Homebiased Acquisitions

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Abstract

We show that CEOs exhibit a home bias in acquisitions. Firms are over twice as likely to acquire targets located in their CEOs' home states than similar targets domiciled elsewhere. The bias is strongest for private targets and when acquirer governance is lax, and these private home deals do not create value, suggesting that CEOs acquire these targets for their own benefits. Unlike typical public deals, however, *public* home-state acquisitions are value enhancing. CEOs create value in public home-state acquisitions by avoiding extremely poor deals and through synergies driven by efficient integration.

1. Introduction

There is a large literature in economics on home bias. Most individual investors hold the majority of their portfolios in domestic securities (French and Poterba, 1991; Tesar and Werner, 1995; Kang and Stulz, 1997), and those domestic securities are often held in "local" firms (Greenblatt and Keloharju, 2001; Ivkovic and Weisbenner, 2005; Seasholes and Zhu, 2010). Professional money managers also tilt their portfolios toward local (Coval and Moskowitz, 1999) and home-state (Pool, Stoffman, and Yonker, 2012) stocks.

While the literature shows that investors are home-biased in their *financial* investments, we ask whether corporate managers also exhibit this bias when making *real* investment. Specifically, we investigate whether chief executive officers (CEOs) are more likely to acquire target firms in the states where they grew up (hereafter their home states), and if so, what are the causes and consequences of this behavior?

There are a number of reasons CEOs may be more likely to acquire firms from their home states. The literature on local bias finds evidence that both information (Coval and Moskowitz, 2001; Ivkovic and Weisbenner, 2005) and familiarity (Huberman, 2001; Grinblatt and Keloharju, 2001; Seasholes and Zhu, 2010; Pool, Stoffman, and Yonker, 2012) drive investors to make biased portfolio decisions. These channels could also play a role in acquisitions; however, acquisition decisions and portfolio allocation decisions are different in important ways. Namely, in acquisitions, investors (CEOs) play active roles in the execution of the deal, requiring managers to reallocate the resources of acquired firms. If CEOs are better at this reallocation with firms near their homes, the acquisitions could be value-enhancing. However, since corporate acquisitions are made by *delegated* managers, there is also a potentially large role for agency conflicts in these investments. We therefore broadly categorize the motives for home-biased acquisitions into *home advantages* and *agency conflicts*.

Under the *home advantage hypothesis* of home biased acquisitions, CEOs acquire targets in their home states to exploit their geographic-specific skills and/or advantages. Home advantages could manifest

as *ex ante* information, for instance, whereby CEOs have better knowledge of the prospects of target firms near their homes.[1] This might provide hometown CEOs with advantages in identifying suitable targets that otherwise would not have been pursued. The home advantage could also come *ex post*. Following acquisitions, hometown CEOs may be more effective at executing deals by reducing the costs of integration.[2] Hometown CEOs are likely to understand local culture better allowing them to communicate more effectively with both management and labor of target firms, In turn, this enables them to more fully comprehend the efficiencies and inefficiencies of their targets, ultimately leading to more efficient integration of combined firms.

Under the *agency conflicts hypothesis*, CEOs invest in home-town targets in pursuit of private benefits. The potential private benefits CEOs could receive from these investments are numerous and could stem from either direct monetary benefits to CEOs or from the utility CEOs receive from helping people near their homes. For example, purchasing a distressed hometown company could increase the CEO's (or the CEO's family's) status or popularity in his home state. Increased status/popularity could lead to monetary benefits, such as paid speaking arrangements or increased access to government officials. This same action could be motivated by less cynical reason. CEOs may have more empathy for workers in their home towns and try to "rescue" workers in trouble near their homes.[3] We could liken this latter reason to corporate philanthropy (whereby managers "donate" shareholder money to their hometowns), which has

[1] This is most similar to the "information" story proposed in the traditional home bias literature.

[2] Many industry practitioners and anecdotal evidence suggest that many deals fail because of large post-acquisition integration costs arising from such barriers as cultural differences and communication cost, among others. Graham, Harvey, Popadak, and Rajgopal (2016) report that "Cultural fit in merger and acquisition (M&A) deals is so important that 54% of executives would walk away from a target that is culturally misaligned". High profile deals that supposedly failed due to corporate culture clashes include Daimler-Chrysler and Sprint-Nextel, transactions that ended up destroying billions of dollars in shareholder value (Bouwman, 2013).

[3] Yonker (2013) shows evidence that affective bonds that CEOs establish with their homes drive them to treat workers from their home states better than workers located elsewhere. In the sociology and environmental psychology literatures these bonds are known as "place attachments" or "place identity" (Fisher et. al, 1977; Altman and Low, 1992; Hidalgo and Hernandez, 2001).

been shown to increase with agency conflicts (Masulis and Reza, 2016; Cheng, Hong and Shue; 2014). Finally, if CEOs enjoy spending time near their homes, then acquiring a target nearby gives them an excuse to use company resources to do so.[4]

We begin our analysis by testing whether firms have an abnormal propensity to acquire target firms near their CEOs' homes. Both the *home advantage* and *agency conflicts* hypotheses suggest that CEOs exhibit a home bias in acquisition decisions. To test this, we follow an empirical strategy similar to that of Pool, Stoffman, and Yonker (2012), which relies on CEO states of origin to identify CEO homes. These data identify CEO home states based on the states in which CEOs registered with the Social Security Administration.[5] Our strategy effectively tests whether a firm located in New York with a CEO who grew up in Iowa is more likely to acquire targets located in Iowa.

Estimates from our baseline specification imply that firms are 130% more likely to acquire targets from their CEOs' home states than similar targets from other states. Importantly, these results control for the effect of merger waves (Harford, 2005) and for unobserved, time-varying heterogeneity in state-specific acquisition propensity by acquirer location, such as changing economic or legal environments across states. In our most stringent specification, which is identified by within-firm variation in CEO states of origin, we estimate that firms are over 80% more likely to acquire targets located in their CEOs home states than similar targets located elsewhere. Moreover, the bias is driven by cross-state acquisitions, confirming that it is indeed a CEO and not a firm effect.[7] We further show that these results are not driven by firms selecting CEOs to exploit their home-state acquisition skills.

Having established the existence of a home bias in corporate acquisitions, we next ask what drives it. The mergers and acquisitions literature has shown that acquisitions of public and private targets are very

[4] This is consistent with Yonker (2016), who shows that CEOs exhibit geographic preferences for their homes.

[5] Yonker (2016) shows that this captures where over 80% of CEOs lived during their teenage years.

[7] In an independent, contemporaneously written paper, Chung, Green, and Schmidt (2016) find similar results using the alternative methodology of Rhodes-Kropf and Robinson (2008), which compares targets chosen to hypothetical targets.

different. They differ in their frequency, deal size, public attention, and acquisition performance (Fuller, Netter, and Stegemoller, 2002; Betton, Eckbo, and Thorburn, 2008). How would CEOs' home bias be potentially different when it comes to public vs. private acquisitions? The smaller size, lower attention of, and greater information asymmetry in private deals suggest that if CEOs were to invest in home state targets for private benefits, then these would be the ideal targets for that purpose.[10] When splitting the sample between public and private targets, our baseline specification suggests that in both samples firms are about 1.3 times more likely to acquire home state targets than similar non-home state targets. However, the stability of this result is stronger in the sample of private targets. Moreover, in private deals we find that better governance mitigates the home bias, while we find no such effect for public target deals. This initial evidence is supportive of private (but not public) target deals being driven primarily by agency conflicts.

To further understand the motivation for the acquisition home bias we investigate the stock market reaction of bidders around acquisition announcements. If agency conflicts indeed drive the home bias in *private* target deals, then we expect to see unfavorable market reactions to home-state private deals. Indeed, unlike other private deals that on average experience positive announcement returns, home-state private acquisitions do not create value. After controlling for a variety of firm and deal characteristics, we find that acquirers in home-state private deals have 1.5% lower abnormal announcement returns. This translates into $22 million lower shareholder value for the average bidder in our sample based on size. These results are consistent with *private* home-state deals being driven by agency conflicts.

In contrast, the performance result for public target deals suggests that it is unlikely that agency conflicts drive home-state public deals. Unlike other public deals that on average experience negative announcement returns, home-state public deals create value for acquiring firms. After controlling for a variety of firm and deal characteristics, we find that acquirers in home state public deals have two percent

[10] A recent paper by Biggerstaff, Cicero, and Puckett (2015) find unethical CEOs are more likely to acquire private (not public) companies to perpetuate their financial frauds.

higher abnormal announcement returns, which translates into about $100 million higher shareholder value for the average bidder in our public deal sample.

The more favorable market reaction toward home-state public deals is consistent with our conjecture that home advantages lead to better public home-state acquisition decisions. We next investigate the source of the value gains in public home-state deals.

We begin this analysis by testing whether CEOs are able to avoid extremely bad deals in their home states. The univariate statistics are striking – not a single home state public deal is among the ten percent worst deals. When including controls we show that home state deals are half as likely as other deals to be among the worst deals. This finding provides evidence that managers have *ex ante* superior information about the potential for completing successful acquisitions in their home states.

We go on to investigate whether firms are able to purchase home-state public targets at a discount. We find no evidence that the bidders pay lower takeover premiums in home state public deals. On the other hand, we find the abnormal announcement return of the combined firms (value-weighted average of target and bidder abnormal returns) is significantly greater for home-state deals. This is consistent with the home state advantages that these deals have higher synergies.

To test whether public home-state deals realize these anticipated synergies, we investigate post-acquisition operating performance. We find that the return on assets (ROA) of acquirers making home-state deals outperforms those making non-home-state deals in the three years following acquisition. To gain some insight as to why home state deals outperform, we investigate the post-acquisition employment dynamics of combined firms. We find that home-state deals experience greater employment declines during the first two years after the merger, but by year three there is no significant difference in employment

growth between firms that acquire home-state or non-home-state targets. These findings are suggestive that CEOs are better at post-acquisition resource reallocations between the target and acquiring firms.[11]

This paper contributes to the literature on home bias by documenting the existence of home bias in the domain of *real* investments. Moreover, we highlight differences in the causes and consequences of home bias in real investments from financial investments, which could provide a basis for future work. Moreover, we contribute to the M&A literature by showing an important additional determinant of acquisition behavior – CEO origin. We recognize Chung, Green, and Schmidt (2016) as independent, contemporaneous work that also documents a home bias in corporate acquisitions using the alternative methodology of Rhodes-Kropf and Robinson (2008). Consistent with this paper, Chung et. al. find that the bias is driven by cross-state acquisitions, mitigated by good governance, and that home state acquisitions underperform. They conclude that agency conflicts drive the bias. We find similar evidence and draw similar conclusions for acquisitions of private deals, but we also show evidence for the *home advantage* hypothesis for public home state acquisitions.

