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The Effect of CEO's Individual Creativity on M&A Target Evaluation and Acquisition Premium

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강 미 덥

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Abstract

The Effect of CEO's Individual Creativity on M&A Target Evaluation and Acquisition Premium

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Overpayment in mergers and acquisitions often leads to failure in the ultimate synergy realization. Nevertheless, firms continue to fall into the winner's curse by paying too much acquisition premium: the average acquisition premium in the U.S. was in the range of 30 to 50 percent of the target market values for the past 30 years. While there are many factors that could influence the acquisition premium, CEOs of the acquiring firms are one of the most influential elements in the decision-making. Meanwhile, during the same period, the main participants in the M&A market were technology-based firms, in which creativity and innovation are a key success factor. In order to comprehensively understand such phenomena, this study investigates CEOs with high levels of individual creativity and how their characteristics affect the acquisition premium decision-makings

during an M&A. Creative individuals are characterized with a certain set of personalities – divergent thinking, self-efficacy, and domain expertise – which influences evaluation and decision-making behaviors. This study argues that creative CEOs generally will pay higher acquisition premium, but when acquiring tech-heavy firms, they will show contrasting results due to a change in target evaluation behaviors. I test these hypotheses with a sample of 105 acquisitions among high-tech firms in the U.S. during 2011-2017, and the results confirm the hypotheses.

Keywords : Acquisition Premium, Acquisition Price, Premium, M&A, CEO, Individual Creativity

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Chapter 1. Introduction

Apple Inc. during Steve Jobs era: *"When Adrian Perica, a former Goldman Sachs Banker, joined Apple several years ago, he was the only executive whose sole remit was deal-making. Steve Jobs basically ran M&A for Apple." (Adam Lashinsky, Fortune, 2012)*

Apple Inc. during Tim Cook era: *"Today, Perica heads a department with three corporate-development professionals under him and a staff supporting them, so that Apple can work on three deals simultaneously." (Adam Lashinsky, Fortune, 2012)*

How much one pays for mergers and acquisitions is an important prerequisite for a successful post-merger performance (Sirower, 1994; Hunter & Jagtiani, 2003; Kim et al., 2011). Although some research has argued that cost of acquisition has limited effect on the success of M&A (Laamanen, 2007), it is generally agreed that acquisition premiums affect the ultimate acquisition performance (Hayward & Hambrick, 1997). Therefore, it still has long been a popular area of research for scholars in management strategy and corporate finance. Prior research on acquisition premium has focused on various determinants such as valuation of the target firm (Sirower, 1997; Slusky & Caves, 1991; Walking & Edmister, 1985), bidding environment (Haunschild, 1994; Sinha, 1992), and acquiring firm's CEO factors (Hayward & Hambrick, 1997; Roll, 1986; Fralich et al, 2018). Among these determinants, researchers have recently focused on the effects of acquiring firms' CEOs on acquisition premium, as they are the primary decision makers of mergers and acquisitions (Hayward & Hambrick, 1997;

Haunschild, 1994).

CEO factors investigated by prior literature include some conventional variables in management research such as CEO power (Fralich et al, 2018) and CEO hubris (Hayward & Hambrick, 1997; Roll, 1986). While such variables are widely agreed to be crucial to a firm's acquisition activities, they are limited in fully explaining the acquirer CEO's decision-making dynamics of how much is adequate for acquiring a firm. In order to address this research gap, Malhotra et al. (2015) explained the decision-making behaviors of CEOs with cognitive heuristics. "There is general agreement that a fair amount of subjectivity" in the process of pricing a target firm (Malhotra et al., 2015). Hence, it is worthwhile to dive more deeply into how CEOs make decisions on acquisition price premium and what factors surround the CEOs during the decision-making process.

The main objective of this paper is to investigate how the individual creativity of a CEO may affect the acquisition price premium. Creativity is known to be a critical recipe for innovation (Mumford & Gustafson, 1988). While there are multiple levels of analysis for creativity, such as organization (Puccio & Cabra, 2010; Borghini, 2005; Bharadwaj & Menon, 2000; Woodman et al, 1993; Hitt, 1975), team (Hoever et al., 2017; Jia et al., 2014; Perry-Smith & Shally, 2014), and individual (Harrison & Dossinger, 2017; Vincent & Kouchaki, 2016), I focus on the characteristics of creative individuals and apply them to the primary decision maker of M&A, the CEO. Drawing from various literatures on individual creativity, a creative

CEO can be described to possess a divergent nature (Chua et al., 2015; Guilford, 1967; Meadow et al., 1959; Parnes & Meadow, 1959), self-efficacy (Tierney & Farmer, 2002, 2004; Ahlin et al., 2014; Markman et al., 2002), and high level of domain expertise (Baer, 2015; Reilly, 2008).

