEOs tend to use stock in their acquisitions. This finding contributes to the recently increasing focus in the literature regarding founder CEOs, who behave quite differently from successor CEOs (Fahlenbrach, 2009). The results from Table IV support the prediction that long-horizon acquiring CEOs are more likely to use equity as the exchange medium than are their short-horizon counterparts.

C. Long-Term Stock Performance Following Acquisitions

I run cross-sectional OLS regressions to test whether or not long-horizon CEOs enjoy better long-term stock performance following acquisitions. The following model is estimated:

$$\begin{aligned}
 BHAR3 = & \alpha_0 + \alpha_1 Horizon + \alpha_2 PastReturn + \alpha_3 M/B + \alpha_4 ROA + \alpha_5 FirmSize \\
 & + \alpha_6 Leverage + \alpha_7 Tender + \alpha_8 Depression + \alpha_9 Founder \\
 & + \alpha_{10} Ln(TotalPay) + \alpha_{11} FirmAge + \alpha_{12} Tenure + \alpha_{13} Ownership \\
 & + YearDummies + IndustryDummies + \varepsilon.
 \end{aligned} \tag{3}$$

The dependent variable is three-year buy-and-hold abnormal returns (in percentage) after the deal completion, as defined in Section III. Based on Implication 3, I expect α_1 to be positive.

As reported in Table V, the coefficients of *MH1* and *MH2* are significant and positive in all of the regression models. The coefficients on *MH1* are around 10, implying that an increase in *MH1* from zero to one is expected to enhance *BHAR3* by around 10 percentage points; this is certainly economically important relative to the unconditional average of -6.3% . The coefficients on *MH2* are about 3, indicating that *BHAR3* will increase by about 6.6 percentage points when *MH2* increases by one standard deviation.

The coefficients on *ROA* are consistently positive and significant at the 5% level, suggesting that bidders' prior-year accounting performance is positively associated with their long-run stock performance. *M/B* has significantly negative coefficients, which is consistent with the previous literature that glamour-focused acquirers perform poorly after the transactions (Rau and Vermaelen, 1998; Andre, Kooli, and L'Her, 2004). All of the other control variables are generally insignificant. The major conclusion drawn from this regression analysis is that managerial horizon emerges as an important and robust determinant of long-term stock performance after the merger. The results support the prediction that a long-horizon acquiring CEO has better long-run performance following acquisitions than does a short-horizon manager.

D. Additional Analysis on Acquisition Frequency

All of the above analyses relate to either the value implications or financing choices conditional upon making a merger deal. It is interesting to investigate the effect of managerial horizon on the choice as to whether or not to make an acquisition at all. A manager with a short horizon might refrain from undergoing risky projects such as pursuing acquisitions. In contrast, a manager with a long horizon is more likely to undertake mergers when their firm is overvalued. In this section, I examine how managerial horizon influences the manager's decision to make acquisitions by estimating the following equation:

Table V. Regression Analysis on Long-Run Stock Performance Following the Acquisitions

This table reports regression results examining the effect of managerial horizon on long-term stock performance following acquisitions. The sample includes 2,894 completed US acquisitions from January 1, 1993 to December 31, 2004. The dependent variable is three-year buy-and-hold abnormal returns (in percentage) after the completion date of the merger as defined in Table I. Corresponding *p*-values from Huber-White robust standard errors are reported in parentheses.