This latter result is important and contributes to the literature on mergers and acquisitions. Public acquisitions generally destroy value. There is sparse evidence of systematic outperformance in acquisitions of public targets.[12] We identify a new factor that appears to lead to value-enhancing deals for acquirers. We find such evidence and show suggestive evidence of the mechanism – home state CEOs are better able to reallocate resources across combined firms post-acquisition.

[11] Unfortunately, the data do not allow us to separate post-acquisition employment by pre-acquisition employer, so we cannot be certain whether target or acquirer firm employees are laid off during the post-acquisition period. It could be that the observed efficiency gains stem from CEOs being more open to replacing unproductive bidder employees with more productive target employees when targets are located in their home states.

[12] See Cai and Sevilir (2012) and Custodio and Metzger (2013).

Finally, the paper contributes to the literature on the impact of managers on corporate decisions.[13] Most relevant in this literature is Malmendier and Tate (2005, 2008), which shows that overconfident CEOs overinvest in both capital expenditures and in value-destroying acquisitions. While Malmendier and Tate document a particular bias that increases the propensity of managers to invest, we document a bias—the home bias—and skill set that predicts which investments (targets) corporate managers select. Additionally, while most of the literature on the impact of managers on corporate outcomes finds managerial biases that are costly to shareholders, we find both evidence of systematic biases and skills, each of which manifest under certain conditions.

2. Data and sample description

We rely on three main databases toin construct the sample in our study; 1) Securities Data Company's (SDC) US Mergers and Acquisitions database to identify completed domestic acquisitions, 2) S&P's Execucomp database (Execucomp) to identify Chief Executive Officers (CEOs) and Chief Financial Officers (CFOs), and 3) Lexis Nexis Public Records Database to identify CEO and CFO geographic origin.

Our sample of M&A transactions comes from the Securities Data Company's (SDC) US Mergers and Acquisitions database. We begin with all domestic mergers and acquisitions announced between January 1992 and December 2014 and require that the acquirer owns less than 50% of the target prior to the acquisition announcement and owns at least 95% after the completion.[15] We are careful to exclude all deals that are not mergers or acquisitions.[16] Additionally, we exclude privatizations, acquisitions made by

[13] The literature that uses identifiable manager characteristics to help explain corporate policies has found evidence that managers affect, for example, corporate financing policies (Malmendier et al., 2011; Cronqvist et al., 2012), corporate investment and acquisitions (Malmendier and Tate, 2005 and 2008, Jenter and Lewellen, 2011), corporate risk-taking (Cain and McKeon, 2011; Hutton et al., 2013; Faccio et al., 2013), and corporate employment decisions (Yonker, 2013).

[15] The sample starts in 1992 because this is when the Execucomp coverage begins.

[16] These include repurchases, recapitalizations, spinoffs, self-tender offers, exchange offers, and minority stake purchases.

penny stocks, all deals with missing deal value, and small transactions in which the deal value is less than $1 million or less than 1% of the acquirer's market capitalization (Moeller, Schlingemann, and Stulz, 2004). We also require that we can obtain return data from Center for Research in Security Prices (CRSP) and accounting data from Compustat for the acquiring firms..[17] Our sample includes XXX acquisitions.

Our main analysis focuses on CEOs as it is likely that they have the most influence on firm acquisition decision among top management. Much of the literature that investigates the impact of managers on acquisitions makes this same assumption (See for example, Malmendier and Tate, 2008; Yim, 2013; and Benmelech and Frydman, 2015). We rely on Execucomp to identify CEOs of non-financial, non-utility, U.S.-based firms from 1992 to 2014. Execucomp data are also used to construct control variables for other sources of heterogeneity in managers, specifically: CEO age, gender, and tenure. We obtain 26,541 firm-year observations with the above CEO information.

We are interested in testing whether firms are more likely to make acquisitions near their CEOs' homes. Thus, we use Lexis Nexis Online Public Records Database to identify the geographic origin of CEOs, which we define as the state in which the CEO acquired his social security number (Yonker, 2016; Pool, Stoffman, and Yonker, 2012). The first five digits of social security numbers are not random. The first three indicate the state of issuance, while the fourth and fifth digits are linked to the sequence of issuance. Therefore, the social security number identifies the year and state in which a CEO acquired his social security number. Yonker (2016) shows that for nearly 85% of CEOs in his sample (Execucomp from 1997 to 2007) the social security number identifies the states where CEOs lived during their teenage years. We find this is true for a similar percentage of CEOs in our sample.

The Lexis Nexis Online Public Records Database includes social security data (excluding the last four digits) for most individuals living in the United States, thus in order to identify CEOs in the database we manually search for CEOs. To do so, we follow the procedure of Yonker (2016), which makes use of

[17] Stock return and accounting information are not available for private targets.

first, middle, and last names, as well as age.[18] Only CEOs that are uniquely identified are included in the sample. Following this procedure, we obtain CEO geographic origin data for 23,718 (89.4%) of the firm-years covered by Execucomp. These observations include 2,291 unique firms and 4,269 unique CEOs.[19]

Tables 1 presents summary statistics. Panel A reports the deal and acquirer characteristics for the acquisition sample. In this panel, each observation represents one deal. Over the sample period, there are 5,505 deals involving both "private" and public targets with an aggregate deal value of $4.15 trillion.[21] Of these deals about twenty percent include public targets and the majority of acquisitions are made with cash (59%). The average three-day cumulative abnormal merger announcement return is 1.1%.[22] However, it is important to note that this average is driven by private target deals which constitute 80% of deals, but only 28% of deal value. While the average bidder abnormal announcement return is positive (1.7%) for private target deals, it is negative (−1.2%) for public target deals, which is consistent with the M&A literature (e.g., Moeller, Schlingemann, and Stulz, 2004, Betton, Eckbo, and Thorhurn, 2008, Cai and Sevilir 2012, Ishii and Xuan, 2014).[23]

Panel B reports the summary statistics of acquirer characteristics and acquisition behavior based on firm-year observations that have CEO information (with and without acquisitions). The statistics indicate that firms make acquisitions in 14.8 percent of years. Home state acquisitions occur in about 1.7% of years

[18] For more details for the data collection procedure, see the appendix of Yonker (2016).

[19] There is a growing interest in understanding the role of CFO in a firm's decision making (e.g., Malmendier, Pezone, and Zheng (2016)), we hence conduct supplementary analysis on the role CFO's state of origin on a firm's acquisition decision as well. Among 23,718 original firm-year observations, we are able to identify 14,591 observations with CFO state of origin information. Of these observations there are 1,951 unique firms and 3,220 unique CFOs

[21] For ease of exposition, we call both true private targets and subsidiary targets "private" targets.

[22] Abnormal returns are estimated using the market model.

[23] The common explanation for this empirical finding is that there is more competition in acquiring public targets since the public market price can be viewed as a default competing bidder (e.g., Billett and Qian, 2008).

and in state acquisitions occur during 3.4% of firm years. These numbers indicate that in 11.6% and 22.8% of acquisition years firms make home state and in state deals, respectively.[24]

In our analysis in section 3, we employ a firm-state pair model to investigate whether firms have an abnormally high propensity to acquire targets from their CEOs' home states. This analysis is conducted using firm-state-year observations, i.e., each firm is paired with each of the 50 states and Washington D.C. each year. Panel C reports the summary statistics for this sample. The mean of the deal dummy in this specification is 0.34%, which is just 1.72% (deal dummy from Panel B) divided by 51.

3. CEO Home Bias in Acquisitions

We begin our analysis by investigating whether CEOs exhibit a home bias when making merger and acquisition decisions. That is, are they more likely to acquire targets from their home states? Both the *home advantage* and *agency conflicts* theories suggest that they should. We test this in the next section.

3.1Baseline results

Similar to Pool, Stoffman, and Yonker (2012) and Tate and Yang (2015), we use a firm-state pair model to test this hypothesis. Specifically, using firm-state-year observations, (i.e., each firm is paired with each of the 50 states and Washington D.C. each year) we estimate the following regression[25].

$$Y_{i,j,r,s,t} = \beta_0 + \beta_1\, CEO\ home\ state_{i,s,t} + \boldsymbol{\Gamma}'Controls_{i,s,t} + \delta_{j,t} + \gamma_{r,s,t} + \varepsilon_{i,s,t}$$

The dependent variable $Y_{i,j,r,s,t}$ measures the acquisition activity of firm *i* in state *s* during year *t*. We use two measures to capture this: *Deal dummy*, which is one if firm *i* acquires at least one firm in state *s*

[24] These numbers are largely in line with those reported in Panel A, but are slightly larger because here a home state deal in a firm year is one if there is at least one home state deal in that year.

[25] Alternatively, we utilize a methodology similar to Yonker (2016) to test whether there is CEO home bias in acquisitions and we find similar results. Specifically, we test whether the observed proportion of home state acquisitions is greater than the expectation, where the expected proportion of home state targets is based on the actual number of potential targets in the home state.

during year *t* and is zero otherwise, and *log(Deal value)* which is the natural logarithm of the total value of firm *i*'s acquisitions in state *s* during year *t*. The additional subscripts *j* and *r* indicate the industry and state of headquarters of firm *i*, respectively. The variable of interest is *CEO home state*, which is an indicator variable that is equal to one if the CEO of firm *i* in year *t* grew up in state *s*. If CEOs exhibit a home bias in acquisitions, then we expect the estimate of β_1 to positive.

There are two important sources of heterogeneity for which our model also controls. First, since it is well documented that mergers and acquisitions occur in "waves" (Harford, 2005), we control for differences in the propensity of firms in different industries to engage in M&A through time. We do so by including the fixed effect, $\delta_{j,t}$, which is an industry-year fixed effect based on the Fama-French 48 industry classification (Fama and French, 1997). The inclusion of these effects controls for unobserved time-varying heterogeneity at the industry level. The second source of heterogeneity is geographic in nature. Firms located in certain states will differ in their propensity to acquire firms in other states due to the effects of geographic distance or other linkages across states, such as those induced by industry agglomeration or co-agglomeration. We also allow for these effects to vary through time, controlling for changing state-level economic conditions or legal environments, for example. We control for this by including the time-varying fixed effect, $\gamma_{r,s,t}$, which is a state-pair-year fixed effect based on firm *i*'s state of headquarters, *r*, and the state of the target firm, *s*.

