Wheeling and dealing: Target executive compensation in UK M&As

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Abstract

We employ a unique sample of 121 M&As completed in the UK 1997-2003 to investigate the pay and future employment of Target CEOs, executive Chairmen and other executives. CEOs trade shareholder premiums for personal, deal-related, extraordinary treatment, and Chairmen give up significant levels of their deal-related cash gains for future employment, while other executives also receive extra cash payments if employed by the target. Power significantly decreases negotiated premiums which calls into question the incentive-alignment role of ownership. While in acquisitions by US companies Target CEO gains are affected by deal and CEO characteristics, in domestic transactions gains for target CEOs are driven only by measures of their power. Target CEOs receive settling-up payments and give up shareholder premiums for personal extraordinary treatment by both UK and US acquirers. While Target CEOs receive additional cash gains for joining the buyer in a domestic acquisition, they give up significant proportions of their M&A gains for a future career with a US buyer. Overall our findings indicate that target CEOs and Chairmen use their negotiating power to trade shareholder for personal gains in UK M&As.

Keywords: Executive compensation; managerial power; mergers and acquisitions.

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1. Introduction

The mergers and acquisitions (M&A) literature indicates that acquisitions can prove profitable for target shareholders through the premiums received in the short term and through improved management in the long run. Maximisation of shareholder wealth through takeovers is dependent on the target management negotiations over the price paid for relinquishing control. Thus, the incentive alignment between target managers and shareholders can prove crucial. Harford (2003) states the traditional agency theory position that takeover threats and the associated loss of employment increases the diligence of directors as monitors. However the effectiveness of the board of directors as a monitoring or CEO disciplining mechanism has recently been debated.

On one hand, some studies report that large personal equity stakes may insulate managers from the threat of removal through greater voting control or status (Conyon and Florou, 2003; Hillier and McColgan, 2004). North (2001) reports a negative relationship between managerial ownership and the probability of acquisition. Similarly, Franks and Mayer (1996) and Conyon et al. (2002) document that acquisitions premised upon the disposal of target senior management are more likely to be rejected irrespective of their wealth creation for target shareholders.

On the other hand, Harris (1990) argues that anti-takeover measures increase managerial bargaining power while golden parachutes diminish bargaining power but to a lesser degree. Lefanowicz et al. (2000) provide US evidence suggesting that golden parachutes induce managers to negotiate lower acquisition prices due to their implied reduced salary losses. Although Choi (2005) argues that golden parachutes are necessary to encourage the executives' costly investment in firm-specific human capital, the counter argument is that they function as an inducement to the executives not to resist value-enhancing takeovers.

Two conflicting views have emerged to explain target management incentives in friendly M&A negotiations. On one hand, standard agency theory models predict that target firm directors, motivated by their stake in the target company and their interest in protecting shareholder interests, negotiate the highest possible premiums. Target managers who have golden parachute compensation provisions have an incentive to trade off anticipated salary losses against a higher negotiated price for their stock. However, since both bidder and target are affected by the agreed premium,[1] there might be incentives for both firm officers to trade premiums for other less transparent gains such as future employment offered to target executives. There is a risk that their negotiations may be driven by self-interested objectives at the expense of shareholders.

Most US studies either examine the relationship between takeover likelihood and managerial characteristics or attempt to predict acquisition offers as a function of ownership structure without considering other (than ownership-driven) gains for target management.[2] Agrawal and Walkling (1994), employing a sample of 189 Forbes 800 target CEOs 1980-1986, were the first to investigate the impact of acquisition transactions on CEO future careers and compensation. They report that takeover likelihood is positively associated with CEO excess pay, that CEOs are more likely to be replaced in completed than in failed bids, and that those CEOs who remain employed with the buyer enjoy significant cash pay increases following the deal completion. Overall, they adopt the traditional or agency theory view that takeover bids are used to discipline managers.