	(1)	(2)	(3)	(4)	(5)	(6)
<i>MH1</i>	9.09 (0.089)	10.89 (0.045)	11.43 (0.07)			
<i>MH2</i>				3.31 (0.000)	2.98 (0.000)	3.25 (0.000)
<i>PastReturn</i>		0.018 (0.58)	0.013 (0.69)		0.044 (0.19)	0.044 (0.29)
<i>M/B</i>		-0.81 (0.088)	-0.86 (0.071)		-0.93 (0.052)	-0.81 (0.1)
<i>ROA</i>		69.27 (0.029)	70.99 (0.026)		65.92 (0.042)	69.88 (0.04)
<i>Size</i>		3.32 (0.052)	1.33 (0.53)		3.53 (0.04)	2.01 (0.35)
<i>Leverage</i>		-5.87 (0.71)	-7.61 (0.62)		-3.59 (0.82)	-3.79 (0.81)
<i>Tender</i>		-4.13 (0.62)	-6.41 (0.51)		-2.76 (0.74)	-2.85 (0.75)
<i>Depression</i>			2.71 (0.71)			-1.71 (0.74)
<i>Founder</i>			0.34 (0.94)			-1.41 (0.83)
<i>Ln(Totalpay)</i>			2.01 (0.16)			0.79 (0.31)
<i>FirmAge</i>			0.073 (0.71)			0.09 (0.96)
<i>Tenure</i>			0.51 (0.14)			0.34 (0.41)
<i>Ownership</i>			-26.91 (0.51)			-27.73 (0.51)
Year & industry dummies	Yes	Yes	Yes	Yes	Yes	Yes
Intercept	-0.19 (0.98)	-69.32 (0.068)	-78.72 (0.1)	13.31 (0.33)	-64.42 (0.085)	-68.31 (0.11)
<i>N</i>	2,807	2,751	2,653	2,753	2,697	2,550
Adjusted <i>R</i> ²	3.4%	3.7%	3.6%	4.5%	4.5%	4.3%

$$\begin{aligned}
AcquisitionNumber_{it} = & \beta_0 + \beta_1 Horizon_{it-1} + \beta_2 Horizon_{it-1} \times M/B_{it-1} + \beta_3 M/B_{it-1} \\
& + \beta_4 PastReturn_{it-1} + \beta_5 ROA_{it-1} + \beta_6 FirmSize_{it-1} \\
& + \beta_7 Depression_{it-1} + \beta_8 Founder_{it-1} + \beta_9 Ln(Totalpay)_{it-1} \\
& + \beta_{10} FirmAge_{it-1} + \beta_{11} Tenure_{it-1} + \beta_{12} Ownership_{it-1} \\
& + YearDummies + IndustryDummies + \varepsilon_{it},
\end{aligned} \tag{4}$$

where i indexes firms and t indexes years. The dependent variable is the number of acquisitions made by a company in a certain year. The independent variables include managerial horizon proxies, M/B ratio, the interaction between horizon and M/B ratio, and other controls. The M/B variable measures the firm's market valuation. The regression is based on data for firms in ExecuComp from 1993 to 2004.

In Panel A of Table VI, I run cross-sectional OLS regressions and compute the p -values based on robust standard errors clustered at the firm level. As presented in Panel A, long-horizon managers tend to make more acquisitions than do short-horizon CEOs. This relationship is stronger when firms have inflated market valuation. In Model (1), the coefficient on $MH1$ is around 0.017 and is significant at the 10% level. This result implies that a manager with a long horizon makes more acquisitions. In Model (2), I add the interaction between $MH1$ and M/B , $MH1 \times M/B$. This interaction term has a positive but insignificant coefficient of 0.005. I replace $MH1$ with $MH2$ in Models (3) and (4) to further examine the association between managerial horizon and acquisition frequency. The term, $MH2 \times M/B$, has a positive coefficient, which is significant at the 1% level. This result implies that long horizon managers are more likely to undertake acquisitions when their firm's market valuation is high.

Not surprisingly, larger firms and firms with high stock returns complete more acquisitions. Like Fahlenbrach (2009), I also find that founder CEOs are more active in acquisition activities. The finding that highly paid CEOs are associated with more acquisitions could be explained by the fact that CEOs with greater compensation are usually employed by large firms. The variable *FirmAge* has a significantly negative coefficient, indicating that mature firms are less likely to undergo corporate restructuring such as merger and acquisition activity. The coefficient of *Depression* is negative, but not always significant; it suggests that CEOs born during the 1930s or earlier are participating in fewer takeovers. This result is also largely consistent with Malmendier and Tate's (2005) finding that the CEOs born during the Great Depression period are, on average, making fewer capital investments.