Viewing mergers and acquisitions as a form of creative process, defined as the search for unique solutions (ideas) to a problem through a recombination of assets (Basadur, 1991; Kaplan & Vakili, 2015), I argue that such characteristics of a creative CEO is an important factor to be accounted in determining the M&A activities of a firm. More specifically, I expect to witness a general positive relationship between acquiring CEO's individual creativity and the acquisition premium. However, when the CEO assesses the technological assets of the target firm, I contend that creativity traits will act in conflicting directions. I empirically test these arguments with 105 cases of US domestic acquisition deals of high-technology firms between 2011 and 2017.

This paper aims to contribute to the academia in three ways. First, it provides a completely new dimension of a CEO factor on M&A research. Although individual creativity of CEO had not been treated as a conventional variable, as firms are increasingly faced with challenges to achieve creativity and innovation, considering CEO's creative capabilities into the M&A research will increase the accuracy of reality reflection. Second, it suggests a new possibility that individual creativity can have impact beyond product level inventions and influence corporate

management activities, such as M&A. This adds to the creativity field a completely new branch of research. Lastly, it provides a better explanation of the actual phenomena of the recent business world, which prior research had only partially done so.

In the following sections of the paper, I review the extant theories on both acquisition premia and individual creativity, before proposing three hypotheses to be empirically tested. Then, I further explain the methods, results, and lastly the implications from this research.

Chapter 2. Literature Review

2.1. Acquisition Premium

The researchers of both management strategy and corporate finance have investigated the determinants of acquisition premium for a few decades. The earlier studies have focused on proving the relationship between the potential synergistic gains and the acquisition premium (Sirower, 1997). Aligned with the classical theories of resource-based view and supply and demand economics, researchers tried to argue that the higher the expectation of the gains from the acquisitions, the higher the premium paid for the purchase (Slusky & Caves, 1991; Walking & Edmister, 1985). However, this only provided limited explanations for the paradoxical phenomena of the increasing failures of M&A performance (Laamanen, 2007) and the consistently falling acquisition premium in the M&A market (Kengelbach et

al., 2018). The researchers then tried to fill the theoretical gap by importing variables that reflect the deal-making environments (Dimopoulos & Sacchetto, 2014; Haunschild, 1994; Sinha, 1992; Baron, 1983) and the decision-making dynamics of the acquiring firm CEO (Fralich et al., 2018; Kim et al., 2011; Hayward & Hambrick, 1997; Roll, 1986).

As the primary decision makers of M&A, the CEOs of the acquiring firm were especially the area of interest for recent researchers. In practice, CEOs and managers are constantly advised not to overpay in order to avoid the winner's curse (Haunchild, 1994; Allen, 1990; Reichheld & Henske, 1991). Nonetheless, research tells us that they fail to pay the right amount of premium 70% of the time (Sirower, 1997). This suggests that there are counteracting factors in the rational decision-making of a CEO, which had drawn the additional attention of the organizational theorists.

Hayward and Hambrick (1997) stressed the importance of the role of CEOs in predicting the acquisition premium. Along with Roll (1986), they have found the evidence that CEO's managerial hubris is detrimental to assessing the appropriate price for the target firm (Hayward & Hambrick, 1997). On the other hand, CEO power was found to be beneficial to lowering the acquisition premium (Fralich & Papadopoulos, 2018). The underlying reasons for such CEO factors showing significant impacts on the acquisition premium can be boiled down to two main theoretical concepts: information asymmetry and bounded rationality. The process of deciding how much to pay for a merger target is a combination of 1) gathering as

much information as one can regarding the merger (Laamanen, 2007) and 2) interpreting the gathered information according to one's needs (Sirower, 1997). However, in reality, it is impossible neither to collect complete information nor to fully understand the information.

Haunschild (1994) argues that the key source of acquisition premium is the innate nature of uncertainty of the actual value of the target firm. Borrowing his words, "there are likely to be situations in which it is unclear what premium level would convince target management and shareholders to turn over the control of their company to the acquirer, discourage competitive bids, and yet still reflect the value of the company that is being bought" (Haunschild, 1994). It implies that the very value of the target firm is subjective and dependent on multiple factors surrounding the potential deal. Laamanen (2007) further explains the nature of this uncertainty with a model of information asymmetry among the three components of acquisition price: the acquirer, the target, and the stock market. He contends that when the information asymmetry between the two of the three components rises, the acquisition premium will also rise (Laamanen, 2007). For example, when the target firm's expected future gain is higher than the acquiring firm's, the acquisition premium is likely to increase. Although some CEOs may have better access to target information than others through interlock partners (Haunchild, 1994), third-party advisors (Dimopoulos & Sacchetto, 2014; Slusky & Caves, 1991), or a dedicated research body within the firm (Trichterborn et al., 2016), acquisition pricing

is generally a secretive process, hence the CEOs are destined to be faced with mystery.

