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Corporate development executives and M&A performance

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Abstract

Research Summary: While prior research has examined organizational- and CEO-level antecedents to mergers and acquisitions (M&A) capabilities, less is known about how those below the CEO may shape the ways in which firms conduct acquisitions. In this study, I argue that Corporate Development Executives (CDEs), the specialized executives who lead M&A efforts inside companies, also play an important role in the M&A process. Through a hand-collected dataset on CDEs in S&P 500 information technology (IT) firms, I find an inverted U-shaped relationship between their prior M&A experience and subsequent M&A performance, and I document the conditions under which CDEs' M&A experience may complement or substitute that of the CEO and the firm. This study contributes to corporate strategy and organizational learning literatures by unveiling novel insights on the microfoundations of M&A capabilities.

Managerial Summary: Corporate Development Executives (CDEs) have become increasingly prevalent across organizations, yet their impact on M&A outcomes remains less understood. This study investigates how these specialized executives responsible for leading

M&A inside organizations influence acquisition outcomes through their prior experience. Using detailed data on CDEs in S&P 500 IT firms, I find an inverted-U relationship between CDEs' prior M&A experience and M&A performance, and that their abilities to shape M&A outcomes can be further enhanced or limited, depending on the experiences of the CEO and the firm. By unpacking the interactions among these different M&A experiences, this work offers important managerial implications on how firms should select and manage their M&A human capital as they continue to build M&A capabilities in pursuit of superior firm performance.

KEYWORDS

Corporate Development Executives (CDEs), dynamic managerial capabilities, M&A capabilities, M&A experience, M&A performance, microfoundations

1 | INTRODUCTION

Mergers and acquisitions (M&A) are important strategies through which firms access new capabilities (Helfat et al., 2007; Kaul & Wu, 2016), enter new markets (Tang & Zhao, 2023), and sustain long-term competitive advantage (Capron & Mitchell, 2013). More than ever, firms are undertaking M&A at record levels, with worldwide M&A totaling US$5.9 trillion in 2021 (*Statista.Com*, 2021), more than double the amount spent on R&D (Riemschneider, 2021). Extensive literature exists on the heterogeneity of M&A behaviors, in which M&A capability, or a firm's ability to engage and realize value from its M&A activities, has been argued to be a critical capability of the firm and a key driver of superior performance (Capron et al., 2007).

Given the importance of M&A capability, understanding where it comes from remains an active area of research. Prior works have traditionally examined firm-level factors, such as routines, deliberate learning processes, and the existence of a dedicated M&A function (Bingham et al., 2015; Trichterborn et al., 2016; Zollo & Singh, 2004). Building on the work on dynamic managerial capabilities (Adner & Helfat, 2003; Helfat & Martin, 2015), scholars have also begun to examine CEO-level antecedents to M&A behaviors (Chen et al., 2021; Shi et al., 2017). In a recent variance decomposition study, Meyer-Doyle et al. (2019) find that CEO-level factors can explain a substantial share of the variance in firms' M&A behaviors (Meyer-Doyle et al., 2019), though about half of the variance still remains unexplained.

One explanation for the unexplained variance could be that CEOs often delegate the day-to-day responsibilities of key strategic activities, such as M&A, to specific executives below them (Haspeslagh & Jemison, 1991). However, ascribing and quantifying managerial capabilities entirely to the level of the CEO may mask important heterogeneities among these executives that could be important for our theories on M&A capabilities (Felin & Hesterly, 2007). To date, we lack an understanding of how those below the CEO may also shape firms' M&A behaviors

and outcomes, and of the interactive effects across these different organizational and managerial sources of M&A capabilities (Helfat & Martin, 2015).

This paper takes the first steps in addressing these questions by examining *Corporate Development Executives* (*CDEs*), the specialized executives who sit below the C-suite and lead the M&A or corporate development function within firms (Trichterborn et al., 2016). While limited work has examined CDEs in the strategy literature, their presence has become increasingly common across industries (Ernst and Young, 2015; Polack, 2021; Polack, 2022), and they are frequently recognized in the business press as highly valuable human capital. Firms actively compete for these executives in the labor markets—as seen in headlines such as "Facebook Said to Hire Google Executive for M&A" (*New York Times*, March 15, 2011)—and sometimes even in courts, such as the lawsuit by IBM against Dell over the poaching of its M&A chief (*Wall Street Journal*, May 28, 2009).

CDEs play a unique role in the M&A process as the specialized executives overseeing M&A and inorganic growth strategies for the firm (EY, 2015; Laamanen & Keil, 2008; Polack, 2021; Polack, 2022). While the CEO and board retain final decision-making authority over acquisitions, CDEs often provide the recommendations on which these decisions are based (Haspeslagh & Jemison, 1991). As the "linking pins" coordinating inputs from various internal and external stakeholders (Likert, 1961), CDEs are the ones usually responsible for executing the day-to-day M&A activities—from target screening to deal execution and post-deal integration, to managing the internal M&A learning processes of the organization (Trichterborn et al., 2016).

To unpack how CDE-level managerial capabilities may influence firms' M&A outcomes, I focus the theoretical analysis on the M&A experiences CDEs bring to their roles and their effects on firm M&A performance. First, I argue that a CDE's prior M&A experience serves as a double-edged sword: while learning from prior experience allows them to develop domain expertise and improves subsequent performance (Ericsson, 2006), it also increases their risk of becoming cognitively entrenched in certain ways of conducting M&A that may not be applicable in future deals, especially since every deal is a "snowflake"—they are similar but always different (Dane, 2010; Heimeriks et al., 2012). These mechanisms together suggest a baseline nonlinear, inverted-U relationship between a CDE's prior M&A experience and M&A performance.

Second, as CDEs work with many internal stakeholders during the M&A process, I also distinguish between the M&A experiences of the CDE, the CEO, and the firm, and contend that the CDE's ability to manage the M&A process may also depend on their interactions with these other types of experiences. Specifically, when a CDE reports to a CEO who is more experienced in M&A, the greater pool of diverse knowledge, debate, and discussions between them are likely to limit the potential entrenchment biases associated with domain expertise, leading to better outcomes (Csaszar & Eggers, 2013; Dane, 2010). In contrast, when a CDE works in a firm with limited M&A experience, the absence of established firm-level routines and infrastructure may hinder deal execution, especially at lower levels of CDE experience. At higher levels of CDE experience, their more varied responsibilities in these contexts may foster cognitive flexibility and lower entrenchment biases (Dane, 2010), enhancing deal performance.

Using a proprietary, hand-collected dataset on heads of corporate development, I empirically test these arguments through an event study of announced M&A by S&P 500 information technology (IT) firms from 1995 to 2015. Using a range of measures of CDE, CEO and firm M&A experiences, I find support for a baseline inverted-U relationship between CDEs' prior M&A experience and M&A performance, and evidence that cognitive entrenchment biases

occur even as CDEs develop domain expertise in specific types of deals. In addition, I find that these entrenchment biases may be mitigated when CDEs have had a more diverse career.

While I do not find direct effects of firm and CEO M&A experiences, I find that both serve as important boundary conditions through their interactions with CDEs. Highly experienced CEOs appear to complement CDEs and weaken the negative performance associations at high levels of CDE M&A experience, particularly during acquisitions of large or publicly listed targets. In contrast, when firm M&A experience is limited, the positive performance associations at lower CDE experience levels are attenuated, suggesting that some firm-level experience may be a necessary but insufficient condition for the effectiveness of CDEs. When firm experience is limited but CDE experience is high, I find evidence suggestive of a partial substitution effect, whereby experienced CDEs can help firms build M&A infrastructures that enable better deal execution and M&A outcomes. In addition, I explore how CDE, CEO, and firm M&A experiences may shape decisions at different stages of the deal process, and find indications that their effects vary by target size and public status, and that CDE M&A experience is associated with lower impairment likelihood and faster deal completion.

Taking a multi-level perspective, this study aims to contribute to the corporate strategy and organizational learning literatures by unveiling novel insights into the microfoundations of M&A capabilities. By introducing CDEs as a critical group of actors in the M&A process and showing how their heterogeneous experiences influence firms' M&A performance in meaningful ways, it underscores the importance of examining the focal actor most directly responsible for key strategic activities of the firm. By further unpacking the interactions among CDE, CEO, and firm M&A experiences, this work also highlights the contingent nature of experience and demonstrates how both manager-level and organizational-level manifestations of capabilities may jointly shape firm learning and performance.

2 | THEORETICAL BACKGROUND AND HYPOTHESES

2.1 | Sources of M&A capabilities

A firm's M&A capability, or its ability to engage and realize value from its M&A activities, has been argued to be an important antecedent to competitive advantage and long-term survival (Capron et al., 2007). The question of where M&A capabilities come from remains an active area of research and debate in corporate strategy (King et al., 2018). To date, scholars have generally examined the sources of M&A capabilities at both the firm level and the CEO level.

At the firm level, scholars have traditionally taken an organizational learning perspective and argue that the accumulation of M&A experience enables the development of M&A capabilities through routines and deliberate learning (Helfat et al., 2007). Organizational routines are semi-automatic, repetitive patterns of interactions among the relevant parties involved in an activity (Cohen & Bacdayan, 1994). Deliberate learning processes involve the codification of prior M&A experience in manuals, checklists, playbooks, etc. (Zollo & Singh, 2004), and these often occur when firms have a dedicated structure for M&A (Trichterborn et al., 2016).

Another stream of work has examined how manager-level capabilities, or dynamic managerial capabilities, may also be important building blocks of the capabilities of the firm (Felin et al., 2012, Felin et al., 2015). These managerial capabilities refer to "the capabilities with which managers create, extend, and modify the ways in which firms make a living" (Helfat & Martin, 2015, p. 1282), with prior experience identified as a critical input (Adner &

Helfat, 2003; Helfat & Peteraf, 2015). In the context of M&A, scholars have generally examined managerial capabilities at the most senior level of the organization, such as the board or the CEO (McDonald et al., 2008; Meyer-Doyle et al., 2019). They find that CEOs' prior work experience, human capital, and psychological attributes can influence their M&A decisions (Chen et al., 2021; Gamache et al., 2015; Hayward & Hambrick, 1997). In their variance decomposition study, Meyer-Doyle et al. (2019) find that CEO-level factors can explain a greater share of the variance in firms' acquisition behaviors and long-term performance relative to firm, industry, and year-level factors, but about 50% of the variance remains unexplained.

These findings suggest that much more can be done to understand the manager-level sources of M&A capabilities. Indeed, existing work on managerial capabilities argues that a key input—managers' prior experiences—can lead to differences in strategic decision-making and firm outcomes (Di Stefano et al., 2010; Helfat & Martin, 2015; Helfat & Peteraf, 2015). For key strategic activities like M&A, CEOs often delegate day-to-day responsibilities to specialized executives below them (Haspeslagh & Jemison, 1991), whose heterogeneous experiences may shape decisions made throughout the M&A process (Felin & Hesterly, 2007). As such, it is important to theoretically distinguish between the relevant experiences of the executives directly responsible for M&A and those of the CEO or the firm, and to consider how these different types of experiences may interact in our theory on M&A capabilities. In the following sections, I address this gap by first considering who these executives are, their roles in the M&A process, before examining the relationship between their M&A experience and M&A performance, and how it may vary across contexts with different levels of CEO and firm M&A experiences.

2.2 | CDEs' roles and responsibilities in M&A

CDEs serve as the specialized executives leading M&A efforts within firms, and they have become increasingly prevalent over the last three decades (EY, 2015; Polack, 2021; Polack, 2022). According to industry surveys (EY, 2015; Polack, 2021; Polack, 2022), CDEs typically directly report to the C-suite, most commonly the CEO, and they are usually at the Senior Vice President or Vice President levels within companies, with titles such as "Head of M&A" or "Head of Corporate Development."[1] While there are many variations in their scope of responsibilities (see sample descriptions in Supporting Information Appendix A), CDEs' primary responsibilities are typically to lead the execution of inorganic growth strategies such as M&A and divestitures for the firm (Polack, 2021; Trichterborn et al., 2016). In some companies, they may also be involved with alliances, licensing, early-stage venture investments, and investor relations, though those activities usually take up a small portion of their time (Polack, 2021). For the purpose of this manuscript, I only focus on M&A-related responsibilities of the CDEs.

CDEs play a unique role that is different from all other groups of internal and external actors involved in the M&A process. Unlike business unit leaders who are mostly focused on

[1]There are variations in CDEs' title, rank, reporting line, and the size of the corporate development function across firms. According to industry surveys, the average M&A function has two to five members, who work together on all M&A activities and report directly to the CDE (EY, 2015; Polack, 2021; Polack, 2022). The CDE, in turn, usually reports to the CEO, but sometimes could also report to the CFO or the Chief Strategy Officer, and is usually either part of the TMT reported in the 10-Ks or a level right below it. In Supporting Information Appendix, I conduct additional analyses to account for potential variations in hierarchy and responsibilities across different firms. In this study, I do not theorize on the M&A team, but it could be the focus of future research.

their own divisions, CDEs often take a broader view on how different business units together create value for the firm. When evaluating potential transactions, specific business unit leaders may provide technical inputs on the target industry or possible sources of synergies with their own products/markets (Bingham et al., 2015), but CDEs are the ones who can assess the overall financial and strategic impact of the transaction on other business units and the firm as a whole.