In a pioneering recent paper, Hartzell et al. (2004) employ a sample of 311 US targets of successful 1995-1997 M&A deals to examine the set of personal benefits received by target CEOs and the extent to which target CEOs sacrifice premiums in return for negotiated cash payments, ownership gains and future employment. Their results indicate that most target CEO gains derive from their stock and options ownership appreciation although the majority of them also receive substantial amounts from their golden parachute provisions. Some CEOs receive last minute payments that appear to play an important role in the outcome of deal negotiations. They find a negative relationship between special deal-

[1] Target executives are exposed to their own firm's share price through their equity-based-compensation (*EBC*) holdings and bidder executives are aware of monitoring by their own shareholders and the market. Any overpayment could subsequently endanger their future career prospects or compensation.

[2] See North (2001); Hadlock et al. (1999); Shivdasani (1993); Morck et al. (1988); Mickelson and Partch (1989) and Song and Walkling (1993).

triggered cash pay and the likelihood of the CEO being offered future employment with the buyer and show that, when target CEOs are offered such employment, their shareholders receive lower premiums.

Our paper takes advantage of increased information disclosure by listed UK companies following the recommendations of the Cadbury (1992) and Hampel (1998) Reports.[3] Thus, our first contribution is that we analyse a unique, manually-collected sample of executive compensation and ownership data for UK targets over the 1997-2003 period. We are able to identify the target CEO, executive Chairman and other executive directors and extract their detailed pay, ownership and contract of employment specification data from annual reports. As a result, our study sheds light on comparisons between the levels and determinants of target CEO, executive Chairman and other director gains following successful M&As. More specifically, our evidence establishes that CEOs and executive Chairmen are concerned about the anticipated loss of compensation and future rent extractions and that such concerns increase their gains from the deal. Target executive Chairmen, who are older on average than their CEO counterparts (and as a result are more concerned about their firm-specific human capital), give up significant levels of their deal-related cash gains for employment in the buyer's board following deal completion. Further, we find that managerial and governance characteristics, such as age and board size, are important determinants of target management gains in successful M&As.

The paper's second contribution is it provides insights into the debate on agency theory versus managerial power determinants of target shareholder premiums in M&A negotiations. It fills a gap in the literature by addressing the issue of trade-offs between personal benefits and shareholder premiums by target management through M&A negotiations in a non-US context.[4] Our study produces evidence consistent with the managerial power perspective both for our full sample of CEOs and for our executive

[3] Notably, the need for disclosing the details on managerial pay, ownership and contract specifications (including golden parachutes) was identified since the recommendations of the Cadbury (1992) Report and was approved by the Hampel (1998) Report. For a discussion on M&A related managerial information disclosure in the UK, see among others, Thompson (2005).

[4] Darren (2005) reports that target management responses to Australian takeovers are more closely related to their own interests than to those of the shareholders.

Chairman and other executive sub-samples. The results indicate that CEO personal gains from M&A deals have a negative effect on deal premiums and that the separation of the CEO-Chairman role and the subsequent decrease in managerial power, increase M&A premiums and significantly decrease Chairman gains following the deal. Shareholder premiums also increase with ownership by blockholders, the target company performance prior to the deal announcement, the age of the executive Chairman, and the number of years to retirement for other executives employed by the buyer.

A third contribution is that we provide new evidence on the pay, ownership and incentives in deal negotiations between the two individuals sharing the power in modern UK corporations, namely the CEO and executive Chairman. While golden parachute provisions are the major source of gains following M&As for target CEOs, for target Chairmen it is their stock ownership. We provide insights on the differences in the characteristics of the two officers. More target CEOs are relatively underpaid compared to their peer Chairmen. The average Chairman is older and has enjoyed longer tenure on the target board of directors. This might imply that they have more pressing career concerns and acquisitions could result in higher losses in their human-capital-related wealth.

A fourth contribution is that we provide novel evidence on the future career paths of target CEOs and executive Chairmen following the completion of UK M&As. Our results indicate that considerably more executive Chairmen are offered top positions with the bidder compared to their CEO counterparts. For most Chairmen not offered such positions, the sale of their firm also signals the end of their careers as executive officers. Although CEOs (and Chairmen) are faced with substantial periods of unemployment following deal completion, those periods are shorter for those CEOs who join the buyer following completion of an M&A compared to their counterparts that leave immediately.