In addition to the information asymmetry aspect, acquisition premium also occurs because CEOs have the limited capabilities to fully analyze the information on the target firm (Sebora & Kesner, 1996; Simon, 1955). Acquisition price is in essence the acquirer's evaluation of the target, and "the conditions surrounding evaluation decisions can be uncertain and open to judgment" (Trautwein, 1990). Unfortunately, however, the decision makers – CEOs – have bounded rationality, which hinders them from accurately analyzing the information. CEOs are often pressured to make difficult decisions with a limited amount of knowledge and time (Han et al., 2016; Nanda et al., 2013), and in such cases, they resort to heuristics – mental shortcuts to decision making under uncertainty (Tversky & Kahneman, 1974). In order to address this research gap, Malhotra et al (2015) have found the evidence that CEOs have tendency to rely on the anchors of other similar acquisitions. Nonetheless, research on CEO's cognitive heuristics and premium decision-making remains limited (Malhotra et al., 2015).

After all, it is reasonable to conclude that acquisition premium is the outcome of a CEO's evaluation on the target firm based on incomplete information. Surprisingly, however, it has only gained little attention to what constitutes to the CEO's target assessment tendencies or abilities. In this paper, I argue that CEOs with a certain set of personalities will show

different tendencies and abilities in assessing and pricing on the target firms from those without.

2.2. Characteristics of Creative Individuals

Creativity is defined and has long been accepted as "the generation of novel and useful ideas" (Amabile, 1988, 1996). As a key recipe for generating inventive outcomes (e.g. ideas, patents) and achieving innovation, creativity has gained substantial attention not only by managers in business, but also by scholars. Literature suggests that creativity exists in multiple levels: organization (Puccio & Cabra, 2010; Borghini, 2005; Bharadwaj & Menon, 2000; Woodman et al, 1993; Hitt, 1975), team (Hoever et al., 2017; Jia et al., 2014; Perry-Smith & Shally, 2014), and individual (Harrison & Dossinger, 2017; Vincent & Kouchaki, 2016). On the individual level, which is the focus of this research, creativity is important in all levels of individuals – from employees (Gong et al., 2009), middle managers (Li et al., 2017), and leaders (Ahlin et al., 2014; Redmond et al., 1993). However, while the creativity of employees and team leaders are well explored, the individual creativity of leaders (i.e. CEOs) remains relatively untouched. Although CEOs' roles may seem distant from generating inventions and being creative, CEOs do involve in creative processes under certain contexts: i.e. M&A. Basadur et al. (1982) defines the 'creative process' as a combination of ideation – generating options – and evaluation – selecting from options, and this concords with the description of a typical M&A activity. In reality, it is

also evident that CEOs acclaimed to be creative (e.g. Steve Jobs of Apple Inc.) follow different M&A strategies from those who are not (e.g. Tim Cook of Apple Inc.) (Lashinsky, 2012). Based upon this foundation, I argue that it is worthwhile to investigate the individual creativity of CEOs in the M&A context.

Since the early 1950's, scholars have endeavored to understand the individual creativity in the business world context. Psychology scholars have reported that creative individuals are known to have certain characteristics and personalities (Helson, 1996). Along the similar line, Findlay and Lumsden claimed "the term creativity refers to the constellation of personality and intellectual traits shown by individuals" (Amabile, 1988). Based on prior findings, it can be asserted that creative individuals share a common group of characteristics. Among the possibly countless combinations of characteristics, I argue that, during the process of mergers and acquisitions, the following traits of creative CEOs will have an impact on acquisition premium decision.

