Abstract

Managerial Bullshitting and Shareholders’ Cognitive Processing Abilities: Evidence from M&As

Désirée-Jessica Pély | Ludwig Maximilian University Munich | pely@lmu.de

Behavioral Manager – Bullshitting Behavior

<table>
<thead>
<tr>
<th>M&amp;A Motives</th>
<th>Single Motive</th>
<th>Two Motives</th>
<th>Multiple Motives</th>
</tr>
</thead>
<tbody>
<tr>
<td>BHARs</td>
<td>-0.023**</td>
<td>-0.023**</td>
<td>-0.023***</td>
</tr>
<tr>
<td>p-value</td>
<td>&lt; 0.01</td>
<td>&lt; 0.01</td>
<td>&lt; 0.01</td>
</tr>
</tbody>
</table>

Robustness

A behavioral shareholder explanation is further supported by studying subsamples for which arbitrage is easier: large transactions and deals in which synergies are reduced through, e.g., clear goals as well as autonomous integration of targets.

Further, alternative rational explanations are considered by implementing an event-time long-short portfolio strategy controlling for systematic risk. Setting value-weighted avg. monthly returns on multiple motives, excess returns of 17.64% can be achieved. Hence, risk-based considerations cannot explain the differences, which provide support for a behavioral view.

Results are not driven by the synergy type as the coefficient of multiple M&A motives remains negative for revenue, cost, size, and market.

To address simultaneity, a placebo test is performed: CARs are regressed on tomorrow’s words and vice versa. Results imply that it is the firm that influences stock prices.

Conclusion

Shareholders respond negatively to multi-motive deals in the short and long-run. For example, deals that are accompanied with many synergy claims are associated with a significant decrease in announcement CARs. At the same time, multi-motive acquirers are more likely to be taken over themselves. Further, underperformance of M&As is fortified when bullshitting rhetoric, e.g., vague language, is used by managers, which is linked to overconfidence.

The average shareholder underreacts to multi-motive deals and more so to single synergy M&As. More sophisticated investors incorporate the expected value of the claimed synergies already at deal announcement, implying that they see the firm’s bullshitting behavior through. However, they are not able to fully arbitrage away the mispricing.

Acknowledgments

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References