To control for the general propensity of firms to make acquisitions we include a set of firm characteristics that are likely to influence firms' acquisition decisions (e.g., Harford (1999), Yim (2013)). Specifically, we control for firm size, the return on assets, the book-to-market ratio, financial leverage, cash holding, and investment. All of these variables are lagged one year. Additionally we control for the firm's headquarter state either by the inclusion of state-pair fixed effects or the dummy variable, *HQ state*, which is a dummy variable that equals one if firm *i*'s headquarters is located in state *s*. Both Kang and Kim (2008) and Kedia et al (2008) report evidence that information advantage arising from geographic proximity makes acquisitions more likely to occur within a state. Additionally, since many CEOs are local (Yonker, 2016),

we control for the interaction effect of the headquarters state and the CEO home state in order to isolate the effect of the CEO home state on M&A activity. Definitions of the independent variables are described in the Appendix. In all regressions, *t*-statistics are computed based on robust standard errors clustered at the firm level.

Table 2 reports the regression results. In Panel A, the dependent variable is *Deal dummy* and in Panel B it is *log(Deal Value).* Each panel reports various regressions that differ by their fixed effects. In column 1 we report results with only industry-year fixed effects so that we can gauge the relative effects of the CEO home state and the firm headquarters state. In column 1, the coefficient estimate on *CEO home state* is positive with a *t*-statistic of over nine, suggesting that firms are more likely to make acquisitions in their CEOs' home states. The coefficient estimate implies that the incremental effect the CEO home state on the propensity to acquire a target in a given state is 0.0085. Given that the unconditional probability of making an acquisition in a given state is 0.0034, this implies firms are 2.5 times (0.0085/0.0034) *more* likely to acquire firms headquartered in states where their CEOs grew up.

The coefficient estimate on *HQ state* is also significantly positive, which is consistent with Kang and Kim (2008) and Kedia et al (2008) and confirms that in-state acquisitions occur much more frequently than out-of-state deals. Moreover, the relative magnitudes suggest that the incremental CEO effect is 25% as large as that of the headquarters. The estimate on the interaction term between these two effects is negative and of a similar magnitude to that of *CEO home state*. This negative estimate could arise for at least two reasons. First, it could be that local CEOs generally engage in fewer deals than non-local CEOs.[26] Second, when the CEO is local, it is possible that knowledge of local targets by the rest of the management team

[26] Yonker (2016) notes finds differences in compensation and unforced turnover between local and non-local CEOs. Moreover, Yonker (2013) shows that local managers are less likely to lay off employees during industry shocks and does so by cutting capital expenditures and spending cash.

prevents local CEOs from engaging in "pet" home-state acquisitions. Regardless of the interpretation, the estimates imply that the CEO home bias in acquisitions is driven by cross-state deals.

In Column 2 we include state-pair dummies in addition. For multi-collinearity reasons we do not include *HQ state* any more. In this regression the coefficient estimate on *CEO home state* is roughly half of that in column 1. Thisshows the importance of controlling for heterogeneity in the propensity to acquire firms in other states based on headquarters location.

In all of the remaining specifications we include state pair-year fixed effects to control for any time-varying heterogeneity based on headquarters location that affects firms' propensities to make acquisitions in other states. The estimate in column 3 serves as our "baseline" estimate of the CEO home acquisition bias and implies that firms are about 1.3 times more likely to acquire firms from their CEOs home states then from other states.

In column 4, we add firm fixed effects to control for any time invariant firm-level factors that affect firms' propensity to make acquisitions. The inclusion of these effects has little effect on our estimates.

Finally, in column 5 we report our most stringent regression model, in which include firm-state pair fixed effects. Each firm-state pair is a combination of one of the 50 states and Washington D.C. and the firm. In this model, we exploit the within-firm variation in CEO home states. The estimates in this model are driven by the acquisition behavior of CEOs from different states running the same firm at different points in time. Even in this extremely conservative specification, the coefficient estimate suggests that firms are about 83% more likely to acquire firms from their CEOs' home states.

Turning to Panel B of Table 2, which uses the *log(Deal value)* as the dependent variable, we find qualitatively similar results. On average, firms spend more in acquisitions on targets in their CEOs' home states than other states.

As previously discussed, the negative coefficient estimate on the interaction term between *CEO home state* and *HQ state* in Table 2 suggest that the home bias in acquisitions is driven by out-of-state deals. To focus on these cross-state deals, in Table 3 we estimate the regressions in Table 2 excluding in-state deals (acquisitions of targets located in the bidder's state of headquarters). As in Panel A of Table 2, the dependent variable is *Deal Dummy*. The coefficient estimates on *CEO home state* are nearly identical to those in Panel A of Table 2.[27] In light of this, and to avoid difficulties in interpreting coefficients on triple interactions we focus on the cross state sample to investigate the role of CEO characteristics, target type, and bidder governance in the CEO home bias in acquisitions.

One remaining concern in our analysis is that our results are driven by reverse causality. It is plausible that CEOs are hired by firms specifically to make acquisitions in their home states. For example, a firm may hire a CEO from Michigan if the firm plans to invest in the automobile industry. Since many auto and auto parts firms are located in Michigan, this might explain why this CEO is more likely to acquire firms from Michigan. To address this concern, we add an interaction term between *CEO home state* and an indicator variable if CEO tenure is less than 3 years. If CEO home bias is driven by the selection of CEOs to make acquisitions in their home state, then we should observe a positive coefficient on the interaction term. The regression results are reported in Table 4, column 1. The coefficient estimate on this interaction is negative and not statistically different from zero. Reverse causality does not drive the results.

In Columns 2–4 of the table we explore whether certain types of CEOs are more likely to be biased in their acquisition behavior. CEO age and gender are likely to affect CEO acquisition behavior in general (Yim, 2013, Huang and Kisgen, 2012), hence we look at three characteristic variables based on CEO age and gender: *Young CEO* is a dummy variable equals to one if a CEO's age is in the bottom quartile of the sample. *Old CEO* is a dummy variable equals to one if a CEO's age is in the top quartile of the sample.

[27] In unreported results, we confirm that using *log(Deal Value)* as the dependent variable yields qualitatively similar results. We also conduct our analysis on only in-state deals and find that the coefficient estimate on *CEO home state* is not statistically different from zero, confirming that the home state bias is driven by out of state deals.

Female CEO is a dummy variable equals to one if a CEO is female. We include in our regression each characteristic variable and its interaction with *CEO home state.* If any of the characteristics exacerbate the CEO home bias, then we expect a positive coefficient on the interaction term. None of the coefficient estimates on interaction terms is statistically different from zero. The CEO home bias in acquisitions does not vary with these characteristics.

3.2 Robustness of baseline results

For robustness, we conducted a number of additional tests. We outline those tests here.There is a growing interest in understanding the role of CFO in a firm's decision making (e.g., Malmendier, Pezone, and Zheng (2016)). Therefore, we conduct supplementary analysis on the role of CFOs' home states on acquisition decision. We repeat the analysis in Table 3 with the inclusion of a dummy variable that captures the CFO home state. The result is reported in Appendix Table IA.1 and show that there is also a bias toward the CFO's home state, that is distinct from the CEO effect, however in most specifications the magnitude of the effect is about half of the CEO effect. While geographic origin based on social security number has the advantages of being widely available for most CEOs and that it captures a place where the CEO is known to have lived during his teenage years, it is also a coarse measure of "home" for large states like California. To alleviate this concern and use an alternative measure of "home", we manually collect CEOs' birth county information, following the method in Bernile, Bhagwat, and Rau (2014). We are able to identify birthplaces for roughly one third of our original sample.[28] We then create the variable, *log(distance to CEO birth county)*, which is calculated as the natural logarithm of the population-weighted center of each state to the CEOs' birth county and test whether longer distances to the birth county imply lower propensities to engage in deals. The results reported in Appendix Table IA.2, so that the coefficients estimates on *log(distance to CEO birth county)* are indeed significantly negatively estimated, corroborating

[28] Among 23,718 original firm-year observations, we are able to identify 8,844 observations with CEO birth county information. Of these observations there are 992 unique firms and 1,300 unique CEOs.

our earlier findings.The analysis excludes both financial and utility firms. As a robustness check, we conduct our main tests adding firms in the financial and utility industries to our sample. Our results are unaltered and are reported in Appendix Table IA.3.

3.3 Acquisition type and the home bias

The mergers and acquisitions literature has shown that acquisitions of public and private targets differ in their frequency, deal size, public attention, and acquisition performance (Fuller, Netter, and Stegemoller, 2002; Betton, Eckbo, and Thorburn, 2008). In our sample, private target deals represent over 80% of all mergers and acquisitions, however, public target deals represent about 72% of total dollars spent on acquisitions.[29] The average deal size of public acquisitions is ten times that of the private acquisitions in our sample.

How would CEOs' home bias be potentially different when it comes to public vs. private acquisitions? The smaller size, lower attention of, and greater information asymmetry in private deals suggest that if CEOs were to invest in home state targets for reasons not necessarily in shareholders' best interest, then these would be the ideal targets for that purpose.

To investigate whether CEOs' home bias differs for private vs. public acquisitions, we re-estimate regressions in Table 3, columns 3 and 5 for these two types of acquisitions separately by creating the *Deal Dummy* based on only private (public) deals for our private (public) target analysis. Table 5 reports the regression results. The results in columns 1 and 2, indicate firms exhibit a CEO acquisition home bias when acquiring private targets. The coefficient estimate on *CEO home state* is highly significant and the magnitude is very similar to that reported in Table 3. Since about 80% of targets are private, the unconditional probability of acquiring a private target is 0.0027. The coefficient estimate in our baseline

[29] In our sample, the aggregate deal value in deals with public targets is $2.97 trillion and the aggregate deal value in deals with private targets is $1.18 trillion.

model (column 1) thus implies that firms are about 1.3 times more likely to acquire private targets in their CEOs' home states than in other states. The CEO home bias, however, is smaller for public acquisitions (firms are about 90% more likely to acquire a public target from CEO home state) and does not survive the most stringent test.

3.4 Corporate governance and the home bias

If the home bias stems from agency conflicts, then better governance should mitigate the ability of CEOs to acquire home-state targets. We directly investigate this prediction by testing whether higher quality of corporate governance reduces the home bias. We do so by using three common measures of corporate governance: board independence, the G-index, and the E-index (e.g., Masulis, Wang, and Xie, 2007).