CDEs also differ from other C-suite senior executives such as the CEO and the board who set firms' overall strategies but, by necessity, take a 10,000-foot view of the organization. While the final decisions to pursue an M&A always rest with the CEO and board (Meyer-Doyle et al., 2019), CDEs usually are the ones synthesizing the deal analyses on which these decisions are made. As CEOs usually delegate the day-to-day responsibilities for M&A to these specialized executives, CDEs serve as the "linking pins" in charge of gathering inputs from relevant internal and external stakeholders and coordinating the details of the entire M&A process (Likert, 1961), where the knowledge needed in each stage is often tacit and individual-specific.

For example, during the pre-deal stage, CDEs are usually tasked with screening and identifying potential targets (Trichterborn et al., 2016). Doing these tasks well requires access to opportunities (e.g., knowing which targets are available when, ideally before their competitors) as well as knowledge on the screening process (e.g., what criteria to use, signs of good and bad deals), all of which are only partially codifiable (Vuori et al., 2023). Industry surveys report that the average CDE considers more than 20 deals each year, and some may review more than 200 each year before deciding to pursue a selective few (Polack, 2021, Polack, 2022).

During the deal execution stage, CDEs are typically in charge of leading due diligence and valuation analyses, with inputs from internal stakeholders and external advisors (Haspeslagh & Jemison, 1991; Trichterborn et al., 2016). They often work with the CFO and the finance team on accounting, capital raising, deal structure, and tax-related considerations; the legal team on the negotiation of key terms and transaction documentation; the relevant business units to plan for integration; and they are responsible for ensuring that all parties are on track to meet the deal deadlines (Bingham et al., 2015). After a deal is announced, CDEs usually work with the finance and legal teams to negotiate closing documentation and obtain the necessary shareholder and regulatory approvals. They then work with the business units (and in some cases the integration managers) to implement the integration plans, and they are also in charge of updating existing M&A manuals and templates to reflect lessons learned (Trichterborn et al., 2016).

As one CDE of a medium-sized public IT company explained during an interview, "I work very closely with my CEO and Heads of Product Lines in thinking about our strategy and the gaps that we have ... In our firm, Corp Dev leads the evaluation (which [companies] we should be talking to, which are the right ones for us), execution (valuation, due diligence), integration of all acquisitions ... Ultimately our CEO and the board will have the final call on whether we do a transaction. But having said that, it is not the CEO or the board deciding that we go acquire here or there ... One of the essential rules in our corp dev is internal alignment—getting the right people (product/BU lines, other executive stakeholders) aligned internally around why we should go with the acquisition...."

Performing these complex, interdependent tasks well thus requires prior knowledge of M&A execution and relationships with relevant knowledge holders whose inputs are needed for different tasks in the M&A process (Argote, 2012; Vuori et al., 2023). Some of this knowledge can be codified, but much of it is tacit—accumulated through repeated deal experience and embedded in how these specialized executives coordinate, communicate, and mobilize resources and inputs across teams—and cannot be easily transferred to others. As the decisions made in each stage

jointly impact a deal's outcomes, it is thus important to unpack how the M&A experience of these specialized executives may shape firms' subsequent M&A performance.

2.3 | CDEs' prior M&A experience and M&A performance

Drawing on prior work on individual-level learning and domain expertise, I argue that CDEs' prior M&A experience is a double-edged sword for firms' subsequent M&A performance.

On the one hand, past research suggests that the development of expertise in a specific domain can lead to improvements in subsequent decision making and performance in that domain (Ericsson, 2006). As individuals accumulate experience doing a task, they develop domain knowledge about the task (Dane, 2010). This knowledge is then updated, expanded, and refined repeatedly through additional encounters with the task, leading to the development of expertise on the task (Ericsson, 2006; Frensch & Sternberg, 1989). Applying these arguments to the context of M&A, we would expect that as CDEs accumulate M&A experience, they are developing domain expertise on how to best manage the M&A process, which in turn leads to improvements in the performance of their future transactions.

At the same time, these improvements are likely to have diminishing marginal returns (Darr et al., 1995; Ellis et al., 2011). That is, at low levels of M&A experience, CDEs are likely to have limited M&A knowhow, and thus may be less effective in coordinating and executing all key tasks in the M&A process. More experience allows them to develop more in-depth knowledge on deal processes and analyses (i.e., domain expertise in M&A), which can improve their efficiency and effectiveness, resulting in better performance (Bingham et al., 2015). This knowledge can be refined through additional experiences, but the incremental improvements from each new deal are likely to be limited once they develop a stable set of M&A knowhow and become M&A experts themselves (Dane, 2010; Ericsson, 2006). As one investment banker said during an interview, "Experience really matters. You can really tell the difference between the heads of corp dev who have countless deals under their belt versus those [who] don't. The experienced ones always have the standard checklist of diligence questions and valuation models at hand, and ... they know what key questions to ask, and which key business assumptions are the real value drivers should they proceed with the transaction...."

On the other hand, research has long suggested that expertise in a domain may also hinder one's subsequent success in that same domain (Adelson, 1984; Frensch & Sternberg, 1989), as domain expertise can also lead to cognitive entrenchment biases (Dane, 2010; Mannucci & Yong, 2018). That is, as individuals develop stable and in-depth knowledge in a particular domain, they also become more inflexible and resistant to change (Chi, 2006). When encountering the same task in new settings, experts are more likely to resort to the usual ways of approaching the task, and they are less willing to search for new knowledge or alternative ways of solving the problem (Dane, 2010; Mumford & Gustafson, 1988).

The potential inflexibility and cognitive entrenchment among experts (i.e., CDEs with high levels of M&A experience) is especially problematic in the M&A setting, where every deal is always different (Barkema & Schijven, 2008; Bingham et al., 2015). As one head of M&A at a large search company aptly described, "Every deal is a snowflake. They are similar but never exactly the same." While deals may share surface similarities, the specific transaction considerations and value drivers are always unique to a given target firm (Heimeriks et al., 2012). CDEs' knowledge on how to manage the M&A process and conduct deal analyses is directly shaped by the deal contexts associated with these experiences (Vuori et al., 2023). However, as they develop

stable and in-depth knowledge on M&A, they are also likely to become entrenched in these views of how M&A should be done, creating path dependence and resulting in inappropriate generalization of lessons learned to subsequent deals, especially when the deals appear similar to what they have done before (Haleblian & Finkelstein, 1999). As these M&A domain experts encounter new "snowflakes," they are likely to have the "I have seen it before" mindset, engage in less search for underlying structural differences between the new target and the prior ones they have seen, and resort to the usual ways of assessing deals (Dane, 2010; Ericsson, 2006).

When asked about how she screens targets, the head of M&A at a mobility company said, "We have looked at potential [targets] in the ... space that we are trying to go, but in some it's the founders [that matter], some is their IP, some is their users ... sometimes it's not obvious and there is no right answer, so I just go with what I know as that's how we did it before...." Failing to pay attention to these important but subtle differences between deal contexts is likely to result in negative transfer and inappropriate generalization, leading to less ideal decisions and suboptimal deal performance (Haleblian & Finkelstein, 1999; Hayward, 2002; Vuori et al., 2023).

The combination of these potential learning benefits and cognitive entrenchment biases associated with expertise suggests a baseline nonlinear relationship between a CDE's M&A experience and subsequent M&A performance, specifically an inverted U-shaped relationship. At low to moderate levels of experience, the learning benefits are likely to dominate as the CDE is still developing and refining their M&A knowledge base. However, as they become domain experts, cognitive entrenchment biases are more likely to occur, leading to less ideal decisions and performance, especially in deals that appear very similar. In other words, I hypothesize that:

> **Hypothesis 1 (H1).** There is an inverted U-shaped relationship between a CDE's prior M&A experience and subsequent M&A performance, *ceteris paribus*.

2.4 | Boundary conditions: Interaction effects with CEO and firm M&A experience

While the above arguments allow us to zoom in and analyze the M&A experience of the CDE, these executives also operate within broader organizational contexts, and their effectiveness may depend on the experiences of other actors interacting with them across various M&A tasks. As prior work has primarily focused on how the experiences of the CEO and the firm affect M&A outcomes (Haleblian & Finkelstein, 1999; Meyer-Doyle et al., 2019), I next examine how the relationship between CDEs' prior M&A experience and M&A performance as proposed in H1 may vary depending on the level of M&A experience held by the CEO and by the firm.

2.4.1 | The moderating effects of the CEO's prior M&A experience

CDEs typically bear the day-to-day responsibilities for M&A, but they also often report directly to the CEO,[2] who, along with the board, is the ultimate decision maker on whether to pursue an M&A (EY, 2015; Meyer-Doyle et al., 2019). Drawing on the delegation and decision-making

[2]This is consistent with the field interviews that I conducted and the job descriptions I gathered (see examples in Supporting Information Appendix A), where all CDEs mentioned that they "work closely with" or "have a direct line to" their CEO. These theoretical arguments would hold as long as the CEO is the ultimate decision maker on M&A.

in teams literature (Bunderson, 2003; Dobrajska et al., 2015), I consider how the interactions between the CDE and the CEO may differ depending on their relative levels of M&A knowhow.

When the CEO has less M&A experience than the CDE, it is unlikely that they will be involved in every detail and every decision in the M&A process. Prior studies on group decision-making have found that people tend to defer to their teammates who possess the relevant expertise on a given task for subsequent encounters with that task (Bonner et al., 2002; Stasser et al., 1995). Work on delegation within hierarchies has also shown that the quality of decisions can be improved when the senior authority delegates more decision authority to the employee with more decision-relevant knowledge (Dobrajska et al., 2015). As such, while the CEO and board retain ultimate authority over all key strategic decisions, when the CEO has less M&A knowhow than the CDE, they are likely to perceive the more experienced CDE as the M&A expert inside the organization. They are more likely to rely on the CDE's recommendations, and less likely to question their assumptions on deal analyses, or offer alternative viewpoints during M&A decision-making (Csaszar & Eggers, 2013; Schweiger et al., 1986; Van Knippenberg et al., 2004). In other words, I would expect that the hypothesized inverted-U relationship between a CDE's prior M&A experience and M&A performance outlined in H1 continues to hold when the CEO has less M&A experience.

In contrast, we might expect the dynamics between the CDE and the CEO to change when the CEO is highly experienced with M&A. Indeed, CEOs are often hired for their skills and knowledge gained from prior employment, including M&A-related knowledge (Bragaw & Misangyi, 2017; Hayward & Hambrick, 1997). Prior studies on the common knowledge effect in group decision-making suggest that when people share similar backgrounds and expertise, they are more likely to engage in discussion and deliberation around the knowledge that they share in common (Gigone & Hastie, 1993; Stasser et al., 1995). As such, when a CDE reports to a CEO who is an M&A veteran, we would expect them to engage in more frequent and in-depth discussions about what they share in common, for example, M&A. These interactions between the CDE and the CEO can complement the effectiveness of the CDE in two ways.

First, a more experienced CEO can help mitigate the cognitive entrenchment biases that may arise when the CDE is the domain expert in M&A. When a CEO possesses deep M&A knowhow, they are more likely to be engaged in all key decisions in the M&A process, work with the CDE as a partner, and adopt a more centralized approach to decision-making on M&A tasks (Csaszar & Eggers, 2013; Dobrajska et al., 2015). That is, while the CDE remains in charge of executing ongoing transactions and leading the M&A function of the firm, a highly experienced CEO is more likely to deliberate with them on deal opportunities, risks, and structuring choices. They may challenge implicit assumptions made in the deal process and serve as a devil's advocate for potential alternatives (Schweiger et al., 1986). Moreover, while a highly experienced CEO may also face cognitive entrenchment biases arising from domain expertise (Dane, 2010), their prior M&A experiences are likely to differ from those of the CDE, as they have been accumulated through different roles and firms. Given the greater diversity of M&A knowledge and perspectives, the joint engagement of the CDE and the CEO throughout the M&A process can help to mitigate their individual biases (Miller et al., 2022; Taylor & Greve, 2006), enabling more careful adaptation of existing knowhow to new deals and more in-depth search of the underlying structural differences between the new "snowflake" and the prior ones, ultimately resulting in lower commission errors and better decision quality (Csaszar, 2012).

Second, more experienced CEOs can enhance CDEs' effectiveness in coordinating internal stakeholders and mobilizing resources for M&A. CEOs are often viewed as the focal point of

attention within the firm (Ocasio, 1997). Their greater engagement and attention on M&A can serve as a "push" for internal stakeholders to align behind the deal (Ocasio & Joseph, 2005), allowing the CDE to secure necessary input and timely support across the firm. This increased responsiveness in turn improves CDEs' execution effectiveness and decision quality.

Together, these interactive effects between CEO and CDE M&A experiences highlight when CEO experience becomes particularly important. Namely, through their joint engagement on M&A, more experienced CEOs can complement CDEs' effectiveness and mitigate the entrenchment biases typically associated with domain expertise. Thus, I hypothesize:

> **Hypothesis 2 (H2).** When the CEO has more M&A experience than the CDE, the negative association between CDE experience and M&A performance at higher levels of CDE experience (as identified in H1) is attenuated, *ceteris paribus*.

2.4.2 | The moderating effects of the firm's prior M&A experience

As CDEs are embedded within the larger organizational context, their ability to manage the M&A process may also depend on the presence of firm-level routines and M&A knowhow among supporting actors such as business unit leaders, finance, legal, and human resources (HR) (Haspeslagh & Jemison, 1991; Trichterborn et al., 2016). These actors often provide task-specific inputs to the CDE's analyses, and the quality and timeliness of their inputs may depend on the existence of M&A routines and knowhow developed from prior firm experience (Zollo & Singh, 2004).