The paper also explores the relationship of deal characteristics with target CEO gains and the tradeoffs between CEO and shareholder gains for targets acquired by 90 UK and 31 US bidders over 1997-2003, respectively. By distinguishing between the two sub-samples, we fill the gap in the literature related to UK targets and differences between their negotiations with domestic and overseas acquirers. We report that target CEOs give up parts of their deal-related cash and stock gains for future employment with US buyers. In domestic M&As they receive additional cash gains when they join the buyer's board and higher settling-up payments (lower deal-related gains) when they also serve as Chairmen in target boards, compared to their US counterparts, respectively. Further, we find that target CEOs trade shareholder premiums for personal extraordinary treatment following the completion of a deal. Notably, in US acquisitions, only target CEOs with low *EBC* holdings (and lower exposure to the agreed price of sale of their firms) prior to the deal trade premiums for personal gains, while in domestic acquisitions they trade shareholder premiums for personal special treatment irrespective to their prior *EBC* holdings. This finding raises concerns about the ability of *EBC* holdings to align managerial to shareholder incentives in UK M&As.

The remaining of this paper is organised as follows. In section 2 we outline our sample and sub-samples. Section 3 describes our methodology and variables. The fourth section analyses the empirical results, while a final section concludes.

2. Variables

2.1 Bargaining power

Target company officers have different negotiating power over the deal specifications depending on past performance and the size of their firms. Existing evidence shows that the strength of managerial bargaining for targets is a function of their past performance as well as their CEO tenure and ability, and establishes target firm size as an important factor in determining the premiums paid by bidders. The latter are more generous with smaller targets and shareholder gains are larger for targets that are smaller than their buyer compared to those received by their larger counterparts.[5]

We employ target firm past performance, approximated by the target's abnormal stock return over the year prior to the posting of the M&A offer to account for such

[5] See Nelson (2005), Danbolt (2004) and Sudarshanam et al. (1996).

bargaining power. We calculate the cumulative abnormal returns (*CAR*) of target firms to examine short-run pre-merger performance.[6] We expect that CEOs of well-performing companies to obtain both better acquisition terms for their shareholders and compensation terms for themselves. Two further measures to capture target firm bargaining power are the market capitalization of the target in £millions (*Target Value*) and the ratio of target to the buyer's market capitalization (*T/B Value*). We expect that larger targets have more power to complete deals and thus can negotiate for both higher premiums and other gains with the bidders.

2.2 Financial Gains

2.2.1 Cash gains

Upon completion of an M&A transaction, target executives of most UK firms are eligible to receive a lump sum payment related to their golden parachute contract specifications. Such specifications are in place as a way to motivate executives not to circumvent valuable and profitable (for the shareholders) acquisitions and to compensate them for the loss of pay in case of a hostile change of control. Lefanowicz et al. (2000) find that, on average, golden parachute provisions tend to offset the effects of lost salary for target management (CEO and the group of top five directors) in US deals.

We calculate the golden parachute provision (*GoldenP*) for each manager using his contract specifications and special arrangements in place for change of control, as reported in the target firm's annual report prior to the acquisition announcement.

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[6] Under the market model, $R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it}$ *and* $E(R_{it} | R_{mt}) = \hat{\alpha}_i + \hat{\beta}_i R_{mt}$, a company's Abnormal Return (*AR*) is the difference between its actual return and the return on a benchmark typically given by an appropriate market index: $AR_{it} = R_{it} - E(R_{it} | R_{mt})$, where R_{it} and R_{mt} are the log returns of share *i* and market index *m* on day *t,* respectively. Since all the parameters are estimated in the test period, no adjustment is necessary. The *CAR* is the sum of all arithmetic *AR* in the chosen event window (i.e. 365 days prior to and including the M&A announcement date): $CAR_i = \sum_{t=1}^{T} AR_{it}$

2.2.2 Equity-related gains

As discussed above, premiums offer a link between managerial and shareholder incentives and consequently, target officers' shareholdings create a financial motivation for maximum premiums in acquisition deal negotiations. We proxy for target shareholder gains from the deal with *Premium (-29;0)%* (*Premium (-29;0)£*), which represents the percentage (£pence) premium over the target company stock price 30 days prior to and including the acquisition announcement day.