First, "the dominant view in creativity research is that divergent thinking is a prerequisite for creative performance" (Chua et al., 2015; Guilford, 1967; Meadow et al., 1959; Parnes & Meadow, 1959). Divergent thinking has long been a typical and widely accepted trait of a creative individual. In the psychometric field – the study of individual differences in creative ability and potential – divergent thinking is the most promising candidate for the foundation of creative ability (Plucker & Renzulli, 1999;

Runco, 2007). In the management context, Kirton (1976) describes this as the ‘innovator’ style of cognition. Defining creativity as the creation of novel and useful ideas for a certain problem (Amabile, 1988, 1996; Chua et al., 2015), which in this case is to achieve innovation through an M&A, novelty inevitably requires an uncommon source of knowledge (Mannucci & Yong, 2018; Jung, 2016). A typical creative problem-solving situation involves three phases: problem finding, problem solving, and solution implementation (Basadur et al., 1982). And each of these phases requires an ‘ideation’ process, which involves exploring different points of view and generating options (Basadur & Hausdorf, 1996). The more an individual is divergent, the higher chance of generating a more profound option pool. Hence, it is safe to conclude that creative individuals with high divergent-thinking abilities are more likely to explore more and unexpected options.

Second, creative individuals are widely known to possess high levels of self-efficacy (Tierney & Farmer, 2002, 2004). Although high self-efficacy is not an exclusive characteristic of a creative person, many findings suggest that there is a high correlation between creative productivity and self-efficacy (Ahlin et al., 2014; Markman et al., 2002). Additionally, Markman et al. (2002) argued that it is also an important trait in entrepreneurship, which requires a certain level of confidence and charisma to pursue a risky venture. This suggests a hint to why self-efficacy is a necessary trait of achieving creativity. Theory suggests that self-efficacy often generates positive illusion and unrealistic optimism (Haselton & Nettle, 2006;

Weinstein, 1980). This allows the individuals to gain confidence to persist through resistance or doubts within one's organization (Alper et al., 2000). Especially, as creative ideas usually diverge from the usual paths, self-efficacy would be even more helpful in winning over colleagues or board of directors, for that matter.

Third, domain-specific expertise is a crucial part of a creative individual. In her componential theory of individual creativity, Amabile (1983, 1996) establishes that task motivation, domain-relevant skills, and creative process are crucial components of a creative output. In accordance with this, Baer (2015) also argues that domain-specific expertise is required to produce creative performance. Creativity is not a general trait like "a kind of special spice or sauce or skill that one might add to anything that will make whatever one does more creative" (Baer, 2015). Just as a cook would not use the same spice for every dish, one's creativity is effective only in a certain domain. As such, someone who is acclaimed to be creative is very likely to be highly knowledgeable in the specific field that he or she performs in. Furthermore, domain experts are well equipped to "successfully formulate and address [the] core problem areas" (Reilly, 2008). Assuming that problem locating and solving are parts of a creative process (Basadur et al., 1982), expertise certainly facilitates creativity.

So far, I have established the common set of personalities of creative individuals, although it is not a collectively exhaustive list. In the next section, I will formulate my hypotheses based upon the establishments made

from the acquisition premium and individual creativity literature.

Chapter 3. Hypotheses

3.1. Target Firm's R&D Investment

Mergers and acquisitions take place for mainly two motivations of the acquiring firm (Kaul & Wu, 2016). One motivation is to grow its size by expanding into new geographic markets or adding new products into the product portfolio (Vermeulen & Barkema, 2001). This type of acquisition may be "a means for firms to deploy their existing resources and capabilities creating value by improving the performance of the acquired firm" (Kaul & Wu, 2016).

On the other hand, today, firms and CEOs are increasingly pressured to grow through innovation (Kim et al., 2011), and this is especially evident in high-tech firms. "When competitive advantage increasingly depends on the continuous development of technological innovations, even the largest organizations require knowledge from beyond their boundaries" (Valentini & Di Guardo, 2012). For these firms, M&A is not simply a means for increasing scale and market dominance (Singh & Montgomery, 1987; Chatterjee, 1986; Kim & Singal, 1993), but rather a means for acquiring new technological resources and capabilities (Kaul & Wu, 2016; Ahuja & Katila, 2001; Puranam et al., 2009). Because the purpose of acquisition is to acquire technology of another firm, the R&D

investment of target firms is an important yardstick for CEOs to assess. However, the value of a firm's R&D investment is inherently difficult to assess (Laamanen, 2007). This causes and worsens two types of information asymmetry: 1) between the acquirer and the target, and 2) between the acquirer and the stock market.

First, the research suggests that when acquiring R&D-intensive firms, the information asymmetry between the acquirer and the target broadens. Since the very purpose of the acquisition is to acquire new technological capabilities, the acquirer only has limited knowledge on the resource that it seeks to purchase.