When firms have some prior M&A experience, internal stakeholders are more likely to understand the sequence of tasks and the deliverables expected of them. These firms are also more likely to have checklists, templates, playbooks, and internal deal processes that can be reused across transactions (Heimeriks et al., 2012). In such settings, the CDE can focus on deal execution rather than infrastructure building, and supporting actors are more likely to understand the inputs required for specific tasks, enabling smoother coordination and more accurate deal analyses (Bingham et al., 2015; Haspeslagh & Jemison, 1991). In this way, some amount of firm M&A experience is an enabler and a necessary condition for the CDE's effectiveness in executing M&A, and the proposed relationship in H1 is thus likely to hold in these contexts.

However, when CDEs operate in firms with limited M&A experience, this relationship is likely to change. Routines and codified knowledge for specific M&A tasks may not exist (Trichterborn et al., 2016; Zollo & Singh, 2004), and supporting actors may lack familiarity with the structure and pace of M&A execution or know how to engage. For example, business units may not know how to estimate synergies, finance may struggle to evaluate tax implications, legal may miss red flags in purchase agreements, and HR may be unfamiliar with retention planning. The burden then falls on the CDE to not only lead the deal process but also address these organizational gaps by building necessary M&A infrastructure—creating checklists, templates, and processes, and disseminating M&A knowhow across functions (Trichterborn et al., 2016).

This challenge is especially acute for less experienced CDEs, who may lack exposure to how M&A is organized across firms. They may also be unfamiliar with the M&A tasks of supporting actors, making it difficult to coordinate timely and accurate inputs during execution (Haspeslagh & Jemison, 1991). Even when they expend effort building M&A processes, their ability to compensate for firm-level gaps is constrained, as they may inadvertently share

incomplete knowledge of non-core tasks or inappropriately generalize checklists and templates from prior deals (Haleblian & Finkelstein, 1999; Vuori et al., 2023). In other words, when both the firm and the CDE have limited M&A experience, the learning benefits associated with CDE experience are likely to be dampened, and M&A performance may suffer due to limited internal knowhow, mistimed inputs, and execution missteps.

As CDEs gain more experience, they also accumulate knowledge on the M&A tasks of supporting actors and how to coordinate inputs across functions. More experienced CDEs are likely to have seen a wide range of M&A processes across companies, including ones similar to the focal firm, and thus better equipped to design appropriate processes and guide inexperienced stakeholders. In low firm experience settings, these additional experiences become particularly valuable, enabling CDEs to effectively build internal M&A infrastructure and disseminate relevant knowledge across the firm (Trichterborn et al., 2016). These dynamics suggest a partial substitution effect: by articulating, codifying, and internalizing M&A knowledge, CDEs can leverage their individual expertise to help firms develop organizational-level M&A knowhow.

At the same time, the absence of established firm routines may paradoxically benefit highly experienced CDEs by reducing their susceptibility to cognitive entrenchment. In these contexts, they are required to engage in "outside-domain" tasks, such as building M&A infrastructure, guiding inexperienced internal stakeholders, and translating tacit knowledge into reusable tools (Dane, 2010; Srikantia & Pasmore, 1996). These broader and more varied responsibilities prompt experienced CDEs to consciously reflect on their existing knowledge and reconsider assumptions that might otherwise go unchallenged as they adapt their established frameworks to the firm's unique circumstances—all of which reduce automatic decision-making and increase cognitive flexibility (Mannucci & Yong, 2018). As learning benefits persist while entrenchment biases are dampened, the negative performance effects typically observed at higher levels of CDE experience in H1 are thus expected to be attenuated in these contexts.

Together, these dynamics suggest a flattening of the inverted-U relationship proposed in H1. That is, when firm M&A experience is limited, inexperienced CDEs face greater challenges executing deals without organizational support, muting learning benefits at lower experience levels. Meanwhile, risks of entrenchment biases are also dampened among highly experienced CDEs given their broader and more varied responsibilities in these settings. Thus, I hypothesize:

> **Hypothesis 3 (H3).** When the firm has limited M&A experience, the positive association between CDE experience and M&A performance at lower levels of CDE experience (as identified in H1) is attenuated. Similarly, the negative association at higher levels of CDE experience is also attenuated, *ceteris paribus*.

3 | METHODOLOGY

3.1 | Sample and data construction

This paper unpacks the sources of M&A capabilities by analyzing the relationship between CDEs' prior M&A experience and the performance of their subsequent acquisitions, and how this relationship varies with the M&A experiences of the CEO and the firm. I test my hypotheses using a sample of all announced M&A by IT firms that appeared at least once in the

Standard & Poor's 500 index from 1995 to 2015.[3] The S&P 500 represents approximately 82% of the US equity market value (Brzenk, 2018). The IT sector, one of the largest and most acquisitive sectors, is also the setting for many prior work on M&A (Ng & Stuart, 2022; Puranam et al., 2009). Every firm in this sector had CDEs during the sample period (which I manually verify), which is advantageous from an empirical design perspective. Focusing on a single, highly acquisitive sector also allows variations in M&A experience at both individual and firm levels, without idiosyncrasies across industries.

As my theory focuses on CDEs in charge of M&A within their respective firms, and no available data on CDEs exists, I manually constructed such a dataset. For each firm in the sample, I first tried to identify the highest-ranking individual in charge of M&A each year through sources such as LinkedIn, company filings, press releases, and web searches. These individuals typically held titles like "Head of Corporate Development" or "Head of M&A," and were at the Senior Vice President or Vice President levels within their companies. I then collected comprehensive data on their demographics, education background, employment history since college graduation, and their reporting structure and M&A activities as CDEs through an iterative search process using company filings, press releases, LinkedIn, Bloomberg, BoardEx, Crunchbase, LexisNexus, Orbis, Pitchbook, SDC Platinum, the Wayback Machine, and web searches. Since H2 examines the interactive effects between CDEs' and CEOs' M&A experiences, I also collected the same information for all CEOs in the sample. Details on firms' prior M&A experiences come from SDC Platinum. Supporting Information Appendix A provides further details on the data construction and coding process, Supporting Information Appendix B summarizes the background of the CDEs in the sample, and Supporting Information Appendix C provides additional analyses accounting for potential variations in CDEs' ranks, reporting structure, and responsibilities across firms.

Information on each acquisition comes from SDC Platinum, CRSP, and WRDS Event Study. Firm-level data come from Compustat and company filings. The final sample consists of 3607 announced acquisitions by 112 IT firms, 220 CEOs, and 243 CDEs.[4] Table 1 reports descriptive statistics for the deals in the sample: 95% are majority-controlled, 78% are small (<$100MM), 53% are in related sectors, 32% are cross-border, and 12% involve public targets.

3.2 | Dependent variable

Following prior M&A experience studies (Haleblian & Finkelstein, 1999; Hayward, 2002), I employ the event study approach to test my hypotheses. M&A performance is measured as *Cumulative Abnormal Returns* (*CARs*) to firms' stock prices at the time of deal announcement, providing an immediate and direct assessment of firms' strategic decisions (MacKinlay, 1997). The main analyses use a 3-day CAR window (−1, +1) around the deal announcement, and I test

[3]The IT sector includes software, services, hardware, and semiconductor firms classified based on their Global Industry Classification Scheme (GICS). Scholars have shown that GICS is the best performing industry classification scheme when compared to SICS and NAICS (Bhojraj et al., 2003). CVC investments are excluded.

[4]Of the 154 IT firms that were ever in the S&P 500 from 1995 to 2015, 26 companies were acquired in the late 1990s/early 2000s during the dot-com bubble, making the search for their pre-merger CDEs' data extremely difficult. Of those remaining 128 firms, 117 engaged in M&A during the sample period. Five were dropped due to incomplete data on key variables, resulting in a total of 112 firms in the final sample. I do not find any meaningful differences in financial performance in terms of ROA and Tobin's *Q* between the 112 firms versus the 42 companies that were dropped from the initial sample, but the 112 firms tend to be larger in terms of revenue and total assets.

TABLE 1 Sample descriptive statistics by deal characteristics.

(Total # of announced deals: 3607)	# of Deals	% of Total
Majority controlled (acquirer owns more than 50% post-deal)	3419	95%
Deal size <$100MM	2829	78%
Deal size >$1Bn	160	4%
Target is domestic	2438	68%
Target is private	3169	88%
Related deal (same SIC2)	1929	53%
Acquirer paid using cash	3413	95%
Majority controlled, deal size <$100MM	2668	74%
Majority controlled, deal size <$100MM, private target	2579	71%
Majority controlled, deal size <$100MM, private target, domestic	1762	49%

5-, 6-, and 7-day CAR windows in robustness checks. While CARs generally reflect investors' assessment of the value creation opportunities and challenges of the deal based on all information available at the time of its announcement, this measure has been criticized for not fully capturing the long-term realized impact of acquisitions (Zollo & Meier, 2008). As such, I also run robustness checks using long-term *Buy-and-Hold Abnormal Returns* (*BHARs*), which compare the firm's stock returns from 1 month before the deal announcement to 12 or 24 months after, relative to a reference portfolio of comparable firms over the same period (Meyer-Doyle et al., 2019; Rabier, 2017), as well as the acquirer's *Return on Assets* (*ROA*) two years after the transaction. In additional analysis reported in Supporting Information Appendix E, I also use alternative observable outcomes at different stages of the M&A process, such as target type, likelihood of impairment two years after the transaction, and days to deal completion.

3.3 | Explanatory variables: M&A experience at CDE-, CEO-, and firm-levels

CDE M&A Experience is defined as the total number of announced deals that the CDE has done in prior jobs in corporate development or M&A functions before starting the current job. I assume that the CDE was involved in all deals done by prior employers during their time in those functions. The total count captures the aggregate stock of M&A knowhow the CDE brings into their current role as the CDE, and is consistent with prior M&A experience literature (Haleblian & Finkelstein, 1999; King et al., 2018). This measure likely underestimates their actual M&A experience, as I do not observe the unannounced deals that they may have been involved with (Polack, 2021; Polack, 2022). In robustness checks, I also test alternative measures of *CDE M&A Experience* by including deals done in the current role, such as all announced deals up to the focal deal year or the focal deal itself, but these are more correlated with firm M&A experience.

CEO M&A Experience is defined as the number of announced deals the CEO has done before starting their current job, either in corporate development, prior CEO roles, or as specifically stated in their job descriptions. In robustness checks, I also test an alternative measure

that includes all announced deals before joining the current firm. For ease of display, I scale both the CDE and CEO M&A experience measures by 1/100 in all regression tables.

Following prior studies on firm-level M&A learning, I measure *Firm M&A Experience* as the log of the total announced deals prior to the current year (Barkema & Schijven, 2008). I also test alternative measures using the count of prior deals, as well as binary indicators, and log and count of recent deals (Ellis et al., 2011; Haleblian & Finkelstein, 1999).

Since prior works have shown that similar M&A experience facilitates learning and may reduce the risk of negative transfer (Barkema & Schijven, 2008; Ellis et al., 2011; Haleblian & Finkelstein, 1999), I construct seven alternative measures of CDE, CEO, and firm experiences based on the similarity between prior deals and the focal deal. Specifically, I define target-to-target similarity using observable deal dimensions: (i) same target industry (SIC3); (ii) same deal size (above or below $100MM); (iii) same control structure (majority or minority); (iv) same target public status; (v) same industry and size; (vi) same industry and control structure; (vii) same industry and public status. I then calculate *CDE*, *CEO*, and *Firm Similar M&A Experience* as the count of prior deals sharing each characteristic with the focal target.

To test H2, I create two measures for contexts where the CEO has more M&A experience than the CDE: a binary indicator, *CEO Has More M&A Experience*, that equals one when *CEO M&A Experience* is greater than *CDE M&A Experience*, and a continuous variable, *CEO-CDE M&A Experience Gap*, capturing the difference in deal counts when the CEO has more experience. To test H3, I construct a binary indicator, *Limited Firm M&A Experience*, that equals one when the CDE joins a firm with fewer than 18 deals (40th percentile of the sample). For robustness checks, I also test alternative cutoff points ranging from the 25th to the 40th percentiles.

3.4 | Control variables

To account for potential confounds that may bias the relationships between CDEs' M&A experience and performance, I include controls at the CDE, CEO, firm, and deal levels (Haleblian & Finkelstein, 1999; Hayward, 2002; King et al., 2018; Rabier, 2017).

At the CDE level, I control for *Tenure in Current Job* and *Tenure in Current Firm*, which may influence both their M&A experience and M&A performance. These controls also address the alternative explanation that the observed relationships reflect productivity declines from increasing age or tenure (Levin & Stephan, 1991). At the CEO level, I control for *Tenure in Current Job* and *Tenure in Current Firm* to account for CEO-specific impacts on the selection of CDEs and M&A performance, and whether the firm had a *New CEO* in the prior year, since new CEOs may be more likely to pursue M&A, appoint new executives, and adopt different strategies (Meyer-Doyle et al., 2019). At the firm level, I control for market value using *Tobin's Q* (Gompers et al., 2003), *Size* using log of total assets (Hayward, 2002), prior performance using *Return on Assets* (Hayward, 2002), financial liquidity and leverage using *Current Ratio* (Haleblian & Finkelstein, 1999), diversification level using *Number of Business Segments* (Villalonga, 2004), *Age* (Fowler & Schmidt, 1989), and time-varying industry dynamics using *Industry Concentration*, or the Herfindahl of sales at the SIC two-digit level (Gaur et al., 2013). All firm controls are lagged by 1 year. At the deal level, I control for *Relatedness* (SIC two-digit level), whether the acquirer has *Majority Control*, whether it is a *Very Large Deal* (above $1Bn), is *Crossborder* (Tang & Zhao, 2023), involves a *Public Target*, has *Multiple Bidders*, involves *Stock Payment*, is a *Tender Offer*, is a *Hostile* takeover, and whether the target and the acquirer each *has Financial Advisor*.