Board independence is the percentage of independent board members. The G-index is the Gompers, Ishii, and Metrick (2003) governance index constructed using 24 anti-takeover provisions. The E-index is the Bebchuk, Cohen, and Ferrell (2009) entrenchment index constructed from the six provisions. In both indexes greater index values indicate worse governance. To make the interpretation easier, we define all three governance measures consistently as measures of better governance. Specifically, *Independent board* is an indicator variable that is one if a majority of board members are independent and *Low G-index* (*Low E-index*) is an indicator variable that is equal to one if the G-index (E-index) is below the median of the sample. If home state acquisitions are made for the private benefits that CEOs receive, then each of our measures of better governance should mitigate the home bias. If this is true then there should be a negative coefficient estimate for the interaction term between *CEO home state* and better governance.

Table 6 reports regression result from our baseline model, with the inclusion of our better governance variables and the interaction of these variables with *CEO home state*. We first report results for private target deals in Panel A. For private target deals we find evidence that better governance mitigates the home bias. For two of the three measures of better governance, we find a significant positive coefficient

on the interaction of better governance with *CEO home state*. The magnitude of the coefficients estimate in Panel A also suggests that the home bias is much weaker in firms where corporate governance is better.

Governance can also come externally from credit markets. During merger waves, credit is loose and agency problems are more likely to present themselves (Duchin and Schmidt, 2013). In column 4 of the table we run similar tests to those in columns 1 through 3 using a dummy variable to capture times of merger waves. Following Jenter and Lewellen, (2014), *merger wave* is a dummy variable that is one for the years 1997-1999. We find that the coefficient estimate for the interaction term of *CEO home state* and *merger wave* is positive, but not statistically different from zero (*t*-stat = 1.13).

Panel B of the table reports coefficient estimates for the public target deals sample. We find no evidence that better firm governance affects CEO home bias in public targets.

Overall, Table 6 suggests that better corporate governance mitigates CEO home bias, particularly in acquiring private targets. This is consistent with the notion that private home-state acquisitions, due to their small size and lack of public attention, are likely to suffer from the agency problem that CEOs would use shareholders' money for their own private benefits. To further understand what drives the home state acquisitions, we explore the acquisition performance in the next section.

4. CEO Home Bias and Acquisition Performance

To further disentangle the cause of the observed acquisition home bias we investigate the stock market reaction of bidders around the acquisition announcements. If agency conflicts induce CEOs to acquire home state firms, then we expect to see an unfavorable market reaction in home state deals. If CEOs engage in these deals to exploit their home advantage (identify suitable targets in their home states or integrate the target more smoothly, maximizing synergies), then this would suggest that the acquisition performance will be better for home state deals than other deals. We also recognize that it is possible that both effects might be at work simultaneous, in which case the bidder market reaction is likely to be unrelated to the home bias.

4.1 Acquirer announcement returns

For each acquisition, we use the market model to calculate the cumulative abnormal returns (CAR) of the acquirer during the three trading days surrounding the announcement of the acquisition. We estimate the loadings in the market model using the CRSP value-weighted market index return as the benchmark over the two hundred day period ending 11 days before the announcement dates. The unit of observation in this analysis is at the deal level. Thus, we define a *home deal* as a cross-state home state acquisition.[30].

Panel A of Table 7 reports means of abnormal announcement returns, deal characteristics, and acquirer characteristics for home deals and non-home deals as well as the results of difference tests between these groups. The samples are split between private and public deals, since these deals tend to be quite different in nature. The univariate statistics on abnormal announcement returns are interesting (Also displayed in Figure 1). They reveal a very different contrast between the performance of home and non-home deals for public and private deals. For private acquisitions, the average CAR of home deals is essentially zero, while other private deals have significantly positive abnormal announcement returns of 1.78%, on average. The difference is significant at the 1% level. That is, while private acquisitions on average create value for acquirers (consistent with Fuller, Netter, and Stegemoller (2002)), home deals do not. In contrast, while public acquisitions on average destroy acquirer shareholder value,[31] public home deals actually create value. Among public acquisitions in our sample, home deals have average abnormal announcement returns of 0.93%, whereas other public deals have an average CAR of -1.27% (significant at the 1% level). The difference is significant at the 1% level. Summary statistics also reveal some evidence of why home state deals outperform. The table shows that the home state public deals are less likely to be

[30] This definition excludes from home state deals home state acquisitions by local CEOs (those who grew up in the headquarters state). This exclusion is consistent with our previous findings that show that the home state bias is driven by cross-state acquisitions and it allows us to disentangle the firm headquarters effect from the CEO effect

[31] Most studies find negative announcement returns for public targets, on average (e.g., Fuller, Netter, and Stegemoller, 2002; Moeller, Schlingemann, and Stulz, 2004 and 2005; Betton, Eckbo, and Thorburn, 2008).

"large loss deals" (worst 10% deals based on CAR), suggesting that CEOs avoid extremely bad deals in their home states.

The summary statistics in Panel A show that there are very few differences between acquirers making home state deals and those making other deals. However, in order to control for any differences in deal or acquirer characteristics that may affect deal performance, we estimate multiple regressions of the acquirer's announcement return on *home deal*, controlling for other deal and firm characteristics (Moeller, Schlingemann, and Stulz, 2004 and 2005).

The results are displayed in Panel B of Table 7. Columns 1 through 3 reports results for private target acquisitions and columns 4 through 6 for public target acquisitions. Consistent with the univariate results in Panel A, we observe a significantly negative coefficient of -1.51% on *home deal* for deals with private targets. This translates into $22 million in shareholder value destruction for the average-size bidder in our sample.

In contrast, in home state public deals, acquiring firms experience significantly higher abnormal stock return around the acquisitions announcements. After controlling for a variety of firm and deal characteristics, we find that acquirers in home state public deals are associated with 2% higher abnormal announcement returns. This translates into about $100 million in enhanced shareholder value for the average-size bidder in our public deal sample.

In order to rule out the reverse causality story that CEOs are hired specifically to make home state acquisitions, we conduct in columns 2 and 5 we repeat the analysis in columns 1 and 4, but remove deals where the CEO's tenure is less than three years. The results show that our estimates are changed very little by this filter. The abnormal announcement return results do not seem to be driven by reverse causality.

It is possible that CEOs making home state acquisitions are just more or less skilled than other CEOs. To rule this out, in columns 3 and 6 we repeat our analysis within the subsample of CEOs who make *both* home state and non-home state deals. This effectively holds skill constant, but reduces the sample size dramatically, especially for public deals. Nonetheless, private home state deals continue to

significantly underperform non-home state deals, while both the magnitude and significance of the outperformance of public deals declines. This latter result is mostly attributed to the lack of power in this test as we show below.

4.2 Large loss deal

The summary statistics from Panel A of Table 7 suggest that CEOs are able to avoid extremely bad public deals in their home states. Thus, we first examine whether this holds more generally when controlling for differences in deal and acquirer characteristics.

Table 8 presents the regression results of linear probability models used to estimate the likelihood of experiencing large losses in home deals. The dependent variable in all columns is a dummy variable that is equal to one if the deal resulted in a "large loss." We define "large loss" either based on the percentage loss (i.e., the CAR) or on dollar loss (the acquirer's market cap times the CAR). In columns 1 and 4 the large loss dummy is equal to one if the CAR is in the bottom decile of the sample (less than -5.94%). By this definition, 10% of deals experience large losses, but the frequencies are different for public and private deals (20.46% vs. 7.31%). In columns 2 and 5, the large loss dummy is one if the dollar loss is at least $1.0 billion, based on the three-day CAR. There are 135 such deals (2.45%). The numbers are 104 (9.21%) for public and 31 (0.71%) for private deals. Finally, in columns 3 and 6 a large loss deal is defined as a deal with a dollar loss of at least $0.5 billion.

The results in the table indicate that CEOs avoiding large loss deals in public targets in their home states. The coefficient estimate on *home deal* is significantly negative in all three specifications. Moreover, the size of the coefficients is economically meaningful. For example, the coefficient estimate of -10.47% in column 4 indicates that acquiring in the CEO's home state decreases the large loss likelihood by 10.47 percentage points, which is about half of the unconditional probability of transacting in a large loss deal (20.46%).

The evidence is mixed for private home state acquisitions. The results in column 1 imply that CEOs are more likely to engage in extremely bad private deals in their home states. However, using measures based on total market capitalization losses (columns 2 and 3), there is no evidence that home state private deals are more likely to be large loss deals.

In short, we find that among public deals, acquirers are *less* likely to experience large losses if the target is from the CEO's home state; whereas among private deals, there is weak evidence that acquirers are *more* likely to experience large losses if the target is from the CEO's home state.[33]

4.3. Sources of the value gain in public home deals

Our analysis so far suggests that CEOs make better acquisition decisions when buying public target in their home state. In this section, we explore potential sources of the value gains in public home state acquisitions.

4.3.1 Takeover premium

One potential way that acquirers can create value for their shareholders is to pay lower takeover premium to target. We hence investigate whether CEOs, on average, under-pay for home state public targets. We test this by investigating differences in the premium paid to home state and non-home state target firms.

We define premium paid to the target as the offer price relative to the market price of the target four weeks prior to the announcement of the deal (PPM4WK from SDC). In column 1 of Table 9 we report the estimated coefficient for *home deal*, from a regression of target premium on *home deal* and firm and deal controls (same control variables as in Table 7; unreported for brevity). The coefficient is insignificant;

[33] In Table IA.4 in the Internet Appendix we corroborate these findings using the full sample of public and private firms in an interaction framework analogous to that estimated in Table IA.4 in the Internet Appendix.

suggesting that the premium paid to home state target is not lower than that in non-home state public deals. Similarly, in column 2 of the Table 9, we find that the 3-day announcement return to the target is also not significantly related to *home deal*. This finding implies that in public home state deals, the favorable acquirer market reaction is not driven by lower premium paid to the home state targets.

4.3.2 Combined announcement returns and post-acquisition operating performance

Next, we test whether home state deals have greater synergies than other deals as we conjecture that CEOs have *ex ante* home advantage in identifying suitable targets with high synergies. We measure the synergy of a deal as the value-weighted CAR of the acquirer and the target. Column 3 of Table 9 reports the regression of the combined CAR on *home deal*. The coefficient of home deal is significantly positive and the coefficient estimation suggests that all else equal, public home deals create high synergies worth 1.91% of the combined firm value. Given the average combined firm value of $12.3 billion (median $8.1 billion), a public home deal typically creates an additional $235 million (median $155 million) worth of synergies. This result is consistent with the conjecture that, CEOs help acquirers pick targets with greater synergy potential in home deals.