In addition, Laamanen (2007) argues that because the value of R&D investment is a subjective matter, the acquiring firm and the stock market values them differently. More specifically, the capital market emphasizes profitability while discounting heavily on the R&D of a firm. As a result, acquirers of R&D-heavy firms tend to have a more positive perception than the market, widening the information asymmetry between the acquirer and the stock market (Laamanen, 2007). Therefore, I propose that:

Hypothesis 1: The higher the target firm's R&D spending, the higher the acquisition premium

3.1. Target Firm's R&D Investment

As established above, the acquiring firm's CEO is the most crucial factor of acquisition premium. I argue that the individual creativity of a CEO will

affect the acquisition premium in two ways. First, drawing from the divergent nature of creative individuals, creative CEOs, when searching for firms to acquire, will look for seemingly unrelated areas of business. To a CEO seeking for a merger target, M&A is in a way a problem-solving process, and in approaching the problem, a creative CEO is more likely than less creative ones to explore divergent options. This tendency will induce them to target unrelated firms, which naturally causes the information asymmetry between the acquirer and the target to increase. As Sirower (1997) would comment, "predicting the potential value that can be created by synergy… is difficult" and even more so when the expected synergy is between two distinctive, seemingly unrelated firms.

Second, it can be inferred by prior literature that highly creative CEOs will possess high self-efficacy, which in return may cause positive illusion and optimism (Haselton & Nettle, 2006; Weinstein, 1980). When assessing the value of the target firm, it is likely that creative CEOs will be led to overvalue the expected synergistic gain from the acquisition. This can be described as the increased information asymmetry between the acquirer and the stock market. Furthermore, understanding that boards of directors can act against CEO's premium decisions (Wright et al., 2002; Hayward & Hambrick, 1997), self-efficacy can help the CEOs to win over the board, in case of resistance. Therefore, I propose that:

Hypothesis 2: The higher the individual creativity of the acquiring firm's CEO, the higher the acquisition premium.

When creative CEOs assess the R&D-intensive firms, I argue that their high level of expertise and domain knowledge will affect the price of the acquisition, possibly in conflicting directions. On the one hand, a CEO with a high level of knowledge and appreciation for technology will value highly of the target's R&D investments. They will be more eager to purchase the specialized technological resource to enhance the knowledge of one's self and the firm (Kim et al., 2011; Valentini & Di Guardo, 2012). This will result in the increase of information asymmetry between the acquirer and the stock market. Therefore, I propose that:

Hypothesis 3a: The individual creativity of the acquiring firm's CEO will positively moderate the relationship between the target firm's R&D investment and the acquisition premium.

On the other hand, however, creative CEOs' domain expertise can have an opposing effect, by reducing the information asymmetry between the acquirer and the target. With the establishment that individual creativity comes with high level of domain-specific knowledge, it is reasonable to assume that a creative CEO will be able to better assess the target's technology and has a higher chance of predicting the true value of the target firm, resulting in a better negotiating position. In their research, Fralich and Papadopoulos (2018) also empirically proved that a knowledgeable CEO reduces the acquisition premium. Therefore, I also propose that:

Hypothesis 3b: The individual creativity of the acquiring firm's CEO will negatively moderate the relationship between the target

firm's R&D investment and the acquisition premium.

Chapter 4. Method

4.1. Data and Sample

In order to test the hypotheses, I investigated the M&A deals of high technology firms in the U.S. from 2011 to 2017. The year range was set in order to avoid the influence of the financial crisis in 2008. I only looked at the U.S. domestic deals to avoid any cross-border influences, such as institutional and cultural effects. The M&A data for the analysis were acquired from the SDC platinum database, with the additional data from COMPUSTAT. High technology firms were identified taking the two-digit SIC codes used by Laamanen (2007), which are 28, 35, 36, 38, 48, 73, 80, 87.

During the period of observation, there were total of 408 acquisitions among high technology firms in the U.S. However, the sample was further reduced to 105 acquisitions due to the availability of additional data, such as CEO letter for measuring CEO's individual creativity, R&D expenditure, and other financial data. Finally, collected data were used to undergo a OLS regression using STATA to test the hypotheses.

4.2. Measures

4.2.1. Acquisition Premium

Acquisition premium is, by definition, the acquirer's bidding price minus the target's pre-announcement market value divided by the target's pre-announcement market value. It is important to note that an efficient market tries to anticipate the acquisition and as the anticipation is reflected in the stock price. Hence, in order to reduce the effect of the market's pre-acquisition anticipation, I used the market value data 4 weeks prior to the announcement.