3.5 | Empirical strategy

In an ideal setting, I would be able to randomly assign identical firms with CDEs with varying M&A experience levels in a large, randomized field experiment to test the impact of CDEs' prior M&A experience on M&A performance. As this is not feasible, the core empirical challenge would be to reduce the potentially biasing effects of nonrandom selection on the CDE experience-firm pair, in which stock market reactions are driven by systematic differences in the selections of different CDE experience types instead of the qualities of the announced M&A.

I address this concern in several ways. First, as the dependent variable is the CARs to a firm's stock price based on new information released about a new deal undertaken by the firm, it already incorporates firm-specific characteristics that may have impacted the CDE experience-firm pair selection process, which occurred before the deal announcement and thus should have been reflected in the firm's stock price. Second, I include year and industry fixed effects in all models to account for additional unobserved heterogeneity over time that may influence CDE selection, such as macroeconomic conditions or industry-wide shifts affecting M&A. Third, I conduct robustness checks that account for firm- and CDE-level characteristics that may bias the selection of CDEs with varying M&A experience levels, including models with firm fixed effects. Fourth, based on field interviews with CDEs, I identify and account for the main hiring criteria that firms typically use—"familiarity with the process"—via the M&A experience variable itself and indicators for prior professional services experience. Lastly, I run a simulation study explicitly modeling the firm-level selection effects on the relationship between CDEs' prior M&A experience and M&A performance. The results of all robustness checks are shown in Supporting Information Appendices C and D.

All my analyses are run using ordinary least squares (OLS) with industry and year fixed effects and robust standard errors clustered at the acquirer level.

4 | RESULTS

4.1 | Main analyses testing H1

Table 2 reports descriptive statistics and correlations for all variables. Table 3 presents results testing for H1, which predicts an inverted-U relationship between CDEs' prior M&A experience and subsequent M&A performance. Model 1 includes control variables only. Models 2–5 test the linear and quadratic combinations of M&A experience at the firm and CEO levels only. Model 6 tests the linear effect of CDEs' prior M&A experience on M&A alone, and Model 7 tests both the linear and the quadratic effects of CDEs' prior experience. Model 8 includes the linear and quadratic effects of all three types of M&A experiences. Table 3, Model 9 is the baseline specification testing H1: the coefficient on the linear *CDE M&A Experience* term is positive ($\beta = .009$, $p = .011$) and the quadratic term is negative ($\beta = -.004$, $p = .006$), while *Firm M&A Experience* is negative ($\beta = -.002$, $p = .156$) and *CEO M&A Experience* is positive ($\beta = .003$, $p = .301$). I find similar results when including firm fixed effects in Model 10, but I do not include them in the rest of my main analyses as it would change the interpretations to be based on within rather than across firm variations. Models 11 and 12 test H1 and find similar results using alternative measures of *CDE M&A Experience* as the total number of announced deals until the focal deal year and the focal deal (i.e., it includes deals done in the current CDE role), where robust standard errors are clustered at the CDE-level per Abadie et al. (2022). Across all

TABLE 2 Summary statistics and correlations.

	Variable name	Mean	SD	Min	Max	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
(1)	DV = CAR (−1, +1)	.00	.04	(.37)	.31	1.00														
(2)	CDE M&A Experience	23.42	45.54	.00	272.00	(.01)	1.00													
(3)	CDE M&A Similar Experience—Same Target Industry (SIC3)	13.25	31.83	.00	211.00	(.01)	.87	1.00												
(4)	CDE M&A Similar Experience—Same Deal Size	17.16	35.50	.00	236.00	.00	.93	.82	1.00											
(5)	CDE M&A Similar Experience—Same Control Structure	17.17	33.29	.00	199.00	(.02)	.98	.86	.90	1.00										
(6)	CDE M&A Similar Experience—Same Target Public Status	18.88	37.50	.00	233.00	(.01)	.96	.84	.95	.95	1.00									
(7)	CDE M&A Similar Experience—Same Target Industry and Size	10.11	25.59	.00	180.00	.00	.81	.93	.87	.79	.83	1.00								
(8)	CDE M&A Similar Experience—Same Target Industry and Structure	10.18	24.48	.00	162.00	(.01)	.86	.99	.80	.87	.83	.92	1.00							
(9)	CDE M&A Similar Experience—Same Target Industry and Public Status	10.78	26.34	.00	177.00	.00	.84	.96	.83	.83	.87	.96	.96	1.00						
(10)	CEO M&A Experience	16.73	24.53	.00	202.00	(.01)	.20	.20	.21	.20	.21	.22	.20	.22	1.00					
(11)	CEO Has More M&A Experience	.42	.49	.00	1.00	.00	(.42)	(.34)	(.39)	(.41)	(.40)	(.32)	(.33)	(.33)	.31	1.00				
(12)	CEO–CDE M&A Experience Gap	10.36	21.63	.00	202.00	(.01)	(.24)	(.19)	(.22)	(.23)	(.23)	(.18)	(.19)	(.19)	.78	.56	1.00			

TABLE 2 (Continued)

	Variable name	Mean	SD	Min	Max	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
(13)	Firm M&A Experience (Log)	3.75	1.13	.00	5.99	(.05)	.37	.33	.36	.38	.37	.32	.33	.33	.45	.01	.21	1.00		
(14)	Limited Firm M&A Experience	.40	.49	.00	1.00	.03	(.31)	(.28)	(.30)	(.33)	(.31)	(.27)	(.29)	(.28)	(.32)	(.04)	(.15)	(.66)	1.00	
(15)	CDE Tenure in Current Job	3.52	4.22	.00	26.00	(.01)	(.12)	(.11)	(.11)	(.13)	(.12)	(.10)	(.11)	(.11)	(.04)	.08	.03	.11	.36	1.00
(16)	CDE Tenure in Firm	7.84	7.24	.00	32.00	(.02)	.16	.12	.16	.15	.14	.12	.12	.11	.15	(.13)	.03	.35	(.02)	.49
(17)	New CEO	.11	.31	.00	1.00	.00	(.06)	(.06)	(.05)	(.06)	(.06)	(.05)	(.06)	(.05)	.19	.20	.24	.03	(.02)	.04
(18)	CEO Tenure in Current Job	6.89	6.94	.00	39.00	.01	.16	.17	.12	.15	.13	.13	.17	.15	(.28)	(.32)	(.25)	(.03)	(.03)	(.02)
(19)	CEO Tenure in Firm	15.74	10.64	.00	41.00	(.01)	.22	.19	.21	.20	.19	.18	.17	.17	.11	(.11)	(.02)	.40	(.19)	.28
(20)	Acquirer Tobin's *Q*	3.78	5.03	.59	78.57	(.02)	(.07)	(.06)	(.07)	(.09)	(.08)	(.05)	(.08)	(.06)	(.11)	(.08)	(.07)	(.13)	.18	(.05)
(21)	Acquirer Size	9.34	1.48	4.59	12.35	(.06)	.44	.39	.41	.43	.42	.37	.38	.38	.40	(.03)	.16	.70	(.49)	.02
(22)	Acquirer Prior Performance	.08	.18	(4.58)	.48	.03	.07	.07	.07	.06	.07	.07	.06	.07	.07	(.04)	.02	.10	.00	.07
(23)	Acquirer Current Ratio	2.62	2.19	.67	36.19	.00	(.02)	.00	(.01)	(.03)	.00	.02	(.01)	.02	(.02)	.04	(.03)	(.13)	.05	(.04)
(24)	Acquirer # of Business Segments	7.49	3.82	1.00	20.00	(.03)	.08	.07	.08	.06	.06	.07	.06	.06	.14	.06	.11	.34	(.27)	.19
(25)	Acquirer Firm Age	35.40	29.72	1.00	164.00	(.03)	.15	.06	.15	.15	.12	.05	.06	.04	.19	(.04)	.10	.38	(.30)	.10
(26)	Acquirer Industry Concentration	.04	.01	.02	.13	(.01)	.04	(.04)	.02	.04	.02	(.06)	(.04)	(.06)	(.17)	(.09)	(.09)	(.11)	.11	.08
(27)	Deal Relatedness	.54	.50	.00	1.00	.01	(.09)	(.02)	(.05)	(.10)	(.07)	.02	(.03)	.01	.04	.05	.00	(.08)	(.03)	(.04)
(28)	Majority Control Deal	.95	.22	.00	1.00	.04	.06	.06	.05	.09	.07	.05	.08	.06	.01	(.06)	(.02)	.03	(.06)	(.03)
(29)	Very Large Deal ($1Bn+)	.04	.21	.00	1.00	(.04)	.03	.02	(.07)	.02	(.04)	(.07)	.01	(.03)	(.01)	.00	(.01)	(.01)	.02	(.01)
(30)	Crossborder Deal	.32	.47	.00	1.00	.01	(.04)	(.06)	(.02)	(.06)	(.04)	(.04)	(.07)	(.06)	.00	.05	.00	.01	.00	.01
(31)	Public Target	.12	.33	.00	1.00	(.06)	(.05)	(.06)	(.12)	(.06)	(.16)	(.11)	(.07)	(.13)	(.04)	.06	.00	(.04)	.03	.02
(32)	Deal Has Multiple Bidders	.00	.06	.00	1.00	(.02)	(.01)	(.02)	(.02)	(.01)	(.01)	(.02)	(.02)	(.02)	.00	.03	.00	.01	(.01)	(.03)
(33)	Stock Payment	.10	.29	.00	1.00	(.02)	(.10)	(.09)	(.12)	(.10)	(.11)	(.11)	(.10)	(.10)	(.09)	(.03)	(.03)	(.16)	.16	(.02)

TABLE 2 (Continued)

	Variable name	Mean	SD	Min	Max	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
(34)	Tender Offer	.03	.17	.00	1.00	(.02)	(.02)	(.02)	(.05)	(.02)	(.07)	(.05)	(.02)	(.06)	(.01)	.06	.01	.00	(.02)	.01
(35)	Hostile Deal	.00	.02	.00	1.00	(.02)	(.01)	(.01)	(.01)	(.01)	(.01)	(.01)	(.01)	(.01)	(.01)	(.01)	(.01)	.00	(.01)	(.01)
(36)	Target Has Financial Advisor	.35	.48	.00	1.00	.01	(.02)	(.01)	(.07)	(.02)	(.06)	(.06)	(.02)	(.05)	(.02)	.03	.02	(.04)	.05	.04
(37)	Acquirer Has Financial Advisor	.16	.37	.00	1.00	(.04)	(.02)	(.04)	(.11)	(.03)	(.09)	(.11)	(.04)	(.09)	(.07)	.00	(.04)	(.11)	.08	.00

		(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)	(28)	(29)	(30)	(31)	(32)	(33)	(34)	(35)	(36)	(37)
(16)	CDE Tenure in Firm	1.00																					
(17)	New CEO	.02	1.00																				
(18)	CEO Tenure in Current Job	(.05)	(.29)	1.00																			
(19)	CEO Tenure in Firm	.49	(.09)	.34	1.00																		
(20)	Acquirer Tobin's *Q*	(.13)	(.04)	.01	(.12)	1.00																	
(21)	Acquirer Size	.31	.03	.06	.44	(.15)	1.00																
(22)	Acquirer Prior Performance	.08	(.03)	.09	.16	.11	.13	1.00															
(23)	Acquirer Current Ratio	(.15)	(.04)	.01	(.18)	.19	(.05)	.05	1.00														
(24)	Acquirer # of Business Segments	.27	(.01)	.06	.32	(.24)	.35	(.02)	(.26)	1.00													
(25)	Acquirer Firm Age	.50	.00	(.13)	.42	(.23)	.34	.02	(.26)	.42	1.00												
(26)	Acquirer Industry Concentration	.09	(.01)	.03	.08	(.02)	(.12)	.02	(.15)	(.05)	.31	1.00											
(27)	Deal Relatedness	(.19)	.01	.06	(.10)	.04	(.21)	.04	.15	(.12)	(.30)	(.23)	1.00										

TABLE 2 (Continued)

		(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)	(28)	(29)	(30)	(31)	(32)	(33)	(34)	(35)	(36)	(37)
(28)	Majority Control Deal	(.01)	(.04)	.03	(.05)	(.14)	(.01)	(.04)	.03	.02	(.01)	(.07)	.08	1.00									
(29)	Very Large Deal ($1Bn+)	.00	(.02)	.06	.02	.03	.05	.02	.03	.03	.00	(.02)	.01	.03	1.00								
(30)	Crossborder Deal	.10	.03	(.10)	.06	(.02)	.04	.03	(.06)	.08	.08	(.01)	(.01)	(.19)	(.07)	1.00							
(31)	Public Target	.00	.01	.04	.03	.04	(.01)	.01	(.02)	.04	.03	.03	.03	(.23)	.37	.02	1.00						
(32)	Deal Has Multiple Bidders	(.04)	.03	.02	.00	.00	(.01)	.00	.00	.01	(.01)	(.01)	.02	.01	.04	.02	.12	1.00					
(33)	Stock Payment	(.09)	(.02)	(.05)	(.15)	.24	(.18)	(.05)	.06	(.12)	(.12)	.00	.00	.06	.26	(.12)	.16	.02	1.00				
(34)	Tender Offer	(.01)	.01	.01	.01	(.02)	.00	.00	(.01)	.05	.01	(.02)	.04	.02	.12	.05	.46	.17	(.03)	1.00			
(35)	Hostile Deal	(.02)	(.01)	.05	.02	.01	.00	.01	.00	.02	(.01)	.00	.02	.00	.08	(.01)	.04	.00	(.01)	.10	1.00		
(36)	Target Has Financial Advisor	.01	(.01)	.06	.03	(.02)	(.02)	(.01)	(.05)	.06	.02	.01	.03	.06	.25	(.13)	.33	.07	.19	.19	.02	1.00	
(37)	Acquirer Has Financial Advisor	.01	(.01)	(.01)	(.03)	(.02)	(.09)	(.03)	(.01)	.03	.05	.04	.03	.04	.39	.01	.46	.10	.25	.30	.04	.36	1.00

TABLE 3 Testing H1: CDE M&A experience and M&A performance.