Hillier and McColgan (2004) state that there should be a positive relationship between ownership and corporate value and Demesetz and Lehn (1985) report a positive correlation between managerial ownership and the benefits of control. However, the opposing managerial power views posit that such large shareholdings may give enough voting power to executives to pursue their own interests irrespective of their shareholders' welfare. Faccio and Lasfer (2000) and Franks et al. (1998) find that ownership entrenches managers and reduces the monitoring power of the board of directors. Conyon and Florou (2003) note that large managerial ownership may be associated with greater voting control or higher levels of status and result in the insulation of managers from the threat of removal. Similarly, Martin (1996) argues that directors' shareholdings may have a non-linear effect on behaviour and that, whilst moderate directors' shareholdings are likely to align management interests with those of the shareholders, positions where directors are able to exercise substantial voting rights may be associated with less concern for remaining shareholders.

Overall, while evidence across the existing (mainly US) literature seems to point towards the fact that managerial ownership decreases the likelihood of a hostile takeover, its role in a friendly acquisition environment is less clear. We calculate *Share Ownership* for our sample CEOs, executive Chairmen and other directors as the ratio of shares owned at year-end, given in the last annual report prior to the acquisition announcement, over the target firm shares at that point of time, respectively. In addition, we calculate *Value (shares+options)* as the sum of the values of managerial total direct equity and option holdings 30 days prior to and including the acquisition announcement. We expect that managerial ownership will be positively related to M&A gains for both target managers and shareholders.[7]

Total *EBC gains* comprise of *Share gains*, *Option gains* and *Ltip gains*, where, *Share gains* represent gains from a target manager's direct equity holdings calculated as:

$$Share\ gains_i = \left(Value\ of\ shares(-29;0)\right)_i \times Premium(-29;0)\%_i$$

Similarly, *Option gains* and *Ltip gains* represent gains from managerial share-option and long-term incentive plan (Ltip) holdings, respectively, and are calculated as:

$$Option\ gains_i = \left(Number\ of\ Options\ at\ Year\ end\right)_i \times Premium(-29;0)£_i$$

$$Ltip\ gains_i = \left(Number\ of\ Ltip\ shares\ at\ Year\ end\right)_i \times Premium(-29;0)£_i$$

The broadest measure of total managerial financial gains for target companies is *All cash & stock gains* from the M&A calculated as the sum of stock and option appreciation gains, golden parachute payments, parachute augmentations, and special cash bonuses. We measure *Total Cash gains* from the M&A as the sum of each manager's golden parachute provisions, parachute augmentations and special cash bonuses.

2.3 Other Gains

2.3.1 Managerial career concerns and characteristics

In order to investigate the magnitude of career concerns on managerial behaviour and deal negotiations, we employ three career dummy variables taking the value 1 when the CEO or executive Chairman becomes an officer (*CEO Officer* and *Chairman Officer*) or a director of the new firm (*CEO Director* and *Chairman Director*), and when he joins a subsidiary of the buyer (*CEO Subsidiary* and *Chairman Subsidiary*), respectively, and 0 otherwise. We expect target officers to be willing to give up some of their premium-related gains to avoid unemployment or receive criticism from the market immediately following the completion of the deal, and that they value the top positions in the buyer due to both the higher associated compensation and the positive signals concerning the value of their human capital.

[7] Past evidence on target management ownership and shareholder wealth is mixed. While Walkling (1993) reports a positive relationship between managerial ownership and target shareholder wealth following successful contested acquisitions, Billet and Ryngaert (1997) report that this relationship is negative.

Agrawal and Walkling (1994) report that 'if the bid succeeds, there is a squeeze on managerial positions, especially at the top of the hierarchy. Often a form of musical chairs takes place, with two or more executives competing for a single position'.[8] Also, they find that target CEOs who lose their jobs following completion of a deal fail to find senior executive positions within one to three years following the bid. The importance of job security for senior managers is also highlighted in Hartzell et al. (2004) who find that in the US most target executives that do not continue with the buyer do not obtain further employment following the completion of the deal, and in Nelson (2005) who finds that '[if] governance changes enhance the CEO's job security, [the fact that CEOs will not extract higher pay following the adoption of these changes indicates that] the latter is more valuable to the CEO than higher compensation'.[9]

Managerial age and dedication to the target might play an important role in M&A premium negotiations. We control for the effects of age by *Expected Retirement*, which measures the expected years to retirement and is calculated as the greater of 0 or 65 minus age, and measure managerial dedication by the number of years the manager has worked as a member of the target board (*Service*). We expect that CEOs near the end of their careers or who have been for a relatively small time period with target firms will demand lower personal benefits but higher shareholder premiums to agree to the sale of their firms.