4.2.2. Target R&D Investment

R&D investment is a standard accounting item that is disclosed in the financial statements in the U.S. R&D is a long-term process, and meaningful outcome is realized after numerous years of investment. To account for this nature of research and development, I used the average amount of 4 years of R&D expenditure. Additionally, the R&D expenditure was scaled by dividing it by the target firm's sales of the last 12 months before the acquisition. This measurement method was taken from Chan et al. (2001). COMPUSTAT database was used to acquire the data.

4.2.3. Individual Creativity of CEO

Creativity measurement is difficult because of its innate intangibility. "There

is no single agreed-on definition of creativity that in itself makes the measurement of creativity difficult and complex" (Basadur & Hausdorf, 1996; Besemer & O'quin, 1993). So, in creativity research, researchers most commonly use the 'perception' of one's creativity – usually collected through self or peer evaluated surveys – as the proxy of creativity. In this paper, CEO letter was selected to measure the CEO's 'self-perception' of his/her own creativity for the proxy of the actual creativity. The validity of this measurement method can be reinforced by the argument made by Baer (2015) that one's "intrinsic motivation is conducive to creativity."

Individual creativity of CEO was measured through content analysis of CEO letters to shareholders in the annual reports published in the year of the acquisition announcement. Content analysis is a popular method of measurement for CEO factors, such as leadership (McClelland et al., 2010) and entrepreneurial attention (Cho & Hambrick, 2006). CEO letters can be a controversial source for evaluating CEO's characteristics because in practice, CEO letters are a collective work of TMT or staffs. However, it is still a reasonable choice because it is still based on the CEO's minds and vision. CEO letters are often used in research as well.

Content analysis requires assembling the dictionary of keywords that accurately describes the variable. For this research, I randomly selected 10 research papers on the topic of creativity, and extracted total of 8 keywords by relevance and frequency. The articles used for library assembling were: Amabile et al. (1996), Oldham & Cummings (1996),

Tierney et al. (1999), Zhou & George (2001), Mumford et al. (2002), Shin & Zhou (2003), Liao et al. (2010), Zhang & Bartol (2010), Makri & Scandura (2010), Mainemelis et al. (2015). The extracted keywords are: creativity, creation, invention, unique, novel, explore, transform, innovate. Then, I counted the frequency of keyword appearances in each CEO letter, taking parts of speech into account.

Lastly, once the frequency of keyword appearance was counted, it was scaled by dividing them by the total number of words of the entire CEO letter. This treatment was necessary because the lengths of the CEO letters varied significantly.

4.2.4. Control Variables

The control variables used in this research include variables, which had commonly been used in acquisition premium research, such as deal value, competition dummy (Varaiya & Ferris, 1987), stock swap dummy (Ghosh & Ruland, 1998), target industry dummy (by the first digit of SIC code), target sales (Laamanen, 2007), target return on equity (Laamanen, 2007). Additionally, in order to control the profitability and other financial anomalies of the target firms, I also controlled for the target firms' sales, earnings per share (last 12 months before merger), net income (last 12 months before merger), total equity, total debt, total asset, and market cap. Most of the financial data were obtained using COMPUSTAT.

Chapter 5. Results

The summary of the variable statistics is shown in Table 1. Total of 110 acquisitions were collected, but due to a few unobtainable financial data, 105 samples were eventually observed. One of the financial variables, target net income, was taken natural log because the distribution was heavily right skewed. The natural log treatment was able to normalize the distribution.

Table 3 shows the results of the OLS regression analysis. Model 2 tests for the independent effects of target R&D investment and individual creativity of acquiring CEO on the acquisition premium, corresponding to Hypotheses 1 and 2, respectively. The result supports Hypothesis 1, showing a positive coefficient (0.0148) at a confidence level $P < 0.01$. This supports the argument that as the target firm invests more heavily on R&D, the acquisition premium rises. On the other hand, the CEO creativity variable, corresponding to Hypothesis 2, was not found significant in Model 2. In Model 3, which is a full model with the interaction terms of the two independent variables, both of the independent variables were found significant – CEO creativity showed a positive coefficient (19.47) at a confidence level $P < 0.1$. Although the significance level is not as high as desired, considering the difficulty of creativity measurement, the result is convincing. In conclusion, Hypothesis 2 is partially supported, while Hypothesis 1 is fully supported.