DV = CAR [−1, +1]	(1) Controls only	(2) Firm exp. only	(3) CEO exp. only	(4) Firm + CEO exp.	(5) Firm + CEO exp. squared	(6) CDE exp. only	(7) CDE exp. squared	(8) CDE + Firm + CEO exp. squased	(9) Baseline (H1)	(10) Baseline with firm FE	(11) Alt. measure of CDE exp. (until focal year)	(12) Alt. Measure of CDE exp. (until focal deal)
CDE M&A experience						0.0011	0.0069	0.0084	0.0086	0.0095	0.0081	0.0084
						(0.507)	(0.019)	(0.020)	(0.011)	(0.025)	(0.033)	(0.037)
CDE M&A experience squared							−0.0031	−0.0038	−0.0039	−0.0038	−0.0025	−0.0024
							(0.014)	(0.017)	(0.006)	(0.039)	(0.055)	(0.069)
Firm M&A experience		−0.0013		−0.0014	−0.0002			−0.0019	−0.0016	−0.0054	−0.0020	−0.0020
		(0.250)		(0.226)	(0.954)			(0.597)	(0.156)	(0.150)	(0.099)	(0.092)
Firm M&A experience squared					0.0001			0.0005				
					(0.859)			(0.527)				
CEO M&A experience			0.0022	0.0028	0.0015			0.0002	0.0031	0.0039	0.0021	0.0021
			(0.479)	(0.370)	(0.844)			(0.984)	(0.301)	(0.364)	(0.491)	(0.493)
CEO M&A experience squared					0.0005			0.0022				
					(0.947)			(0.771)				
CDE tenure in current job						−0.0003	−0.0003	−0.0002	−0.0002	0.0003	−0.0004	−0.0005
						(0.135)	(0.210)	(0.328)	(0.337)	(0.534)	(0.044)	(0.041)
CDE tenure in firm						0.0001	0.0000	−0.0000	0.0000	−0.0001	0.0000	0.0000
						(0.600)	(0.899)	(0.947)	(0.946)	(0.592)	(0.813)	(0.816)
New CEO	0.0019	0.0018	0.0017	0.0016	0.0017	0.0020	0.0023	0.0022	0.0021	0.0019	0.0020	0.0020
	(0.492)	(0.508)	(0.523)	(0.551)	(0.524)	(0.466)	(0.395)	(0.420)	(0.437)	(0.531)	(0.452)	(0.451)

TABLE 3 (Continued)

DV = CAR [−1, +1]	(1) Controls only	(2) Firm exp. only	(3) CEO exp. only	(4) Firm + CEO exp.	(5) Firm + CEO exp. squared	(6) CDE exp. only	(7) CDE exp. squared	(8) CDE + Firm + CEO exp. squased	(9) Baseline (H1)	(10) Baseline with firm FE	(11) Alt. measure of CDE exp. (until focal year)	(12) Alt. Measure of CDE exp. (until focal deal)
CEO tenure in current job	0.0000	0.0000	0.0001	0.0000	0.0001	0.0000	0.0001	0.0001	0.0001	0.0001	0.0000	0.0000
	(0.737)	(0.933)	(0.619)	(0.771)	(0.642)	(0.928)	(0.670)	(0.627)	(0.629)	(0.673)	(0.951)	(0.959)
CEO tenure in firm	0.0000	0.0000	0.0000	0.0000	0.0000	0.0001	0.0001	0.0000	0.0001	0.0002	0.0001	0.0001
	(0.851)	(0.660)	(0.881)	(0.681)	(0.915)	(0.604)	(0.611)	(0.627)	(0.494)	(0.206)	(0.509)	(0.501)
Acquirer Tobin's Q	−0.0001	−0.0001	−0.0001	−0.0001	−0.0001	−0.0001	−0.0001	−0.0001	−0.0001	−0.0006	−0.0001	−0.0001
	(0.560)	(0.564)	(0.573)	(0.581)	(0.565)	(0.540)	(0.512)	(0.510)	(0.532)	(0.004)	(0.470)	(0.448)
Acquirer size	−0.0017	−0.0012	−0.0019	−0.0013	−0.0019	−0.0020	−0.0022	−0.0021	−0.0017	−0.0075	−0.0019	−0.0020
	(0.015)	(0.141)	(0.013)	(0.105)	(0.061)	(0.010)	(0.007)	(0.043)	(0.047)	(0.012)	(0.034)	(0.028)
Acquirer prior performance	0.0113	0.0114	0.0111	0.0113	0.0112	0.0117	0.0116	0.0116	0.0115	0.0081	0.0115	0.0115
	(0.206)	(0.194)	(0.212)	(0.202)	(0.207)	(0.183)	(0.185)	(0.184)	(0.185)	(0.362)	(0.143)	(0.146)
Acquirer current ratio	−0.0001	−0.0001	−0.0001	−0.0001	−0.0001	−0.0001	−0.0001	−0.0001	−0.0002	−0.0003	−0.0001	−0.0001
	(0.898)	(0.866)	(0.896)	(0.861)	(0.898)	(0.893)	(0.814)	(0.785)	(0.746)	(0.630)	(0.806)	(0.786)
Acquirer # of business segments	−0.0001	−0.0001	−0.0001	−0.0001	−0.0001	−0.0000	−0.0000	−0.0000	−0.0000	0.0001	−0.0000	−0.0000
	(0.747)	(0.814)	(0.742)	(0.813)	(0.754)	(0.925)	(0.922)	(0.975)	(0.979)	(0.855)	(0.965)	(0.981)
Acquirer firm age	−0.0000	−0.0000	−0.0000	−0.0000	−0.0000	−0.0001	−0.0001	−0.0001	−0.0001	0.0015	−0.0000	−0.0000
	(0.248)	(0.300)	(0.242)	(0.292)	(0.232)	(0.141)	(0.124)	(0.126)	(0.152)	(0.028)	(0.209)	(0.223)
Acquirer industry concentration	0.0427	0.0421	0.0483	0.0492	0.0479	0.0505	0.0516	0.0554	0.0569	−0.1264	0.0581	0.0582
	(0.633)	(0.627)	(0.590)	(0.570)	(0.600)	(0.574)	(0.571)	(0.545)	(0.516)	(0.480)	(0.474)	(0.473)

TABLE 3 (Continued)

DV = CAR [−1, +1]	(1) Controls only	(2) Firm exp. only	(3) CEO exp. only	(4) Firm + CEO exp.	(5) Firm + CEO exp. squared	(6) CDE exp. only	(7) CDE exp. squared	(8) CDE + Firm + CEO exp. squased	(9) Baseline (H1)	(10) Baseline with firm FE	(11) Alt. measure of CDE exp. (until focal year)	(12) Alt. Measure of CDE exp. (until focal deal)
Deal relatedness	−0.0012	−0.0011	−0.0012	−0.0011	−0.0011	−0.0012	−0.0014	−0.0013	−0.0013	−0.0005	−0.0013	−0.0013
	(0.554)	(0.587)	(0.548)	(0.582)	(0.577)	(0.535)	(0.481)	(0.519)	(0.504)	(0.850)	(0.499)	(0.508)
Majority control deal	0.0070	0.0071	0.0070	0.0071	0.0070	0.0071	0.0070	0.0071	0.0071	0.0076	0.0071	0.0072
	(0.043)	(0.041)	(0.043)	(0.040)	(0.046)	(0.040)	(0.043)	(0.044)	(0.041)	(0.051)	(0.078)	(0.076)
Very large deal ($1Bn+)	−0.0038	−0.0040	−0.0038	−0.0040	−0.0038	−0.0039	−0.0039	−0.0040	−0.0041	−0.0057	−0.0041	−0.0041
	(0.509)	(0.490)	(0.513)	(0.494)	(0.514)	(0.506)	(0.498)	(0.492)	(0.479)	(0.352)	(0.528)	(0.525)
Crossborder deal	0.0020	0.0019	0.0021	0.0020	0.0021	0.0020	0.0021	0.0021	0.0020	0.0031	0.0020	0.0020
	(0.177)	(0.202)	(0.166)	(0.188)	(0.164)	(0.178)	(0.161)	(0.146)	(0.169)	(0.032)	(0.195)	(0.196)
Public target	−0.0052	−0.0052	−0.0052	−0.0052	−0.0052	−0.0051	−0.0051	−0.0051	−0.0052	−0.0039	−0.0051	−0.0050
	(0.233)	(0.230)	(0.233)	(0.229)	(0.237)	(0.241)	(0.235)	(0.240)	(0.229)	(0.360)	(0.218)	(0.220)
Deal has multiple bidders	−0.0122	−0.0118	−0.0121	−0.0116	−0.0121	−0.0125	−0.0127	−0.0124	−0.0120	−0.0081	−0.0118	−0.0118
	(0.361)	(0.377)	(0.362)	(0.381)	(0.365)	(0.344)	(0.331)	(0.341)	(0.357)	(0.587)	(0.425)	(0.425)
Stock payment	−0.0010	−0.0009	−0.0011	−0.0010	−0.0011	−0.0011	−0.0010	−0.0011	−0.0010	−0.0013	−0.0009	−0.0009
	(0.803)	(0.818)	(0.793)	(0.806)	(0.785)	(0.791)	(0.800)	(0.785)	(0.811)	(0.724)	(0.793)	(0.795)
Tender offer	0.0011	0.0012	0.0011	0.0012	0.0011	0.0011	0.0013	0.0013	0.0015	−0.0013	0.0014	0.0014
	(0.860)	(0.837)	(0.862)	(0.838)	(0.859)	(0.850)	(0.835)	(0.825)	(0.806)	(0.832)	(0.817)	(0.819)
Hostile deal	−0.0422	−0.0425	−0.0421	−0.0423	−0.0421	−0.0430	−0.0434	−0.0437	−0.0433	−0.0433	−0.0417	−0.0415
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Target has financial advisor	0.0037	0.0036	0.0036	0.0036	0.0036	0.0037	0.0039	0.0039	0.0039	0.0046	0.0038	0.0038
	(0.023)	(0.024)	(0.023)	(0.025)	(0.025)	(0.019)	(0.017)	(0.018)	(0.018)	(0.006)	(0.018)	(0.018)

TABLE 3 (Continued)

DV = CAR [−1, +1]	(1) Controls only	(2) Firm exp. only	(3) CEO exp. only	(4) Firm + CEO exp.	(5) Firm + CEO exp. squared	(6) CDE exp. only	(7) CDE exp. squared	(8) CDE + Firm + CEO exp. squased	(9) Baseline (H1)	(10) Baseline with firm FE	(11) Alt. measure of CDE exp. (until focal year)	(12) Alt. Measure of CDE exp. (until focal deal)
Acquirer has financial advisor	−0.0035	−0.0036	−0.0034	−0.0036	−0.0034	−0.0036	−0.0035	−0.0035	−0.0036	−0.0034	−0.0037	−0.0037
	(0.321)	(0.294)	(0.326)	(0.300)	(0.323)	(0.295)	(0.311)	(0.310)	(0.291)	(0.303)	(0.253)	(0.251)
Constant	0.0214	0.0189	0.0220	0.0195	0.0224	0.0250	0.0267	0.0259	0.0246	−0.0771	0.0275	0.0280
	(0.076)	(0.127)	(0.068)	(0.113)	(0.114)	(0.046)	(0.038)	(0.085)	(0.058)	(0.278)	(0.039)	(0.037)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry (SIC2) fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm fixed effects	No	No	No	No	No	No	No	No	No	Yes	No	No
*R*2	0.0272	0.0277	0.0273	0.0278	0.0273	0.0281	0.0287	0.0289	0.0295	0.0992	0.0295	0.0296
N	3607	3607	3607	3607	3607	3607	3607	3607	3607	3607	3607	3607

Note: Probability (*p*) values in parentheses; robust standard errors clustered by acquirer in Models 1–10 and by CDE in Models 11 and 12 per Abadie et al. (2022); Firm M&A Experience is measured as count (scaled by 1/100) in Models 5 and 8, and is log transformed in all other models; CDE M&A Experience is measured as the total number of announced deals until the focal year in Model 11 and as the total number of announced deals until the focal deal in Model 12; CDE M&A Experience and CEO M&A Experience are scaled by 1/100 in all models for ease of display.

models, firm M&A experience (log transformed) is negative and CEO M&A experience is positive, but neither exhibits a clear association with M&A performance. Together, these results provide support for the hypothesized relationship in H1.