There could be omitted firm characteristics that are correlated with the horizon measures thereby explaining the differences in acquisitiveness. To address this possibility, I run firm fixed effect regressions in Panel B. The regression specification is the same with that in Panel A except that I replace industry dummies with firm fixed effects. The regression results in Panel B are very similar to those in Panel A.

The interaction $MH1 \times M/B$ does not have significant coefficients in either of the two panels. This result may be due to the high correlation between $MH1 \times M/B$ and M/B . The corresponding correlation coefficient is 0.88.² Moreover, the coefficients in front of $MH1$ and $MH2$ are not always consistent with each other. Therefore, they could indicate that the impact of managerial horizon on acquisitiveness is not as evident as that of valuation effects and payment choice.

Overall, the results in Table VI support, at least weakly, the view that long-horizon managers participate in more acquisitions than do short-horizon managers. Additionally, long-horizon managers tend to make use of high market valuation to complete acquisitions.

E. Alternative Explanation and Robustness Checks

CEO age might be a proxy for CEO ability. The older the CEO, the greater are the market's assessments of their ability given that this CEO has survived in the labor market (Milbourn, 2003). In this view, my horizon variable, $MH1$, is expected to be negatively associated with CEO ability. Yet this interpretation makes no predictions regarding the choice of payment method in

² The correlation coefficient between $MH2 \times M/B$ and M/B is 0.33.

Table VI. Regression Analysis on Acquisition Frequency

Panel A examines the effect of managerial horizon on acquisition frequency. I run pooled OLS regressions based on firms listed in the ExecuComp data set from 1993 to 2004. The dependent variable is the number of acquisitions made by a company in a given year. Corresponding p -values from robust standard errors clustered at the firm level are reported in brackets. In Panel B, the regression specification is identical to that of Panel A except that I run firm fixed effects regressions. The control variables (unreported) have similar coefficients to those in Panel A.

<i>Panel A. OLS Regression</i>				
	(1)	(2)	(3)	(4)
<i>MH1</i>	0.017 (0.09)	0.002 (0.94)		
<i>MH1</i> × <i>M/B</i>		0.005 (0.34)		
<i>MH2</i>			0.001 (0.85)	−0.012 (0.19)
<i>MH2</i> × <i>M/B</i>				0.003 (0.008)
<i>M/B</i>	0.006 (0.06)	0.001 (0.95)	0.006 (0.054)	−0.29 (0.005)
<i>PastReturn</i>	0.092 (0.000)	0.092 (0.000)	0.090 (0.000)	0.090 (0.000)
<i>ROA</i>	0.003 (0.975)	0.005 (0.954)	−0.01 (0.904)	−0.19 (0.001)
<i>Size</i>	0.044 (0.000)	0.044 (0.000)	0.043 (0.000)	0.039 (0.000)
<i>Depression</i>	−0.04 (0.22)	−0.042 (0.21)	−0.05 (0.091)	−0.059 (0.009)
<i>Founder</i>	0.055 (0.031)	0.056 (0.031)	0.059 (0.023)	0.064 (0.000)
$\ln(\text{Totalpay})$	0.053 (0.000)	0.053 (0.000)	0.056 (0.000)	0.066 (0.000)
<i>FirmAge</i>	−0.002 (0.022)	−0.002 (0.023)	−0.002 (0.028)	−0.001 (0.003)
<i>Tenure</i>	−0.002 (0.14)	−0.002 (0.14)	−0.002 (0.06)	−0.002 (0.013)
<i>Ownership</i>	0.17 (0.26)	0.17 (0.27)	0.14 (0.35)	0.05 (0.59)
Year & industry dummies	Yes	Yes	Yes	Yes
Intercept	−1.49 (0.000)	−1.48 (0.000)	−1.51 (0.000)	−1.52 (0.000)
<i>N</i>	15,937	15,937	15,329	15,329
Adjusted R^2	6.3%	6.3%	6.3%	6.3%
<i>Panel B. Firm Fixed Effects Regression</i>				
	(1)	(2)	(3)	(4)
<i>MH1</i>	0.013 (0.08)	0.003 (0.97)		
<i>MH1</i> × <i>M/B</i>		−0.001 (0.83)		
<i>MH2</i>			0.002 (0.53)	−0.003 (0.42)
<i>MH2</i> × <i>M/B</i>				0.002 (0.072)

acquisitions. Moreover, it is inconsistent with the empirical results that *MH1* is positively related to long-run abnormal returns since CEOs with greater ability should not underperform inferior ability managers in the long term.