If public home deals truly create more synergies, then these synergies should be reflected in post-acquisition operating performance. We use return on assets (ROA) as our measure of operating performance and follow Healy, Palepu, and Ruback (1992) to benchmark ROA against the combined firm's industry median (e.g., Cai and Sevilir, 2012; Duchin and Schmidt 2013). To measure the pre-merger ROA, we calculate the value-weighted average of the industry-adjusted ROAs of the acquirer and target in the fiscal year preceding the deal announcement, where the weights are based on the book values of the two firms. We then track each acquisition for three years after the deal completion year, and calculate the three-year average of the combined firm's industry-adjusted ROA as our measure of post-merger ROA. Finally, we calculate the change in operating performance of the combined company, ΔROA, as the difference between post-merger ROA and premerger ROA.

The result is reported in Table 10 column 1. The dependent variable ΔROA, the change in industry-adjusted ROA from one year before the deal announcement to three years after the deal completion. We include the same control variables as in Table 7 (unreported for brevity). The results indicate that ROA increases by one percentage point more for home deals than other deals in the post-merger period, consistent with the conjecture that home advantage help identify suitable targets with high anticipated synergies.

4.3.3 Post-acquisition employment

An important source of acquisition synergy is cost saving achieved through combining work force and reducing redundancy. Therefore layoffs are often anticipated following mergers and acquisitions. Layoffs, of course, will be resisted by workers and the local government. How much cost cutting can be achieved through layoff not only depends on the natural (technological) synergy between the two firms, but also on the negotiation abilities of the management. We conjecture that if the target firm is from the CEO's home state, then he may have an advantage on both fronts. It is possible that a home state CEO could have a better understanding of the target firm and would only buy it if the combination of the two firms naturally allows more cost cutting. In addition, he may have better connections to and relationship with the local government and/or the target's union leaders, which in turn could lead to less resistance and enable him to negotiate a better deal for the firm.

To test this conjecture, we examine the post-acquisition change in employment of the combined firm.[34] We calculate the percent change in employment change for each of the three years after the deal is completed. Each year's employment change is calculated by the number of employees in the combined firm in that year divided by the total employees of the acquirer and the target in the year before the acquisition minus one. The mean employment change is -2.6% for home deals, and 7.7% for non-home deals. Multiple

[34] Importantly, in this analysis we cleanse the sample of firms making other acquisitions in the three year post period.

regression confirms that home-state deals have higher reductions in the number of employees. Table 10 column 2 reports the results where the dependent variable is the three-year average of the employment change post acquisition. The coefficient of *home deal* is significantly negative. It suggests that, relative to non-home deals, the employment in home deals experiences a 7.8% decline in labor force three years post acquisition. We also observe that in home deals, the combined firms experience more frequent labor force reduction three years post acquisition. In home deals, the percentage of firm experiencing labor force reductions for the three years after the acquisition is 47.8%, 60.8%, and 65.0%, respectively; while in non-home deals, these numbers are 38.4%, 41.5%, and 43.4%. When combined with the accounting performance results, this analysis suggests that CEOs are better at making performance-enhancing employment reductions for home state targets.

We should note that because of the way these growth rates are constructed we do not know whether the target or acquirer employees are downsized. Yonker (2013) shows that CEOs tend to treat home state employees better. Local CEOs are less likely to lay off employees during industry downturns, so it would not be surprising if redundant acquirer employees are also laid off in these acquisitions.

5. Conclusion

It is well documented that investors, both individual and institutional investors, exhibit home bias when making their portfolio choices. Our study is the first to document that corporate managers also exhibit home bias when making real investment decisions such as mergers and acquisitions. We show that firms are about twice as likely to acquire targets located in their CEOs' home states than similar targets domiciled elsewhere. This home bias is more pronounced for private acquisitions, and can be mitigated by strong shareholder governance. Unlike typical private acquisitions, private home-state deals do not create value for acquiring firms. The evidence thus suggests that CEOs engage in these deals for their private benefits.

In contrast, when it comes to public acquisitions where the stakes are high and public attention is focused, the motive of acquiring a target from the CEO's home state seems to be different. Unlike typical

public acquisitions that tend to destroy value, home state deals create value for acquiring firms. This is done in a number of ways. First, public home state deals are less likely to experience large losses, which suggests that CEOs are able to avoid extremely bad deals in their home states. This may be due to superior information. However, further investigation of public acquisitions reveals that the value created in home state deals is not because targets are underpaid. Rather, the evidence points to these deals creating value through higher synergies, potentially by reducing integration costs. Consistent with this, acquirers of public home state deals experience better operating performance and greater reductions in employment than non-home state acquirers during the post-merger period.

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Table 1 – Summary Statistics

This table reports summary statistics for the sample used in our analysis. The sample includes 1,209,618 firm-state-year observations from 1992 to 2014 and includes 2,291 unique firms managed by 4,269 unique CEOs. Panel A reports summary for deal characteristics, Panel B reports summary statistics for firm-year characteristics, and Panel C reports summary statistics for firm-year-state characteristics. All variables denoted in US$ are adjusted for inflation and expressed in 2014 constant US$. All variable definitions are reported in the Appendix.

Panel A: Deal summary

Variable	N	Mean	Q1	Median	Q3	Std
CAR (-1, 1)	5,505	0.011	-0.021	0.006	0.039	0.090
Large loss deal	5,505	0.025	0	0	0	0.155
CEO home state deal	5,505	0.105	0	0	0	0.307
HQ state deal	5,505	0.213	0	0	0	0.410
Cross state home state deal	5,505	0.036	0	0	0	0.187
Firm size	5,505	7.405	6.346	7.244	8.353	1.555
MB	5,505	2.382	1.364	1.778	2.576	1.971
Leverage	5,505	0.204	0.036	0.190	0.318	0.172
ROA	5,505	0.049	0.026	0.057	0.092	0.095
Cash holding	5,505	0.172	0.026	0.093	0.260	0.194
Firm age	5,505	18.879	6.000	13.000	26.000	18.305
Deal value (in $ million)	5,505	755.478	35.987	112.873	382.697	3724.530
Relative deal size	5,505	0.174	0.029	0.068	0.180	0.281
Cash deal	5,505	0.591	0	1	1	0.492
Stock deal	5,505	0.150	0	0	0	0.357
Public target	5,505	0.205	0	0	0	0.404
Diversifying deal	5,505	0.391	0	0	1	0.488
Friendly deal	5,505	0.991	1	1	1	0.092

Panel B: Firm-year observations

Variable	N	Mean	Q1	Median	Q3	Std
Deal dummy	23,718	0.1476	0	0	0	0.3547
CEO home state deal	23,718	0.0172	0	0	0	0.1299
HQ state deal	23,718	0.0336	0	0	0	0.1801
Firm size	23,718	7.4319	6.3406	7.2846	8.4369	1.6179
BM	23,718	0.6209	0.4212	0.6117	0.8042	0.2667
Leverage	23,718	0.2173	0.0508	0.2000	0.3296	0.1845
Cash holding	23,718	0.1529	0.0243	0.0823	0.2225	0.1746
ROA	23,718	0.0365	0.0155	0.0530	0.0918	0.1208
Investment	23,718	0.0595	0.0235	0.0429	0.0756	0.0545

Panel C: Firm-year-state observations

Variable	N	Mean	Q1	Median	Q3	Std
Deal dummy	1,209,618	0.0034	0	0	0	0.0583
Log(deal value)	1,209,618	0.0174	0	0	0	0.3126
Deal value (in $ million)	1,209,618	3.0134	0	0	0	245.40

Table 2 – Acquisitions and CEO Home Bias

This table reports results of regression analysis of the probability that a firm makes at least one acquisition in a state in a given year. Panel A reports coefficient estimates from linear probability regression with various fixed effects. The dependent variable in Panel A is *Deal dummy*, a dummy variable equals one if a firm (*i*) acquires at least one firm in a state (*s*) in year *t* and zero otherwise. Panel B reports coefficient estimates from ordinary least squares (OLS) regressions. The dependent variable in Panel B is a firm's acquisition value (log(deal value)) in a state (*s*) in year *t* and zero otherwise. The variable of interest is *CEO home state*, a dummy variable equals one if a firm's CEO grew-up in state *s* and zero otherwise. Definitions of the independent variables are described in Appendix. Robust standard errors are clustered at the firm level and robust t-statistics are in parentheses. Significance levels are denoted by *, **, and ***, which correspond to the 10%, 5%, and 1% levels, respectively.

	Panel A: Deal dummy as dependent variable				
VARIABLES	(1)	(2)	(3)	(4)	(5)
CEO home state	0.00849***	0.00453***	0.00437***	0.00430***	0.00285**
	(9.23)	(5.24)	(5.06)	(5.00)	(2.27)
HQ state	0.03198***				
	(16.48)				
CEO home state*HQ state	-0.01299***	-0.00741**	-0.00696**	-0.00669**	-0.00601
	(3.97)	(2.27)	(2.09)	(2.03)	(1.22)
Firm size	0.00015***	0.00015***	0.00015***	-0.00031**	-0.00031***
	(2.70)	(2.72)	(2.65)	(2.15)	(2.15)
BM	-0.00072**	-0.00072**	-0.00066*	-0.00288***	-0.00288***
	(2.03)	(2.06)	(1.84)	(5.75)	(5.75)
Leverage	-0.00031	-0.00034	-0.00027	-0.00438***	-0.00438***
	(0.65)	(0.72)	(0.57)	(6.70)	(6.88)
Cash	0.00011	0.00008	0.00007	0.00581***	0.00581***
	(0.19)	(0.14)	(0.13)	(6.74)	(6.74)
ROA	0.00281***	0.00277***	0.00280***	0.00417***	0.00417***
	(5.42)	(5.31)	(5.24)	(6.74)	(6.74)
Investment	-0.00867***	-0.00861***	-0.00846***	-0.00187	-0.00187
	(4.61)	(4.53)	(4.38)	(0.93)	(0.93)
Industry-year dummy	**Y**	**Y**	**Y**	**Y**	**Y**
State-pair dummy	N	**Y**	N	N	N
State-pair-year dummy	N	N	**Y**	**Y**	**Y**
Firm dummy	N	N	N	**Y**	N
Firm-state dummy	N	N	N	N	**Y**
Observations	1,209,618	1,209,618	1,209,618	1,209,618	1,209,618
R-squared	0.0074	0.0180	0.0507	0.0556	0.1701

	Panel B: log(deal value) as dependent variable				
VARIABLES	(1)	(2)	(3)	(4)	(5)
CEO home state	0.04222***	0.02209***	0.02109***	0.02074***	0.01317**
	(8.93)	(4.98)	(4.75)	(4.68)	(1.99)
HQ state	0.17310***				
	(15.24)				
CEO home state*HQ state	-0.07436***	-0.04533**	-0.04275**	-0.04130**	-0.03058
	(4.12)	(2.53)	(2.34)	(2.28)	(1.18)
Firm controls	Y	Y	Y	Y	Y
Industry-year dummy	**Y**	**Y**	**Y**	**Y**	**Y**
State-pair dummy	N	**Y**	N	N	N
State-pair-year dummy	N	N	**Y**	**Y**	**Y**
Firm dummy	N	N	N	**Y**	N
Firm-state dummy	N	N	N	N	**Y**
Observations	1,209,618	1,209,618	1,209,618	1,209,618	1,209,618
R-squared	0.0074	0.0176	0.0508	0.0550	0.1620

Table 3 – Cross-state Acquisitions and CEO Home Bias

This table reports results of regression analysis of the probability that a firm makes at least one acquisition in a state (not the firm's headquarter state) in a given year. The table reports coefficient estimates from linear probability regression within cross-state sample. The dependent variable is *Deal dummy*, a dummy variable equals one if a firm (*i*) acquires a firm in a state (*s*) in year *t* and zero otherwise. The variable of interest is *CEO home state*, a dummy variable equals one if a firm's CEO grew-up in state *s* and zero otherwise. All regressions control for firm characteristics (Table 2 Panel A) whose coefficients are suppressed for brevity. Robust standard errors are clustered at the firm level. Robust t-statistics are in parentheses. Significance levels are denoted by *, **, and ***, which correspond to the 10%, 5%, and 1% levels, respectively.