To formally test the existence of the inverted-U relationship, I conduct the three U tests proposed in Lind and Mehlum (2010) and Haans et al. (2016) using the estimates from Model 9. The results meet all three criteria:: (i) the quadratic term is negative ($\beta = -.004$, $p = .006$); (ii) the slope at the minimum value of CDE M&A experience is positive ($\beta = .009$, $p = .006$), while the slope at the maximum is negative ($\beta = -.013$, $p = .003$); and (iii) the turning point is at 108 deals, which lies well within the observed range of 0 to 272 deals. The p-value from the "utest" Stata command (written by Lind and Mehlum to test all three criteria directly) is .006. Figure 1a shows the predicted inverted-U relationship between CDE experience and performance from Model 9.

In terms of economic significance, the positive linear *CDE M&A Experience* term in Model 9 ($\beta = .009$, $p = .011$) suggests that for the CDEs with relatively little prior experience, an increase of 10 deals in a CDE experience is associated with a 0.1% increase in the CARs of subsequent deals. Given the average industry market capitalization of $41.5Bn, this translates to an estimated $26.2MM gain in shareholder value. At the sample mean, a one-standard-deviation increase in CDE experience corresponds to a 0.4% increase in CAR, or approximately $92.8MM in value creation. Since the average firm in the sample undertakes four deals per year, this implies nearly half a billion dollars in potential value gains each year, an economically meaningful effect.

4.2 | Testing theoretical mechanisms of H1

Tables 4 and 5 present two analyses that test the theoretical mechanisms for the inverted-U relationship between CDEs' prior M&A experience and subsequent M&A performance proposed in Section 2.3. Specifically, as cognitive entrenchment cannot be measured directly, I examine contexts where it is more or less likely to occur.

In Table 4, I explore the effects of CDEs' prior experience with similar deals. If the arguments for H1 are correct, we would expect a similar inverted-U relationship here, with steeper slopes and earlier turning points. As CDEs gain experience conducting deals that appear highly similar (e.g., deals of similar size or within the same industry), we might expect that they become entrenched in specific approaches, engage in less search for underlying differences when they encounter new but seemingly familiar deals, and make less effective decisions. The results in Table 4 support this argument, where I find inverted-U relationships between *CDE Similar M&A Experience* and *M&A Performance* across all seven target-to-target similarity measures. The coefficients on the linear and quadratic terms for *CDE Similar M&A Experience* in Models 1–7 are generally larger than the baseline results in Model 8, and the turning points of the inverted-U occur earlier. For instance, in Model 6, which examines CDEs' prior experience with targets in the same industry and control structure, the turning point is at 61 deals, compared to 108 deals in Model 8. These findings suggest that while similar experience may accelerate learning as shown in prior research (Ellis et al., 2011), it can also intensify cognitive entrenchment, leading to worse outcomes at higher experience levels. Figure 1b illustrates these results using Models 1, 3, and 5.

In Table 5, I examine the conditions under which cognitive entrenchment may be mitigated by analyzing the diversity of career paths CDEs had before their current role. Prior work

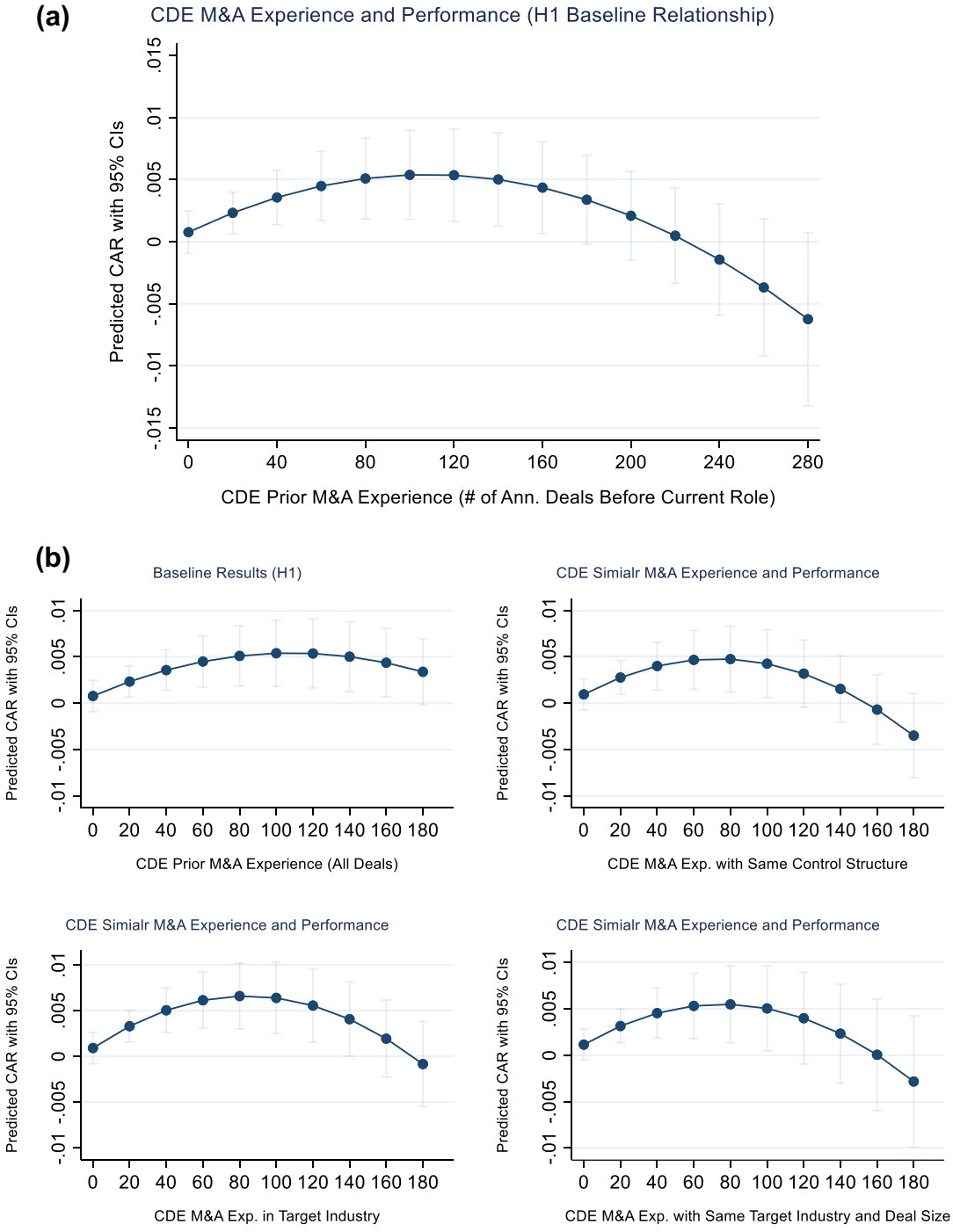

FIGURE 1 (a) Testing H1 (Table 3, Model 9). (b) H1 with similar deal experience (Table 4, Models 1, 3, and 5): steeper slopes and earlier turning points.

suggests that individuals with diverse career experiences across multiple firms or job functions often benefit from broader networks, more varied knowledge bases, and exposure to alternative perspectives, all of which can help reduce cognitive rigidity and enhance flexibility in decision-

TABLE 4 Mechanism test of H1: CDEs prior M&A experience with similar deals as the focal deal.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	CDE similar M&A experience measured as # of prior deals that have							
DV = CAR [−1, +1]	**Same target industry (SIC3)**	**Same target size (small vs. large)**	**Same control structure (min. vs. maj)**	**Same target public status (priv vs. pub)**	**Same target industry + size**	**Same target industry + control structure**	**Same target industry + public Status**	**Baseline (H1)**
CDE similar M&A experience	0.0135	0.0096	0.0105	0.0064	0.0115	0.0172	0.0124	0.0086
	(0.001)	(0.024)	(0.014)	(0.071)	(0.012)	(0.001)	(0.005)	(0.011)
CDE similar M&A experience squared	−0.0080	−0.0048	−0.0072	−0.0034	−0.0076	−0.0141	−0.0084	−0.0039
	(0.000)	(0.010)	(0.003)	(0.047)	(0.003)	(0.000)	(0.002)	(0.006)
CEO similar M&A experience	0.0051	0.0021	0.0013	0.0008	0.0042	0.0041	0.0037	−0.0016
	(0.224)	(0.565)	(0.705)	(0.809)	(0.326)	(0.271)	(0.313)	(0.156)
Firm similar M&A experience	−0.0013	−0.0016	−0.0017	−0.0011	−0.0008	−0.0013	−0.0009	0.0031
	(0.062)	(0.123)	(0.122)	(0.279)	(0.174)	(0.071)	(0.160)	(0.301)
Constant	0.0230	0.0246	0.0219	0.0235	0.0238	0.0210	0.0235	0.0246
	(0.074)	(0.054)	(0.093)	(0.067)	(0.064)	(0.107)	(0.066)	(0.058)
p−value from Lind and Mehlum u-test	0.012	0.001	0.007	0.036	0.000	0.006	0.003	0.006
Turning point	84	101	73	94	76	61	74	108
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry (SIC2) fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

TABLE 4 (Continued)

DV = CAR [−1, +1]	(1) CDE similar M&A experience measured as # of prior deals that have: Same target industry (SIC3)	(2) Same target size (small vs. large)	(3) Same control structure (min. vs. maj)	(4) Same target public status (priv vs. pub)	(5) Same target industry + size	(6) Same target industry + control structure	(7) Same target industry + public Status	(8) Baseline (H1)
*R*2	0.0297	0.0293	0.0294	0.0286	0.0288	0.0297	0.0289	0.0295
N	3607	3607	3607	3607	3607	3607	3607	3607

Note: Probability (*p*) values in parentheses; robust standard errors clustered by acquirer.

TABLE 5 Mechanism test of H1: CDEs prior career diversity and mitigation of cognitive entrenchment.

DV = CAR [−1, +1]	(1) *Subsample:* Less diverse career (by firms)	(2) *Subsample:* More diverse career (by firms)	(3) *Full sample:* Career diversity (by firms)	(4) *Subsample:* Less diverse career (by functions)	(5) *Subsample:* More diverse career (by functions)	(6) *Full sample:* Career diversity (by functions)
CDE M&A experience	0.0113	−0.0128	0.0143	0.0101	−0.0178	0.0082
	(0.044)	(0.243)	(0.002)	(0.063)	(0.217)	(0.068)
CDE M&A experience squared	−0.0046	0.0141	−0.0065	−0.0041	0.0199	−0.0043
	(0.049)	(0.082)	(0.001)	(0.052)	(0.083)	(0.018)
Indicator =1 if career diversity >0.5			0.0013			−0.0015
			(0.604)			(0.547)
Indicator * CDE experience			−0.0284			−0.0194
			(0.004)			(0.110)
Indicator * CDE experience squared			0.0208			0.0181
			(0.003)			(0.029)
Firm M&A experience	−0.0008	−0.0015	−0.0017	0.0002	−0.0030	−0.0017
	(0.653)	(0.281)	(0.125)	(0.906)	(0.178)	(0.132)
CEO M&A experience	0.0018	0.0076	0.0039	−0.0022	0.0107	0.0026
	(0.711)	(0.077)	(0.216)	(0.577)	(0.115)	(0.356)
Constant	0.0475	0.0139	0.0268	0.0470	−0.0136	0.0248
	(0.002)	(0.805)	(0.037)	(0.003)	(0.616)	(0.065)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Industry (SIC2) fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
*R*2	0.0500	0.0379	0.0310	0.0492	0.0625	0.0307
N	1805	1802	3607	2243	1364	3607

Note: Probability (*p*) values in parentheses; robust standard errors clustered by acquirer.

making (Dane, 2010; Kleinbaum, 2012; Taylor & Greve, 2006). At the same time, research has also highlighted the potential downsides of overly diverse careers at lower levels of experience, as less experienced individuals often struggle to effectively leverage their diverse knowledge bases in new contexts (Dokko et al., 2009; Kleinbaum, 2012). As such, we might expect that H1 may vary depending on the diversity of CDEs' prior career experiences.

Table 5 empirically tests these ideas. *CDE Career Diversity* is calculated as one minus the Herfindahl index based on the proportion of years spent in different firms (Models 1–3) or different job functions (Models 4–6) before starting the current role (Kleinbaum, 2012). Results from both subsample (Models 1, 2, 4, and 5) and full sample (Models 3 and 6) analyses consistently indicate that the inverted-U relationship occurs among CDEs with less diverse careers. In contrast, CDEs with more diverse careers exhibit weakly negative estimates for the linear term (Model 3: $\beta = -.028$, $p = .004$; Model 6: $\beta = -.019$, $p = .110$) and positive estimates for the quadratic term (Model 3: $\beta = .021$, $p = .003$; Model 6: $\beta = .018$, $p = .029$). These patterns suggest that while career diversity may initially hinder inexperienced CDEs, it can lower the risks of entrenchment biases typically associated with domain expertise for highly experienced CDEs.

The results from Tables 4 and 5 together provide evidence supporting the proposed theoretical mechanisms underlying the baseline inverted-U relationship as hypothesized in H1.