Model 3 also supports Hypothesis 3b, as the interaction term shows

Table 1. Descriptive Statistics

Variable	Obs	Mean	Std.Dev.	Min	Max
Premium	110	.605	.691	-.056	4.286
Target R&D	107	1.699	12.482	0	128.083
CEO Creativity	110	0.006	0.004	0	0.018
Deal Value	110	4034.375	7704.092	19.47	62141.06
Target Sales (ln)	107	5.669	1.938	-.757	10.211
Target EPS	108	-.343	2.866	-13.286	7.863
Target N.I.	110	66.34	424.507	-1178.004	3772
Target ROE	110	-.106	.682	-2.957	3.917
Target Debt	109	616.698	2030.509	0	19232
Target Asset	110	2121.45	6865.251	11.075	68796
Target Value	110	2689.999	6090.607	1.995	52797.86

Table 2. Matrix of Correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
(1) Premium	1.000										
(2) Target R&D investment	0.497	1.000									
(3) Individual creativity of CEO	0.119	0.110	1.000								
(4) Deal value	-0.092	0.003	0.198	1.000							
(5) Target sales (log)	-0.575	-0.390	0.044	0.467	1.000						
(6) Target EPS	-0.320	-0.074	-0.004	0.267	0.344	1.000					
(7) Target net income	-0.164	-0.058	0.129	0.823	0.386	0.481	1.000				
(8) Target ROE	-0.100	-0.181	0.118	0.163	0.306	0.256	0.106	1.000			
(9) Target debt	-0.126	-0.040	0.078	0.826	0.458	0.141	0.840	0.102	1.000		
(10) Target asset	-0.146	-0.037	0.104	0.853	0.449	0.180	0.893	0.095	0.971	1.000	
(11) Target market cap	-0.139	-0.033	0.192	0.964	0.488	0.293	0.898	0.136	0.861	0.909	1.000

Table 3. Regression Results

	(1) Premium	(2) Premium	(3) Premium
Target R&D investment		0.0148***	0.171***
		(3.56)	(3.56)
Individual creativity of CEO		11.06	19.47*
		(0.88)	(1.60)
Target R&D investment x Individual creativity of CEO			-17.28***
			(-3.27)
Deal value	0.0000431	0.0000395	0.0000382
	(1.42)	(1.39)	(1.42)
Target sales (log)	-0.216***	-0.155***	-0.154***
	(-6.29)	(-4.26)	(-4.46)
Target EPS	0.00212	-0.0247	-0.0312
	(0.07)	(-0.80)	(-1.06)
Target net income	-0.000456	-0.0000980	-0.0000581
	(-0.98)	(-0.22)	(-0.14)
Target ROE	0.00111	0.0513	0.0724
	(0.01)	(0.64)	(0.94)
Target debt	-0.0000439	-0.0000401	-0.0000465
	(-0.38)	(-0.37)	(-0.45)
Target asset	0.0000174	0.00000386	0.00000199
	(0.40)	(0.09)	(0.05)
Target value	-0.00000809	-0.0000194	-0.0000170
	(-0.17)	(-0.42)	(-0.39)
Competition (dummy)	Included	Included	Included
Stock swap (dummy)	Included	Included	Included
Target industry	Included	Included	Included
_cons	1.438***	0.927**	0.881**
	(3.21)	(2.09)	(2.10)
N	105	105	105
Adj. R2	0.4184	0.4893	0.5409

t statistics in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

a negative coefficient (-17.28) at a confidence level of $P < 0.01$. It is surprising that the significance level is high when the independent effect of creativity was less significant. Nonetheless, it is confirmed that when a creative CEO acquires an R&D intensive firm, the acquisition premium decreases.

Chapter 6. Summary & Discussion

Earlier studies on acquisition premium by management scholars stem from the classical idea that price should be the ultimate value of the merged synergy (Slusky & Caves, 1991). However, this argument failed to reflect the real world, as large acquisition premiums continue to exist in the market while most firms lose from M&As. In 1994, Sirower found the detrimental effect of acquisition premium on the post-merger performance and shareholder returns (Sirower, 1994). So, the recent studies have focused on CEO's decision-making capabilities. The underlying belief is that acquisition premium is the outcome of low-quality decision (Laamanen, 2007; Beckman & Haunschild, 2002). However, the depth and breath of existing research on CEO factors were surprisingly low – with a few outstanding studies on CEO hubris and power (Hayward & Hambrick, 1997; Fralich et al., 2018).

This paper extends the existing research by introducing an additional dimension of CEO factor to the M&A and premium research

field: that is, individual creativity. Understanding that M&A is similar to the broad definition of a creative process, CEO's creativity is a worthwhile variable to investigate. The results of this research provide the evidence that individual creativity in fact influences CEO's evaluation and decision-making on acquisition premium. More specifically, CEO's creativity generally increases the premium, but creative CEOs pay less premium to tech heavy firms because they are highly knowledgeable in technology and thus has a better decision-making ability.