	Deal dummy as dependent variable				
VARIABLES	(1)	(2)	(3)	(4)	(5)
CEO home state	0.00849***	0.00453***	0.00436***	0.00430***	0.00285**
	(9.22)	(5.23)	(5.05)	(4.99)	(2.26)
Firm controls	Y	Y	Y	Y	Y
Industry-year dummy	**Y**	**Y**	**Y**	**Y**	**Y**
State-pair dummy	N	**Y**	N	N	N
State-pair-year dummy	N	N	**Y**	**Y**	**Y**
Firm dummy	N	N	N	**Y**	N
Firm-state dummy	N	N	N	N	**Y**
Observations	1,185,900	1,185,900	1,185,900	1,185,900	1,185,900
R-squared	0.0021	0.0113	0.0462	0.0512	0.1599

Table 4 – CEO Characteristics and the Acquisition Home Bias

This table reports results on the impact of CEO characteristics on the acquisition home bias. The table reports coefficient estimates from linear probability regression in full samples. The dependent variable is a dummy variable equals one if a firm acquires a firm in a state in year t and zero otherwise. *Young CEO* is a dummy variable equals to one if a CEO's age is in the bottom quartile of the sample and zero otherwise. *Old CEO* is a dummy variable equals to one if a CEO's age is in the top quartile of the sample and zero otherwise. *Female CEO* is a dummy variable equals to one if a CEO is female and zero otherwise. Robust standard errors are clustered at the firm level. Robust t-statistics are in parentheses. Significance levels are denoted by *, **, and ***, which correspond to the 10%, 5%, and 1% levels, respectively.

VARIABLES	(1)	(2)	(3)	(4)
CEO Home state	0.0051***	0.0041***	0.0040***	0.0043***
	(4.72)	(4.20)	(3.98)	(4.90)
CEO Home state * Dummy (CEO tenure < 3 years)	-0.0024			
	(1.36)			
Dummy(CEO tenure < 3 years)	-0.0038**			
	(2.41)			
CEO Home state * Young CEO		-0.0005		
		(0.25)		
Young CEO		0.0004**		
		(2.48)		
CEO Home state * Old CEO			0.0008	
			(0.40)	
Old CEO			-0.0003*	
			(1.66)	
CEO Home state * Female CEO				0.0023
				(0.45)
Female CEO				-0.0004
				(1.21)
Firm controls	Y	Y	Y	Y
Industry-year dummy	Y	Y	Y	Y
State-pair-year dummy	Y	Y	Y	Y
Observations	1,185,900	1,128,550	1,128,550	1,185,900
R-squared	0.0463	0.0475	0.0475	0.0462

Table 5 – Target Type and CEO Home Bias

This table reports coefficient estimates from linear probability regression in cross-state samples. Models (1) and (2) report regression results for the sample of acquisitions for *private* targets (including both private and subsidiary). The dependent variable is a dummy variable equals one if a firm (i) acquires a private firm or subsidiary in a state (s) in year t and zero otherwise. Models (3) and (4) report regression results for the sample of acquisitions for *public* targets. The dependent variable is a dummy variable equals one if a firm (i) acquires a public firm in a state (s) in year t and zero otherwise. Robust standard errors are clustered at the firm level. Robust t-statistics are in parentheses. Significance levels are denoted by *, **, and ***, which correspond to the 10%, 5%, and 1% levels, respectively.

	Private targets		Public targets	
VARIABLES	(1)	(2)	(3)	(4)
CEO home state	0.00362***	0.00239**	0.00064*	0.00037
	(4.75)	(2.21)	(1.68)	(0.55)
Firm controls	Y	Y	Y	Y
Industry-year dummy	Y	**Y**	Y	**Y**
State-pair-year dummy	**Y**	Y	**Y**	Y
Firm-state dummy	N	**Y**	N	**Y**
Observations	1,185,900	1,185,900	1,185,900	1,185,900
R-squared	0.0437	0.1597	0.0425	0.1337

Table 6 – The Impact of Governance on the Acquisition Home Bias

This table reports results on the impact of governance on the acquisition home bias. Panel A reports coefficient estimates from linear probability regression in private target sample and Panel B reports coefficient estimates in public target sample. The dependent variable in Panel A is a dummy variable equals one if a firm acquires a private firm in a state in year t and zero otherwise. The dependent variable in Panel B is a dummy variable equals one if a firm acquires a public firm in a state in year t and zero otherwise. Independent board is a dummy variable equals to one if majority of the board are independent and zero otherwise. Low G-index is a dummy variable equals to one if the G-index is below the median of the sample and zero otherwise. Low E-index is a dummy variable equals to one if the E-index is below the median of the sample and zero otherwise. Robust standard errors are clustered at the firm level. Robust t-statistics are in parentheses. Significance levels are denoted by *, **, and ***, which correspond to the 10%, 5%, and 1% levels, respectively.

	Panel A: Private target deals			
VARIABLES	(1)	(2)	(3)	(4)
CEO Home state	0.0072**	0.0064***	0.0087***	0.0031***
	(2.21)	(4.08)	(3.13)	(3.88)
CEO Home state * Independent board	-0.0043			
	(1.38)			
Independent board	0.0002			
	(0.75)			
CEO Home state * Low G-index		-0.0047**		
		(2.21)		
Low G-index		-0.0003*		
		(1.65)		
CEO Home state * Low E-index			-0.0056*	
			(1.81)	
Low E-index			-0.0002	
			(0.78)	
CEO Home state * Merger wave				0.0023
				(1.13)
Firm controls	Y	Y	Y	Y
Industry-year dummy	Y	Y	Y	Y
State-pair-year dummy	Y	Y	Y	Y
Observations	710,100	590,650	550,600	1,185,900
R-squared	0.0550	0.0571	0.0589	0.0479

Panel B: Public target deals

VARIABLES	(1)	(2)	(3)	(4)
CEO Home state	0.0010	0.0009	0.0008	0.0007*
	(0.71)	(1.17)	(1.02)	(1.74)
CEO Home state * Independent board	-0.0001			
	(0.07)			
Independent board	0.0002			
	(1.14)			
CEO Home state * Low G-index		0.0006		
		(0.49)		
Low G-index		0.0000		
		(0.53)		
CEO Home state * Low E-index			0.0007	
			(0.69)	
Low E-index			-0.0001	
			(1.21)	
CEO Home state * Merger wave				-0.0001
				(0.09)
Firm controls	Y	Y	Y	Y
Industry-year dummy	Y	Y	Y	Y
State-pair-year dummy	Y	Y	Y	Y
Observations	710,100	590,650	550,600	1,185,900
R-squared	0.0525	0.0528	0.0546	0.0425

Table 7 – Bidder announcement returns and the home bias

This table reports results of ordinary least squares (OLS) regressions of the acquirers' three-day cumulative abnormal returns. The sample of acquisitions consists of 5,505 completed US mergers and acquisitions between 1992 and 2014 as described in Table 1. The dependent variable is the acquirer's three-day cumulative abnormal returns centered on the acquisition announcement. The variable of interest is *Home deal* equals one if the bidder's CEO grew-up in target's state and zero otherwise. Definitions of the independent variables are described in Appendix. Column 1-3 report results for the sample of acquisitions for private targets and column 4-6 report results for the sample of acquisitions for public targets. All regressions control for year fixed effects and industry (Fama and French 48 industry) fixed effects whose coefficients are suppressed for brevity. T-statistics based on standard errors adjusted for firm clustering are reported in brackets. Significance levels are denoted by *, **, and ***, which correspond to the 10%, 5%, and 1% levels, respectively.

	Private Targets			Public Targets		
Variable	Home deals	Other deals	Diff	Home deals	Other deals	Diff
CAR(-1, 1)	0.04%	1.78%	***	0.93%	-1.27%	**
Large loss deal	1.90%	0.66%	-	0.00%	9.56%	***
Deal value	289.34	269.05	-	1912.56	2665.36	-
Firm size	7.27	7.15	-	8.52	8.38	-
MB	2.39	2.33	-	2.29	2.59	-
Leverage	0.19	0.20	-	0.18	0.20	-
ROA	0.04	0.05	-	0.08	0.06	*
Cash holding	0.19	0.17	-	0.14	0.17	-
Relative deal size	0.12	0.14	-	0.32	0.33	-
Cash deal	0.65	0.63	-	0.51	0.43	-
Stock deal	0.09	0.12	-	0.24	0.29	-
Diversifying deal	0.41	0.40	-	0.51	0.33	**
Friendly deal	0.99	0.99	-	0.95	0.97	-