4.3 | Testing H2: How H1 changes when the CEO has more M&A experience

Across Tables 3–5, I do not find meaningful main effects of CEO and firm M&A experiences. Table 6 tests the interactive effects between CEO and CDE M&A experiences depending on their relative M&A experience levels as hypothesized in H2. Models 1–3 test H2 using the binary indicator of *CEO Has More M&A Experience* in subsample and full sample analyses, and these results are illustrated in Figure 2a. Model 4 tests H2 using the continuous measure of *CEO-CDE M&A Experience Gap*, which captures the effects of each additional deal experience the CEO has over the CDE. Model 2 examines the subsample where the CEO has less M&A experience than the CDE, where we see an inverted-U relationship. We also find consistent full sample results in Models 3 and 4. This supports our theory that in these settings, the CEO likely takes a more hands-off approach while the CDE leads the firm's M&A efforts.

In contrast, when the CEO has more M&A experience, two key findings emerge from the results. First, the coefficient on *CDE M&A Experience Squared* is positive in the subsample (Model 1: $\beta = .223$, $p = .013$), and its interactions with *CEO Has More M&A Experience* are also positive in the full sample analyses (Model 3: $\beta = .208$, $p = .043$; Model 4: $\beta = .003$, $p = .000$), providing support for H2. This suggests that the combined domain expertise of the CDE and the CEO may mitigate their individual entrenchment biases, enhancing M&A outcomes. Further, the positive interaction of *CEO-CDE M&A Experience Gap * CDE Experience Squared* (Model 4: $\beta = .003$, $p = .000$) suggests that at higher CDE experience levels, CEO experience increasingly enhances M&A performance as the experience gap widens. Figure 2b illustrates this effect at CEO-CDE experience gaps of 10 (mean) and 32 deals (one standard deviation above the mean).

Second, the coefficient on *CDE M&A Experience* turns negative in the subsample analysis (Model 1: $\beta = -.103$, $p = .030$), and its interactions with *CEO Has More M&A Experience* in full sample analyses remain weakly negative (Model 3: $\beta = -.105$, $p = .063$; Model 4: $\beta = -.001$, $p = .185$). Although empirically less robust, these findings provide suggestive evidence that while experienced CEOs can complement CDE effectiveness at higher CDE experience levels, they may inadvertently constrain less experienced CDEs. Indeed, prior research has shown that substantial differences in expertise among decision makers can create coordination challenges

TABLE 6 Testing H2: How H1 changes when CEO has more M&A experience than CDE.

DV = CAR [−1, +1]	(1) *Subsample:* When CEO has more M&A experience than CDE	(2) *Subsample:* When CEO has less M&A experience than CDE	(3) *Full sample:* CEO has more × CDE M&A exp. and exp Sq	(4) *Full sample:* CEO-CDE M&A exp. gap × CDE M&A exp and exp. squared
CDE M&A experience	−0.1025	0.0094	0.0108	0.0095
	(0.030)	(0.095)	(0.047)	(0.010)
CDE M&A experience squared	0.2230	−0.0041	−0.0047	−0.0042
	(0.013)	(0.065)	(0.022)	(0.006)
Indicator = 1 if CEO has more M&A experience than CDE			0.0023	
			(0.429)	
CEO has more M&A experience * CDE experience			−0.1051	
			(0.063)	
CEO has more M&A experience * CDE experience squared			0.2082	
			(0.043)	
CEO-CDE M&A experience gap (when the CEO has more experience)				0.0000
				(0.234)
CEO-CDE M&A experience gap * CDE experience				−0.0006
				(0.185)
CEO-CDE M&A experience gap * CDE experience squared				0.0025
				(0.000)
Firm M&A experience	−0.0017	−0.0005	−0.0016	−0.0017
	(0.403)	(0.689)	(0.170)	(0.147)
Constant	−0.0270	0.0474	0.0241	0.0247
	(0.116)	(0.005)	(0.065)	(0.059)
Controls	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
Industry (SIC2) fixed effects	Yes	Yes	Yes	Yes
*R*2	0.0607	0.0405	0.0309	0.0311
N	1524	2083	3607	3607

Note: Probability (*p*) values in parentheses; robust standard errors clustered by acquirer.

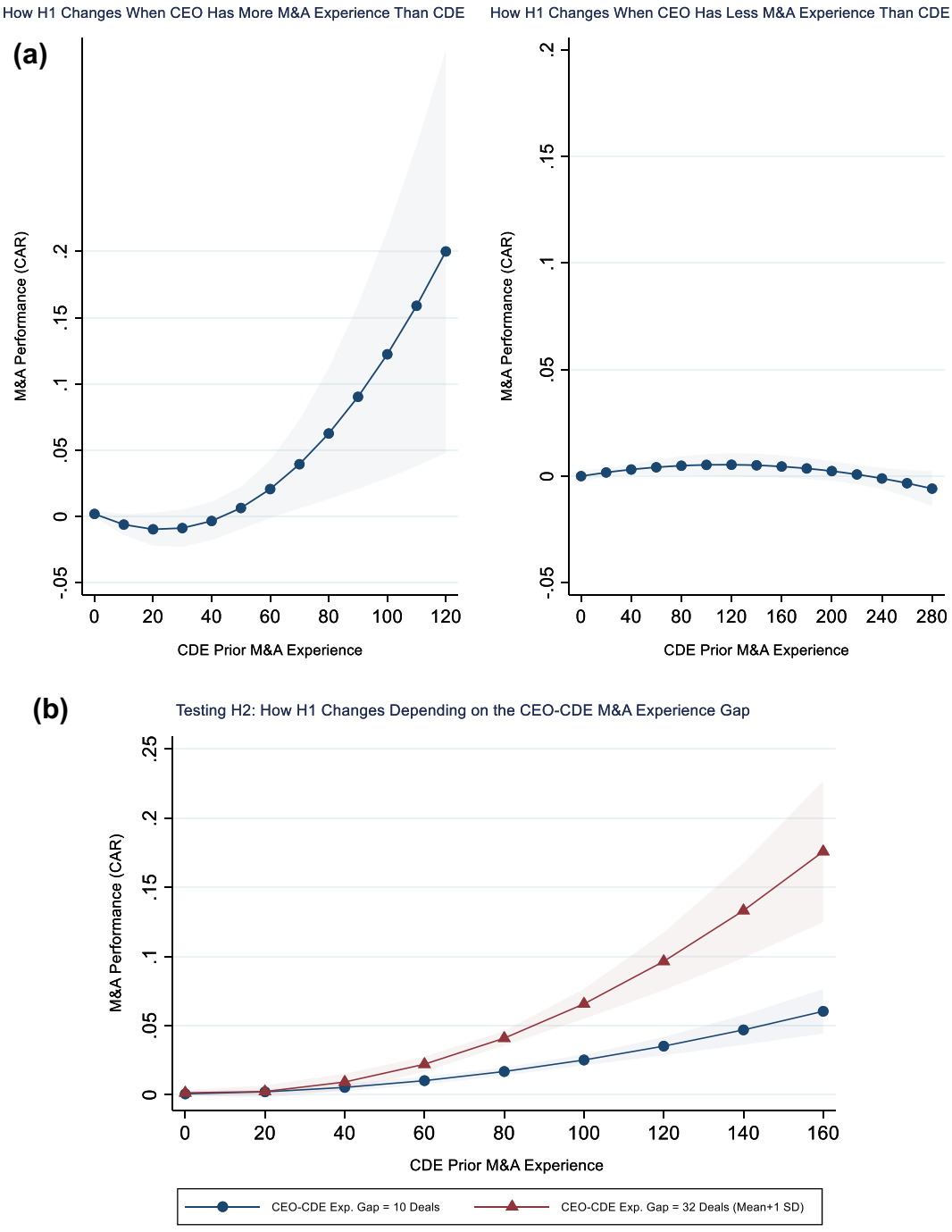

FIGURE 2 (a) Testing H2. (b) Testing H2 with CEO-CDE M&A experience gap (Table 6, Model 4).

and decision paralysis (Csaszar & Eggers, 2013; Karim et al., 2016). Less experienced CDEs may thus struggle to effectively incorporate guidance from highly knowledgeable CEOs, potentially leading to decision paralysis, misalignment, and reduced execution quality.

4.4 | Testing H3: How H1 changes when the firm has limited M&A experience

Table 7 tests H3, which examines how H1 changes under contexts of low firm M&A experience. Firms are classified as having limited M&A experience if they announced fewer than 18 deals (40th percentile of the sample) before the current CDE began their role. Models 1 and 2 present subsample analyses (illustrated in Figure 3). Model 3 presents full sample results using the 40th percentile cutoff, while Models 4–6 use alternative cutoffs at the 25th, 30th, and 35th percentiles.

Model 1 shows that in the subsample of firms with some M&A experience, we observe the expected inverted-U relationship. In contrast, Model 2 reveals that in firms with limited M&A experience, the coefficient for *CDE M&A Experience* is negative ($\beta = -.050$, $p = .012$), and the coefficient for *CDE M&A Experience Squared* is positive ($\beta = .056$, $p = .006$), indicating a U-shaped relationship (u-test $p = .006$). Similar robust patterns emerge in the full sample analyses in Models 3–6, where the interactions between *Limited Firm M&A Experience* and *CDE Experience* are negative while interactions with *CDE Experience Squared* are positive.

These results provide support for H3. At lower CDE experience levels, the positive association identified in H1 is indeed weakened and becomes negative, consistent with our theory that the less experienced CDEs likely face greater challenges executing deals without organizational support. At higher levels of CDE experience, the quadratic negative association in H1 is also attenuated and turns positive. This suggests a partial substitution effect between CDE and firm M&A experience, whereby highly experienced CDEs can effectively compensate for limited firm-level experience by establishing M&A infrastructure. These broader responsibilities in turn may help mitigate the entrenchment biases typically associated with domain expertise.

Interestingly, the U-shaped finding under low firm M&A experience is similar to the U-shaped relationship between firm's M&A experience and performance reported by Haleblian and Finkelstein (1999). Their measure of firm M&A experience (mean = 2.2 deals, standard deviation = 3.2 deals) would fall within the limited firm M&A experience range used in Table 7.

4.5 | Additional analyses

In Supporting Information Appendix C, Table C1, I summarize the additional analyses conducted to examine the potential empirical concerns regarding the above findings, such as potential concerns regarding measurement and model specification errors, non-random selection of the CDE experience-firm pairs, potential alternative explanations, and omitted variable biases. All analyses yield consistent results, as detailed in Supporting Information Appendices C and D.

In Supporting Information Appendix E, I conduct three sets of additional exploratory analyses to examine the interactive effects among CDE, CEO, and firm experiences across different types of deals and different stages of the M&A process. In Table E1, I further unpack the results for H2 and explore how previously identified interactions between CEOs and CDEs may vary depending on the type of deals. Results across subsample and full sample analyses provide suggestive evidence that the positive interactive effects between CDEs and more experienced CEOs found in Table 6 are mostly driven by their interactions during large deals (at least $100MM in deal value) and deals involving publicly listed target firms. I conduct similar analyses for H3 in

TABLE 7 Testing H3: How H1 changes when CDE joins an organization with limited M&A experience.

	(1) Subsample:	(2)	(3) Full sample:	(4)	(5)	(6)
	Firm has some M&A experience	Firm has limited M&A experience	Limited firm experience indicator × CDE experience and exp. squared			
DV = CAR [−1, +1]	18+ deals (> = 40th percentile)	< 18 deals (40th percentile)	< 18 deals (40th percentile)	< 9 deals (25th percentile)	< 11 deals (30th percentile)	< 13 deals (35th percentile)
CDE M&A experience	0.0092	−0.0502	0.0082	0.0078	0.0079	0.0079
	(0.002)	(0.012)	(0.021)	(0.031)	(0.023)	(0.025)
CDE M&A experience squared	−0.0041	0.0560	−0.0039	−0.0037	−0.0038	−0.0037
	(0.002)	(0.006)	(0.007)	(0.011)	(0.007)	(0.008)
Indicator = 1 if firm experience < X deals			0.0016	0.0065	0.0040	0.0036
			(0.596)	(0.058)	(0.227)	(0.283)
Limited firm M&A experience * CDE experience			−0.0452	−0.1342	−0.0737	−0.0654
			(0.014)	(0.005)	(0.009)	(0.009)
Limited firm M&A experience * CDE experience squared			0.0419	0.1246	0.0698	0.0637
			(0.010)	(0.004)	(0.007)	(0.006)
CEO M&A experience	0.0050	−0.0050	0.0027	0.0020	0.0021	0.0020
	(0.057)	(0.549)	(0.367)	(0.503)	(0.460)	(0.497)
Constant	−0.0090	0.0611	0.0308	0.0228	0.0251	0.0289
	(0.333)	(0.040)	(0.037)	(0.099)	(0.067)	(0.050)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Industry (SIC2) Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
R2	0.0437	0.0512	0.0299	0.0325	0.0309	0.0307
N	2157	1450	3607	3607	3607	3607

Note: Probability (p) values in parentheses; robust standard errors clustered by acquirer.

Table E2 and find that the observed CDE effects are stronger when firms are pursuing smaller or private deals, where CDEs are more likely to hold greater decision rights and possess more relevant knowhow to compensate for the lack of organizational experience.

