Investment bankers lead businesses to better mergers, acquisitions

February 18 2014, by Kevin Manne

Corporations with board directors who have investment banking experience are more likely to acquire other businesses – and make better acquisitions when they do – according to a new study from the University at Buffalo School of Management.

Forthcoming in the *Journal of Financial Economics*, the study found that directors with investment banking experience help their firms to select better businesses to acquire, more accurately determine the value of the target business and either reduce reliance on mergers and acquisition

consultants or negotiate lower advisory fees.

"We found that, all other things being equal, firms with investment banking directors on the board are more than 13 percent more likely to make acquisitions the following year," says study co-author Feng (Jack) Jiang, PhD, assistant professor of finance and managerial economics in the UB School of Management. "Relevant experience and financial literacy are important when serving on corporate boards."

The study defined investment banking directors as outside directors – a non-employee member of a company's board of directors – who had past or concurrent working experience as either top executives or senior managers at one of the most active mergers and acquisitions advising firms. It used a sample of more than 41,000 firm-year observations from 1998-2008 and found a positive relationship between the presence of investment banking directors and the firm's probability of making acquisitions.

In addition, the research examined whether corporate boards with investment banker directors make better acquisitions than those without. Using a sample of nearly 2,500 acquisitions announced from 1999-2008, the study found that firms with investment banking directors are associated with 0.8 percent higher abnormal announcement returns, which translates to $36 million in increased value for shareholders.

These findings are counter to a 2008 study by Güner, Malmendier and Tate that found that the presence of investment bankers on boards was associated with worse acquisitions.

"There was a conflict of interest for the investment banking directors in that study – they were affiliated with the investment banks involved in the takeover process," says Jiang. "We specifically looked at investment banking directors without a conflict of interest and found their expertise

generally benefits shareholders in mergers and acquisitions."

Provided by University at Buffalo

Citation: Investment bankers lead businesses to better mergers, acquisitions (2014, February 18) retrieved 26 April 2024 from
https://phys.org/news/2014-02-investment-bankers-businesses-mergers-acquisitions.html

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.