	Private targets			Public targets		
	All private target deals	Exclude CEO < 3 years tenure	CEOs make both home and non-home deal	All public target deals	Exclude CEO < 3 years tenure	CEOs make both home and non-home deal
VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)
Home deal	-0.0151**	-0.0149**	-0.0157*	0.0207**	0.0256***	0.0096
	(2.37)	(2.01)	(1.94)	(2.25)	(2.69)	(0.44)
Local deal	0.0082	0.0089	0.0062	0.0061	0.0043	-0.046
	(1.46)	(1.36)	(0.57)	(1.06)	(0.63)	(1.20)
Firm size	-0.0052**	-0.0057**	0.0079	0.0028	0.0027	-0.0093
	(2.00)	(2.11)	(1.10)	(0.91)	(0.75)	(0.45)
MB	0.0018	0.0015	-0.0021	-0.0010	-0.0010	0.0117
	(1.11)	(0.80)	(0.29)	(0.38)	(0.33)	(1.61)
Leverage	-0.0033	-0.0035	0.0133	0.0121	0.0123	0.1281
	(0.37)	(0.37)	(0.57)	(0.67)	(0.58)	(1.34)
ROA	0.0002	0.0174	-0.0980	0.0019	0.0021	-0.2168
	(0.01)	(0.86)	(1.03)	(0.05)	(0.05)	(0.87)
Cash holding	-0.0104	-0.0137	-0.0185	-0.0343*	-0.0414**	-0.0717
	(0.82)	(0.94)	(0.59)	(1.82)	(0.97)	(0.55)
Log(firm age)	-0.0011	0.0002	-0.0109**	-0.0026	-0.0016	0.0243
	(0.56)	(0.09)	(2.04)	(0.86)	(0.42)	(1.15)
Relative deal size	0.0842**	0.0879**	0.161***	-0.0089	-0.0101	-0.0081
	(2.12)	(2.02)	(3.34)	(0.71)	(0.69)	(0.09)
Cash deal	0.0013	0.0003	0.0055	0.0221***	0.0199***	0.0331
	(0.35)	(0.08)	(0.53)	(3.68)	(2.95)	(0.99)
Stock deal	-0.0025	-0.0043	-0.0075	-0.0018	-0.0025	-0.0218
	(0.46)	(0.71)	(0.66)	(0.27)	(0.35)	(0.80)
Log(deal value)	-0.0004	-0.0008	-0.0073	-0.0051	-0.0054	-0.0022
	(0.09)	(0.17)	(1.03)	(1.60)	(1.47)	(0.08)
Diversifying deal	-0.0017	-0.0003	-0.0034	-0.0021	0.0001	-0.0342
	(0.55)	(0.08)	(0.46)	(0.42)	(0.01)	(1.42)
Friendly deal	-0.0004	0.0021	-0.0276	0.0002	0.0062	0.0258
	(0.02)	(0.08)	(0.66)	(0.02)	(0.61)	(0.78)
Industry-year	Y	Y	Y	Y	Y	Y
Observations	4,376	3,613	525	1,129	911	76
R-squared	0.073	0.083	0.245	0.155	0.177	0.775

Table 8: Large loss deals and the home bias

This table reports results of regression analysis of the probability that a bidder makes a large loss deal. The table reports coefficient estimates from linear probability regression. The dependent variable in column 1 and 4 is a dummy variable equals one if the bidder's three-day cumulative abnormal return is in the bottom decile of the sample and zero otherwise. The dependent variable in column 2 and 5 is a dummy variable equals one if the bidder experiences at least one billion loss based on three-day cumulative abnormal returns. The dependent variable in column 3 and 6 is a dummy variable equals one if the bidder experiences at least 500 million loss based on three-day cumulative abnormal returns The variable of interest is *home deal* equals one if the bidder's CEO grew-up in target's state and zero otherwise. Models 1-3 report results for the sample of acquisitions for private targets and Models 4-6 report results for the sample of acquisitions for public targets. All regressions control for year fixed effects and industry (Fama and French 48 industry) fixed effects whose coefficients are suppressed for brevity. The control variables are the same as Table 7 and the definitions are described in Appendix. T-statistics based on standard errors adjusted for firm clustering are reported in brackets. Significance levels are denoted by *, **, and ***, which correspond to the 10%, 5%, and 1% levels, respectively.

	Private targets			Public targets		
VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)
Home deal	0.0637**	0.0098	0.0196	-0.1047**	-0.0898***	-0.1226***
	(2.29)	(0.73)	(1.12)	(2.26)	(3.92)	(3.43)
Local deal	-0.0099	0.0038	0.0003	-0.0343	-0.0006	-0.0004
	(0.95)	(1.08)	(0.05)	(1.16)	(0.03)	(0.17)
Firm size	0.0003	0.0071***	0.0228***	-0.0513***	0.0350***	0.0519***
	(0.04)	(3.42)	(5.80)	(3.07)	(2.69)	(3.68)
MB	0.0061	0.0021	0.0047**	0.0089	0.0150*	0.0072
	(1.60)	(1.07)	(2.13)	(0.86)	(1.91)	(0.92)
Leverage	-0.0425	-0.0157**	-0.0259*	-0.1254	-0.1005**	-0.1416**
	(1.52)	(2.06)	(1.71)	(1.43)	(2.07)	(2.35)
ROA	-0.1581**	-0.0057	-0.0369	-0.1748	-0.0325	0.0541
	(2.47)	(0.46)	(1.33)	(1.10)	(0.39)	(0.56)
Cash holding	0.0672**	-0.0056	-0.0073	0.2372**	0.0077	0.0968
	(2.07)	(0.52)	(0.46)	(2.58)	(0.12)	(1.36)
Log(firm age)	-0.0126**	-0.0012	-0.0031	0.0082	0.0028	0.0024
	(2.58)	(0.78)	(1.13)	(0.54)	(0.27)	(0.20)
Relative deal size	0.0516	0.0028	0.0188	0.0549	-0.0579	-0.0415
	(1.57)	(0.41)	(1.25)	(0.88)	(1.37)	(0.91)

Cash deal	-0.0077	-0.0067**	-0.0103**	-0.1308***	-0.0137	-0.0304
	(0.78)	(2.03)	(2.04)	(4.11)	(0.67)	(1.31)
Stock deal	0.0197	0.0021	0.0018	0.0009	0.0065	0.0067
	(0.78)	(0.35)	(0.20)	(0.02)	(0.29)	(0.25)
Log(deal value)	0.0004	0.0045**	0.0058	0.0661***	0.0444***	0.0546***
	(0.06)	(2.28)	(1.40)	(3.56)	(3.04)	(3.58)
Diversifying deal	0.0075	0.0001	0.0019	0.0299	0.0385**	0.0470**
	(0.91)	(0.04)	(0.46)	(1.21)	(2.22)	(2.12)
Friendly deal	-0.0019	-0.0311	-0.0064	0.0067	-0.0159	-0.0063
	(0.03)	(0.67)	(0.14)	(0.09)	(0.24)	(0.11)
Industry-year	Y	Y	Y	Y	Y	Y
Observations	4,376	4,376	4,376	1,129	1,129	1,129
R-squared	0.063	0.067	0.112	0.214	0.275	0.311

Table 9 – Target premium, CAR, and combined firm announcement returns and the home bias

This table reports results of ordinary least squares (OLS) regressions of the target premium, targets' three-day cumulative abnormal returns and combined firm announcement returns. The sample of acquisitions consists of 1,129 deals with public targets. The dependent variable in model (1) is the premium of offer price to target trading price 4 weeks prior to the deal announcement date from SDC. The dependent variable in model (2) is the target's three-day cumulative abnormal returns centered on the acquisition announcement. The dependent variable in model (3) is the combined three-day cumulative abnormal returns centered on the acquisition announcement. The variable of interest is *home deal* equals one if the bidder's CEO grew-up in target's state and zero otherwise. The control variables are the same as Table 7 and the definitions are described in Appendix. All regressions control for year fixed effects and industry (Fama and French 48 industry) fixed effects whose coefficients are suppressed for brevity. T-statistics based on standard errors adjusted for firm clustering are reported in brackets. Significance levels are denoted by *, **, and ***, which correspond to the 10%, 5%, and 1% levels, respectively.

VARIABLES	Target Premium (1)	Target CAR (2)	Combined CAR (3)
Home deal	0.0489	0.0311	0.0191**
	(1.09)	(0.93)	(2.17)
Local deal	0.0272	0.0074	0.0059
	(0.93)	(0.42)	(1.12)
Controls	Y	Y	Y
Industry-year	Y	Y	Y
Observations	1,122	1,129	1,129
R-squared	0.133	0.168	0.182

Table 10 – Post merger operating performance and employment and the home bias

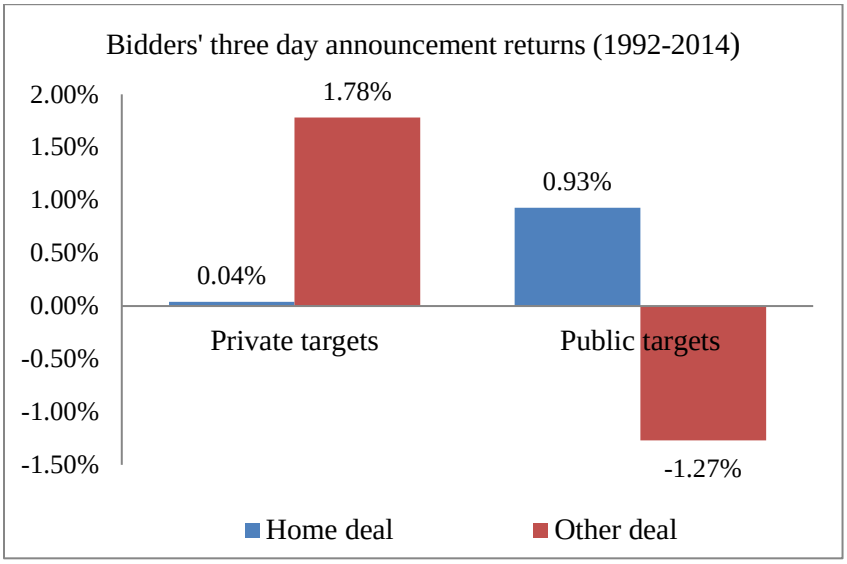
This table reports results of ordinary least squares (OLS) regressions of post-merger operating performance and employment growth in deals with public targets. The dependent variable in model (1) is ΔROA, the change in industry-adjusted ROA from one year before the deal announcement to three years after the deal completion. The dependent variable in model (2) is the employment growth (%), which is the average of the yearly percentage employment changes in the three years after the merger completion relative to the year before. The variable of interest is *home deal* equals one if the bidder's CEO grew-up in target's state and zero otherwise. The control variables are the same as Table 7 and the definitions are described in Appendix. All regressions control for year fixed effects and industry (Fama and French 48 industry) fixed effects whose coefficients are suppressed for brevity. T-statistics based on standard errors adjusted for firm clustering are reported in brackets. Significance levels are denoted by *, **, and ***, which correspond to the 10%, 5%, and 1% levels, respectively.