In addition, although my main analyses focus on the performance effects of CDEs' M&A experience, my theory posits that CDEs play an important role throughout the M&A process. While I lack the necessary data to separately identify causal effects of CDE, CEO and firm M&A experiences on each decision in the M&A process, I conduct exploratory analyses in

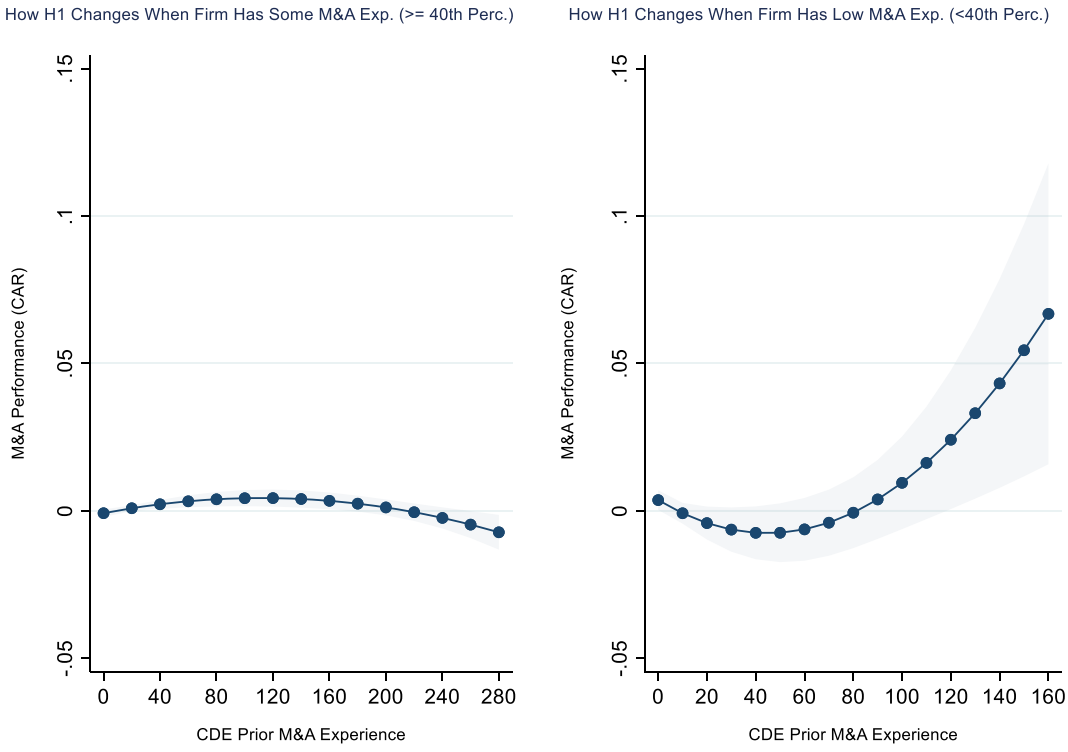

FIGURE 3 Testing H3: limited versus some firm M&A experience.

Tables E3 and E4 on the correlational relationships between these experiences and observable outcomes at each stage. I find evidence that M&A experiences of the CDE, the CEO, and firm are each relevant for different decisions during target screening and selection. These include decisions on target industry (correlated with firm experience), deal size and structure (correlated with CDE experience), and deal location (correlated with CEO experience). During deal execution, CDEs' prior experience working with investment banks (FAs) is positively associated with the likelihood of hiring FAs for their current deal. CDEs' prior M&A experience is also negatively associated with the likelihood of goodwill impairments 2 years after a focal deal, suggesting that they become more skilled in valuation as they accumulate experience.

For the deal completion stage, I explore the relationship between prior M&A experiences and deal completion time. From a firm's perspective, a shorter deal completion period is always preferred, as it reduces deal uncertainty and allows the firm to quickly implement their plans for integration and value creation (Haspeslagh & Jemison, 1991). In Table E4, I find that CDEs' prior experience is negatively associated with days to deal completion. On average, a 10-deal increase in CDE M&A experience is associated with one fewer day to closing and six fewer days in the case of large deals. Interestingly, CDEs' prior experience in government-related jobs is also associated with fewer days to deal completion. On the other hand, CEOs' prior M&A experience does not affect days to closing, except for deals involving public targets, where a 10-deal increase in CEOs' prior experience with public targets is associated with 25 fewer days to closing. These findings provide additional insights into the roles CDEs, CEOs, and other firm actors may play during different stages of the M&A process and across different deal types.

5 | DISCUSSION

This study investigates how CDEs, the specialized executives who sit below the C-suite and are responsible for the day-to-day M&A activities of firms, may be critical sources of M&A capabilities within organizations. Through a novel, hand-collected dataset on heads of corporate development in the S&P 500 IT sector, I find that CDEs, through their role as the "linking pin" in charge of coordinating among relevant stakeholders and executing key tasks throughout the M&A process, directly shape firms' M&A outcomes.

Taking a microfoundations perspective and zooming in on the M&A experience of these actors, I find a baseline nonlinear, inverted-U relationship between CDEs' prior M&A experience and subsequent M&A performance. Consistent with prior theories on learning from experience (Dane, 2010; Ericsson, 2006), I find evidence that this relationship is driven by a combination of learning benefits and cognitive entrenchment biases associated with domain expertise, which tend to occur more often when CDEs accumulate experience doing deals that appear very similar. I also find evidence that the negative effects of cognitive entrenchment can be weakened when CDEs have a diverse career. In addition to overall M&A performance, I find suggestive evidence that prior CDE experience influences target selection and use of external advisors, improves due diligence and valuation decisions, and increases deal completion speed.

While I do not find any main effects for CEO and firm M&A experiences, I find that they also influence M&A outcomes through their interactions with CDEs. Specifically, when the CEO has more M&A experience than the CDE, they are better positioned to complement the CDE's efforts, especially during high-stakes M&A transactions such as large deals or public deals, where they are likely to be jointly engaged. I also find that having M&A knowhow among internal stakeholders is a necessary condition for the CDEs' effectiveness. Highly experienced CDEs are particularly helpful when firms have limited M&A experience, as they can compensate for the lack of firm-level M&A knowhow by establishing the necessary M&A infrastructure and disseminating best practices, thereby enabling better execution and decisions.

Taking these results together, a multi-level perspective on the sources of M&A capabilities within organizations emerges. M&A capabilities may not only manifest at the organizational level or the CEO level as emphasized in prior studies, but may also reside within and be critically shaped by CDEs, the specialized executives directly responsible for M&A. Moreover, CDEs' abilities to shape M&A outcomes can be further enhanced or limited, depending on the M&A experiences of the firm and the CEO.

5.1 | Theoretical contributions

As one of the first studies to examine the interplay among CDE, CEO, and firm M&A experiences across different contexts, this research makes several contributions. First, through a detailed examination of CDEs—who they are, what they do, and how they interact with other actors in the organization, I extend existing work on dynamic managerial capabilities (Adner & Helfat, 2003; Meyer-Doyle et al., 2019). The findings from this study show that it is theoretically and empirically important to distinguish the managerial capabilities of the most senior members of the firm from those of executives tasked with leading key strategic activities, especially when the outcomes of these activities often depend on tacit knowledge and individual-specific relationships. In doing so, this work provides a possible explanation for the unexplained variance in M&A performance beyond firm and CEO effects as identified in Meyer-Doyle et al. (2019).

Second, building on the microfoundations movement in strategy, this study answers the call for more research bridging macro and micro levels of analysis (Cowen et al., 2022; Felin et al., 2015; Helfat & Martin, 2015). Given that M&A capability is often viewed as a critical dynamic capability of the firm (Heimeriks et al., 2012; Trichterborn et al., 2016; Zollo & Singh, 2004), this work demonstrates how key individual actors can play a role in shaping and developing this capability. By highlighting that CDEs do not work in isolation but instead influence M&A outcomes through their interactions with other stakeholders, processes, and structures within firms, I show how task-specific actors may serve as microfoundations of firm-level dynamic capabilities (Barney & Felin, 2013; Meyer-Doyle et al., 2019).

Third, this research also contributes to our understanding of how individual learning and organizational learning interact. Incorporating findings from the domain expertise and decision-making in teams literatures to the M&A context (Bonner et al., 2002; Bunderson, 2003; Dane, 2010; Dobrajska et al., 2015; Ericsson, 2006), I shed light on the conditions under which individual/CDE-level experience may serve as a substitute for organizational-level knowhow or as a complement to CEO-level learning. Extending prior corporate strategy work on dedicated functions (Kale et al., 2002; Trichterborn et al., 2016), this study suggests that the existence of an organizational structure alone is not sufficient for developing M&A knowhow. Instead, firms also need an experienced actor leading these functions who can effectively identify and apply appropriate M&A practices and knowhow across diverse deal contexts.

Fourth, by providing evidence that some of the previous inconsistent findings on organizational-level M&A learning and experience may be explained by examining different levels of the CDE experience curve, this work also informs the ongoing debate on the M&A experience–learning–performance relationship (Hitt et al., 2001; King et al., 2004; Kolev & Haleblian, 2018), where scholars have stated that "consistent findings on the relationship between acquisition experience and post-acquisition performance do not exist" (King et al., 2004, p. 190). Specifically, I show how previously observed mixed results of positive, negative, U-shaped, and inverted-U-shaped relationships between M&A experience and performance can potentially be explained by unpacking the varying effects of CDE experience across different contexts.

Finally, by introducing CDEs as a critical group of actors in the M&A process, this study builds on the emerging stream of research on specialized executives in top management teams (Fu et al., 2020; Menz & Scheef, 2014), highlighting the importance of examining the focal actor for specific strategic decisions. With the growth of M&A and corporate development functions across industries (EY, 2015), this work also offers managerial implications for how firms can develop M&A capabilities and select and manage their M&A human capital. Specifically, when a firm has limited M&A experience and lacks established processes, it is preferable to hire a seasoned CDE who can build the M&A function. If the firm already has existing M&A infrastructure, it is important to carefully audit the M&A portfolio of potential candidates before hiring them for the CDE role. Lastly, CDEs are most effective when they have a strong partnership with the CEO, especially when the CEO is an M&A expert.

5.2 | Limitations and future research

This study has several limitations, each of which raises potential avenues for further research. First, it does not fully address the empirical challenge posed by the non-random selection of

CDE-firm pairs. Given the nature of CARs and the inclusion of year, industry, and firm fixed effects, the OLS results are indicative of the underlying relationships. Future work could better address this with an expanded sample of CDEs and their mobility across firms, using a matching approach to generate firm- and CDE-level matched pairs. This would allow us to better parse out the effects of CDE experience from unobservable individual- and firm-level characteristics.

Second, given the design of this study and data limitations, I cannot completely rule out alternative explanations for the observed relationships, such as variations in CDEs' reporting structures, scope of responsibilities, power dynamics, and the size and experience of the M&A team. While I find evidence mitigating these concerns through fixed effects and additional controls (as reported in Supporting Information Appendix C), future research could further examine these factors using other research designs. For example, one could investigate the joint effects of firm-level processes and structures, individual-level (CDEs, CEOs, and other supporting actors) factors, and team-level M&A learning by combining surveys and archival data, or adopt an inductive approach to unpack the microfoundations of M&A capability development within organizations.

Third, while this study primarily focuses on the overall impact of CDE M&A experience on M&A performance, I cannot identify the specific learnings or mistakes that occur across the various M&A tasks. Moreover, I focus exclusively on the M&A experience of CDEs, yet managerial capabilities can manifest through many other forms of experience, such as actors' functional backgrounds, education, and demographic characteristics (Di Stefano et al., 2010). Future work could gather richer data on distinct M&A tasks and examine how CDEs' and CEOs' demographic, functional, and educational backgrounds influence their abilities to source deals, conduct due diligence, or integrate targets in different organizational and deal contexts.

Lastly, the findings of this study may not be generalizable to other industries and firms. The current results represent the average effects of CDEs' M&A experience on M&A performance for a sample of announced deals by large, public, highly acquisitive S&P 500 IT firms mostly acquiring small and private companies. While all firms in this sector have CDEs, other industries often vary in acquisitiveness, and the existence, prevalence, and reporting structures of CDEs may also differ. In addition, though CDEs typically coordinate and execute all deals, the analyses in Supporting Information Appendix E suggest that the relative effects of CDE-, CEO-, and firm-level M&A experiences likely vary with deal contexts, with the CEO playing a more visible role during acquisitions of large or public targets. Future work could explore the external validity of these findings by examining the interactions of deal-, CDE-, CEO-, firm-, and industry-level factors, thereby identifying additional boundary conditions and refining our theories on M&A.

6 | CONCLUSION

This paper examines the microfoundations of M&A capabilities by shedding light on the role of CDEs in M&A. Through a multi-level approach, I provide a contingent model of experience and show that the relationship between experience, capability development, and performance should be understood through the interplay among CDE, CEO, and firm M&A experiences across different contexts. Integrating theories from corporate strategy, organizational learning, and dynamic managerial capabilities, this study contributes to our understanding of the drivers of superior M&A performance, and offers important implications for managers involved in shaping inorganic growth strategies across organizations.

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DATA AVAILABILITY STATEMENT

SDC Platinum data may be obtained from Refinitiv. Compustat and CRSP data may be obtained from Wharton Research Data Services (WRDS). Other data in this study are proprietary and were obtained under confidential agreements with interview informants and other third-party data providers.

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SUPPORTING INFORMATION

Additional supporting information can be found online in the Supporting Information section at the end of this article.

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