Another interpretation for the *MH2* variable is the CEO's equity-based compensation. A CEO with more stock-based compensation may, on average, have more vested stock and options (a lower *MH2* value). The existing literature suggests that equity-based compensation alleviates managerial agency problems and influences acquisition decisions; therefore, *MH2* may capture the incentive effects from equity compensation. Datta, Iskandar-Datta, and Raman (2001) demonstrate that bidding CEOs paid under more equity-based compensation schemes are associated with better announcement returns and postacquisition long-run performance. Their results imply that *MH2* is not capturing the incentive-alignment effects from stock-based pay as *MH2* is positively associated with postmerger long-run performance.

Finally, managerial horizon may also be interpreted as shareholders' horizon if shareholders select the CEOs who have the same horizon as theirs. Gaspar, Massa, and Matos (2005) use share turnover by investors as a proxy for shareholders' horizon and confirm that bidding firms with short-term shareholders experience lower announcement abnormal returns as well as poorer long-run performance after mergers. This finding implies that it is inappropriate to interpret managerial horizon as shareholders' horizon as acquiring firms managed by short-horizon CEOs have greater announcement returns than do those managed by long-horizon CEOs.

My regression results are robust to a number of different specifications. For example, I obtain similar coefficients on *MH1* and *MH2* in all the regressions if: 1) I compute firm size as $\text{Ln}(\text{Total Assets})$ or $\text{Ln}(\text{Market Capitalization})$ instead of $\text{Ln}(\text{Sales Volume})$, 2) I use *Return on Equity* or *Sales Growth* as proxies for the firm's accounting performance, 3) I calculate the cumulative abnormal returns at announcement during the event windows $(-1, 0)$ and $(-2, 2)$, 4) I use control firms only on book-to-market ratio and size as benchmarks to compute the long-run abnormal returns, 5) I construct industry dummies using two-digit SIC codes, and 6) I use a probit regression model in Table IV.

V. Conclusions

The major goal of this paper is to establish the relationship between managerial horizon and corporate takeover decisions. This paper analyzes how managers with different horizons make acquisitions as a response to market inefficiencies. Long-horizon managers: 1) focus more on firms' long-term value and 2) tend to use their overvalued equity to acquire target firms in order to preserve some of the temporary overvaluation for long-run shareholders. In contrast, short-horizon managers: 1) pay greater attention to firms' short-term value, 2) prefer using cash to pay for mergers for the purpose of hiding information regarding firms' overvaluation, and 3) tend to cater to investor sentiment by completing the acquisitions that the market is currently optimistic about, even at the expense of their firms' long-run value. Specifically, I test the predictions that acquiring firms controlled by long-horizon managers have lower abnormal returns around announcements, a greater likelihood of using equity as the payment mode, and better postmerger stock performance than do the bidders controlled by short-horizon managers.

Two proxies are used to measure managerial horizon from the perspective of managerial career concern and executive compensation. I argue that retirement and vested equity portfolio are two important factors for determining a short horizon. A near-retirement CEO typically has a shorter horizon than other CEOs. Also, when the CEO has a sizable incentive portfolio becoming vested,

they will be more concerned about the short-term stock price and, as such, will have a relatively short horizon. The empirical evidence supports all of the above predictions.

This paper is intended as a systematic first examination of the influences of managerial horizon on merger and acquisition activity. It raises many interesting questions for future research as well. The effect of managerial horizon on corporate policies such as debt and equity issuance, share repurchase, dividends, and investment remains to be explored. A good deal of empirical evidence supports the view that managers create the above policies to exploit market inefficiencies. In future research, it would be interesting to explore the correlation between managerial horizon and the aforementioned corporate decisions. ■

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