This paper contributes to the creativity research field, as well. First, this research tries to suggest a new possibility that individual creativity can have impact in corporate management activities, such as M&A. Prior research in creativity has been limited to product level inventiveness. This paper makes a bold assumption that M&A can also be accepted as a creative process, with a hope to introduce a broader possibility for correlations between M&A and creativity.

This paper is meaningful for applying the latest reflections of the real business world to the theory. The current M&A market is driven significantly by high-tech firms. At the same time, the total volume of acquisition premium has been decreasing for the last decade (Kengelbach et al., 2018). I believe that the result of this paper – highly creative CEOs of technology-based firms will pay less acquisition premium to another tech-heavy target firm – can help explain the recent phenomena of the global M&A market, at least partially.

Lastly, this paper provides a practical implication to CEOs and managers. In reality, acquisition premium is not a dogmatic decision. Top management teams, boards of directors, and (for a few firms) dedicated M&A function teams collaboratively decide on the final price for bidding. On top of that, financial instruments provide guiding service to acquiring firms in hopes to lower cost of acquisition. Nonetheless, however, as research suggests, CEOs are more than influential to the decision-making of not only premium, but also the general M&A process. I hope the results of this paper will provide meaningful lessons to CEOs and managers.

Chapter 7. Limitations & Future Research

Despite the contributions above, this study has a couple of limitations. First and foremost, the measurement of CEO's individual creativity is imperfect, which seems as the primary reason for the partial result of its effect. This research followed one of the common practices in the current creativity research, which is to substitute creativity with 'self-perception' of creativity. However, it is inevitably an imperfect method. An alternative method may be to look at the creativity reputation by the media, measuring the level of acclamation of CEO's creativity. This can be a better measurement method for a sample of large corporations that attracts significant amount of attention by the media. Another alternative method would be an employee survey, but this also bears limitation of subjectivity.

The second limitation of this research is the generalizability. This research focuses only on the high-tech industry, and the findings cannot be exactly applied to other industries. However, there are other professional fields, in which creativity is a critical factor of success. For example, extensive research in creativity investigates fashion, art, and food industries because in these fields, creativity directly impacts performance. Also, marketing-driven firms, such as consumer service firms, are also a good focus of study.

There are a number of potential directions for future research, as this study offers new potentials for research in individual creativity and M&A. Aside from acquisition premium, there are numerous M&A related topics, such as deal size and frequency, target selection, pre-merger deal completion, post-merger performance, just to name a few. It will be worthwhile to investigate further how a CEO's individual creativity works on these M&A results.

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국 문 초 록

The Effect of CEO's Individual Creativity on M&A Target Evaluation and Acquisition Premium

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기업간 인수합병시, 과도한 인수금액 지불은 최종 인수합병 성과에 좋지 않은 영향을 미치는 것으로 알려졌다. 그럼에도, 기업들은 여전히 매우 높은 인수가 프리미엄을 지불하는 추세이다. 지난 30년간 미국 내에서 발생한 인수가 프리미엄의 평균은 타겟 기업의 시가총액의 약 30~50%에 달할 정도로 높다. 인수가 프리미엄에 영향을 미치는 요소는 매우 다양하지만, 그 중 인수기업의 CEO는 프리미엄 가격을 결정짓는 가장 큰 요인 중에 하나이다. 한편, 동일 기간동안 인수합병 시장의 가장 주요한 참여자는 기술 기반의 high-tech 기업들이었다. 이들은 창의성(creativity)와 혁신(innovation)을 주요한 성장 동력으로 삼는 기업들이다. 이러한 현상을 종합적으로 이해하기 위해, 본 연구는 창의성이 높은 CEO의 특성들이 인수가 프리미엄 결정에 미치는 영향을 살펴본다. 창의적인 개인들이 보편적으로 갖고 있는 특성들로는 산발적 사고(divergent thinking), 자기 효능감(self-efficacy), 그리고 전문성

(domain expertise)이 있고, 이러한 특성들은 특정 대상을 평가하고 의사결정을 내리는 데에 영향을 미친다. 이에 기반하여, 본 연구는 창의적인 CEO들은 대체로 인수가 프리미엄을 더 높게 지불하는 반면, 기술집약적인 기업을 인수할 때는 반대의 결과를 보일 것이라고 주장한다. 본 연구는 2011년부터 2017년까지 미국 내에서 발생한 105개의 기술 기업 간 인수합병 표본을 통해 실증적 실험을 진행하였으며, 가설이 입증되었다.

주요어 : 인수합병, 인수가 프리미엄, 인수금액, 프리미엄, 창의성, 대표이사

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