	(1)	(2)
VARIABLES	ΔROA	Employment growth
Home deal	0.0105*	-0.078**
	(0.084)	(0.032)
Local deal	0.0012	0.005
	(0.775)	(0.866)
Controls	Y	Y
Industry-year	Y	Y
Observations	953	570
R-squared	0.339	0.309

	Change in log employment post deal		
	Home deal	Non-home deal	Diff
t = 1	-0.056	0.023	*
t = 2	-0.068	0.034	**
t = 3	-0.044	0.039	-

Figure 1: Bidders' three day announcement returns

This figure depicts the bidders' three-day cumulative abnormal returns. The sample of acquisitions consists of 5,505 completed US mergers and acquisitions between 1992 and 2014 as described in Table 1. Home deals are deals if bidder's CEO grew-up in target's state. Deals with public targets and private targets are depicted separately.



Appendix

Table IA.1: Acquisitions and the CFO home bias

This table reports coefficient estimates from linear probability regression on the role of CFO state of origin on acquisitions. Among 23,718 original firm-year observations, we are able to identify 14,591 observations with CFO state of origin information. Of these observations there are 1,951 unique firms and 3,220 unique CFOs. The dependent variable is a dummy variable equals one if a firm (*i*) acquires at least one firm in a state (*s*) in year *t* and zero otherwise. The variable of interest is *CFO home state* equals one if a firm's CFO grew-up in state *s* and zero otherwise. Definitions of the independent variables are described in Appendix. Robust standard errors are clustered at the firm level and robust t-statistics are in parentheses. Significance levels are denoted by *, **, and ***, which correspond to the 10%, 5%, and 1% levels, respectively.

	Deal dummy as dependent variable				
VARIABLES	(1)	(2)	(3)	(4)	(5)
CEO home state	0.00795***	0.00412***	0.00383***	0.00374***	0.00279*
	(6.97)	(3.81)	(3.52)	(3.45)	(1.82)
CFO home state	0.00548***	0.00201**	0.00213**	0.00220**	0.00107
	(5.36)	(2.01)	(2.09)	(2.17)	(0.57)
Firm controls	Y	Y	Y	Y	Y
Industry-year dummy	**Y**	**Y**	**Y**	**Y**	**Y**
State-pair dummy	N	**Y**	N	N	N
State-pair-year dummy	N	N	**Y**	**Y**	**Y**
Firm dummy	N	N	N	**Y**	N
Firm-state dummy	N	N	N	N	**Y**
Observations	729,550	729,550	729,550	729,550	729,550
R-squared	0.0028	0.0138	0.0656	0.0713	0.2066

Table IA.2: Robustness to the CEO birth county

This table reports coefficient estimates from linear probability regression on the role of CEO County of birth on acquisitions. Following the method in Bernile, Bhagwat, and Rau (2014), we manually collect a subsample of CEOs which we can identify their birth county. There are 992 unique firms and 1,300 unique CEOs. The dependent variable is a dummy variable equals one if a firm (*i*) acquires at least one firm in a state (*s*) in year *t* and zero otherwise. The variable of interest is *log(distance to CEO birth county)*. Definitions of the independent variables are described in Appendix. Robust standard errors are clustered at the firm level and robust t-statistics are in parentheses. Significance levels are denoted by *, **, and ***, which correspond to the 10%, 5%, and 1% levels, respectively.

	Deal dummy as dependent variable				
VARIABLES	(1)	(2)	(3)	(4)	(5)
Log(Distance to CEO birth county)	-0.00053***	-0.00052***	-0.00049***	-0.00051***	-0.00030
	(4.27)	(3.03)	(2.61)	(2.58)	(1.00)
Firm controls	Y	Y	Y	Y	Y
Industry-year dummy	**Y**	**Y**	**Y**	**Y**	**Y**
State-pair dummy	N	**Y**	N	N	N
State-pair-year dummy	N	N	**Y**	**Y**	**Y**
Firm dummy	N	N	N	**Y**	N
Firm-state dummy	N	N	N	N	**Y**
Observations	442,200	442,200	442,200	442,200	442,200
R-squared	0.0041	0.0168	0.1026	0.1083	0.2348

Table IA.3: Robustness to the inclusion of financial and utility firms

This table reports coefficient estimates from linear probability regression on the role of CEO state of origin on acquisitions. We are able to identify 28,591 observations with CEO state of origin information. Of these observations there are 2,828 unique firms and 5,114 unique CEOs. The dependent variable is a dummy variable equals one if a firm (*i*) acquires at least one firm in a state (*s*) in year *t* and zero otherwise. The variable of interest is *CEO home state* equals one if a firm's CEO grew-up in state *s* and zero otherwise. Definitions of the independent variables are described in Appendix. Robust standard errors are clustered at the firm level and robust t-statistics are in parentheses. Significance levels are denoted by *, **, and ***, which correspond to the 10%, 5%, and 1% levels, respectively.

	Deal dummy as dependent variable				
VARIABLES	(1)	(2)	(3)	(4)	(5)
CEO home state	0.00839***	0.00422***	0.00417***	0.00411***	0.00243**
	(9.76)	(5.26)	(5.18)	(5.12)	(2.04)
Firm controls	Y	Y	Y	Y	Y
Industry-year dummy	**Y**	**Y**	**Y**	**Y**	**Y**
State-pair dummy	N	**Y**	N	N	N
State-pair-year dummy	N	N	**Y**	**Y**	**Y**
Firm dummy	N	N	N	**Y**	N
Firm-state dummy	N	N	N	N	**Y**
Observations	1,429,550	1,429,550	1,429,550	1,429,550	1,429,550
R-squared	0.0023	0.0102	0.0431	0.0482	0.1616

Table IA.4: Robustness: Large loss deals and the home bias (full sample)

This table reports results of regression analysis of the probability that a bidder makes a large loss deal. The table reports coefficient estimates from linear probability regression. The dependent variable in column 1 is a dummy variable equals one if the bidder's three-day cumulative abnormal return is in the bottom decile of the sample and zero otherwise. The dependent variable in column 2 is a dummy variable equals one if the bidder experiences at least one billion loss based on three-day cumulative abnormal returns. The dependent variable in column 3 is a dummy variable equals one if the bidder experiences at least 500 million loss based on three-day cumulative abnormal returns The variable of interest is *home deal* equals one if the bidder's CEO grew-up in target's state and zero otherwise. The control variables are the same as Table 8 and the definitions are described in Appendix. All regressions control for year fixed effects and industry (Fama and French 48 industry) fixed effects whose coefficients are suppressed for brevity. T-statistics based on standard errors adjusted for firm clustering are reported in brackets. Significance levels are denoted by *, **, and ***, which correspond to the 10%, 5%, and 1% levels, respectively.

	All deals		
VARIABLES	(1)	(2)	(3)
Home deal	0.0644**	0.0066	0.0152
	(2.31)	(0.49)	(0.88)
Local deal	-0.0192*	-0.0014	-0.0061
	(1.83)	(0.33)	(0.92)
Home deal * Public	-0.1782***	-0.0989***	-0.1356***
	(3.49)	(5.51)	(4.02)
Local deal * Public	0.0079	0.0129	0.0198
	(0.26)	(0.65)	(0.82)
Public	0.0952***	0.0360***	0.0461***
	(6.37)	(4.12)	(3.80)
Controls	Y	Y	Y
Industry-year	Y	Y	Y
Observations	5,505	5,505	5,505
R-squared	0.109	0.152	0.198

Appendix: Variable definition

Variables	Definitions
Main Variables	
CEO home state	Dummy variable equal to one if a state matches a firm CEO's state of origin
CFO home state	Dummy variable equal to one if a state matches a firm CFO's state of origin
HQ state	Dummy variable equal to one if a state matches a firm's state of headquarter
Home state deal	Dummy variable equal to one if the bidder CEO's state of origin matches the state in which the target is headquartered.
Local deal	Dummy variable equal to one if the bidder's headquarter state matches the state in which the target is headquartered.
CAR (-1,1)	Three-day cumulative abnormal return calculated using the market model. Source: CRSP.
Large loss deal	Dummy variable equal to one if the bidder experiences no less than $1Billion dollar loss based on three-day CAR
PPM4WK	Premium of offer price to target trading price 4 weeks prior to the original announcement date. Source: SDC.
Advisory dollar fees	Total advisory fees paid by acquirer. Source: SDC.
Firm characteristics	
Firm size	Natural logarithm of a firm's market cap. Source: CRSP.
Assets	Total assets. Source: Compustat.
Market-to-book	(Total Assets - Book Equity + Market Value of Equity) / Total Assets. Source: Compustat.
Leverage	Sum of long-term debt and debt in current liabilities over book value of total assets. Source: Compustat.
ROA	Operating income before depreciation (EBITDA) over book value of total assets. Source: Compustat.
Cash	Cash and cash equivalent holdings over book value of total assets. Source: Compustat.
Investment	Capital expenditure over book value of total assets. Source: Compustat.
Firm age	Number of years a firm has been listed. Source: CRSP.
Acquisition dummy	Dummy variable equal to one if the firm makes any acquisitions in past three years. Source: SDC.

Deal characteristics

Deal value	Deal value from SDC, adjusted to 2014 dollar. Source: SDC.
Relative deal size	Transaction value over acquirer market value of equity. Source: SDC.
Public target	Dummy variable equal to one for public target. Source: SDC.
Private target	Dummy variable equal to one for private or subsidiary target. Source: SDC.
Diversifying deal	Dummy variable equal to one if the target and the acquirer have the same two-digit SIC code. Source: SDC.
Cash deal	Dummy variable equal to one for deals are paid for 100% by cash. Source: SDC.
Stock deal	Dummy variable equal to one for deals are paid for 100% by stock. Source: SDC.
Tender-offer	Dummy variable equal to one for tender offers. Source: SDC.
Competition	Dummy variable equal to one if a deal has competing bidders. Source: SDC.
Large deal	Dummy variable equal to one if deal value is in the top quartile of the sample. Source: SDC.

Governance measures

Board size	Number of directors on the board. Source: RiskMetrics.
Board independence	Dummy variable equal to one if over 50% of directors are independent. Source: RiskMetrics.
GIM index	Governance index based on 24 antitakeover provisions, taken from GIM (2003).
BCF index	Governance index based on 6 antitakeover provisions, taken from BCF (2004).
CEO ownership	Acquirer CEO's percentage ownership of the firm, including both stock and stock options. Source: Execucomp.
CEO age	The age of acquirer CEO. Source: Execucomp.
CEO gender	Dummy variable equal to one if acquirer CEO is a male, 0 otherwise. Source: Execucomp.
CEO tenure	The number of years that acquirer CEO has been in the office upon the deal announcement. Source: Execucomp.