Wulf (2005) reports that younger CEOs, who have more years to retirement (and usually hold less target firm shares) value power more than M&A premiums. McKnight et al. (2000) note that as one closes in on retirement, stability becomes an 'espoused value' and the risks associated with changing jobs for a larger salary assume of less importance. They find that older executives attach greater importance to incentive rather than fixed-forms of pay, and as a result, that CEO age weakens the performance-cash pay relationship over time. Further, Hadlock et al. (1999) report that CEOs with longer tenure in the target may have more firm-specific human capital which causes them to be particularly resistant to selling out

[8] Agrawal and Walking (1994), p. 1003
[9] Nelson (2005), p. 217

to an acquirer, and North (2001) reports that 'tenure can proxy for the degree to which the CEO is entrenched in his position'.[10]

2.3.2 Managerial power and monitoring

Past studies have incorporated board size as a strategic variable in the determination of CEO pay. We employ *Board Size* as a proxy for managerial power, measured as the number of directors in the target company board prior to the acquisition announcement. We expect a positive association between target board size and CEO (or executive Chairman) power over his board of directors reflected in pay and the trade-off of premiums for personal extraordinary treatment following completion of M&As.

Cyert et al. (2002) perceive the board of directors as a self-interested player in the determination of managerial pay and report a strong negative relationship between the board's ownership and CEO compensation. Faccio and Lasfer (2000) find that companies with large boards of directors are likely to be large and to underperform their industry peers. Core et al. (1999) find that CEO compensation is higher when the board of directors is large, and that CEOs of such firms have more power over their boards since larger boards make it more difficult for directors to organise an opposition to the CEO. Coakley and Iliopoulou (2006) find that less independent and larger boards of directors offer significantly higher salary and bonus rewards to bidder (UK and US) CEOs following the completion of a UK-based M&A. Gregg et al. (2005) report that for an increase in the board size by 1 director there is an increase in overall board pay by 6%, but that neither the size nor the composition of the board affects the levels of pay for the highest paid director.

Faccio and Lasfer (2000) report that companies with split CEO and Chairman roles perform better than their counterparts with dual CEO and Chairman roles. Therefore, dual CEO-Chairman role (*Duality*) is an important governance measure in our analysis that attempts to identify powerful CEOs inclined towards deal resistance to secure control by making the target less attractive or to gain a competitive advantage in bargaining with the

[10] North (2001), p.138

buyer. We expect that CEOs who also serve as Chairmen of the target boards will have more power to pursue their own rather than shareholder interests in deal negotiations.

Finally, managerial power views posit that managers would tend to have more power over their boards and firm decisions when there is no large outside shareholder (Bebchuck and Fried, 2003). In a similar vein, Shleifer and Vishny (1996) find that the presence of a large outside shareholder is likely to result in closer monitoring and is expected to reduce managerial influence over their own compensation. The importance of non-management blockholders in the market for corporate control is also highlighted by North (2001) and Shivdasani (1993) who find that US companies with high outsider ownership are more likely to be acquired. We employ *Blockholder* as a variable equal to the percentage share ownership of the highest target firm shareholder.[11] We expect that the less dispersed ownership is among individual investors, the greater the monitoring and the closer the auditing of the deal negotiations by large shareholders, thereby making it more difficult for target officers to trade premiums for personal gains.

2.3.3 Abnormal compensation

Following Hartzell et al. (2004) and Agrawal and Walkling (1994), we include an *Excess Pay Residual* variable which is a measure of excess or above-market managerial compensation quantifying the foregone stream of economic rents and representing unexplained or abnormal managerial compensation. This variable is constructed as the residual from a basic compensation regression model using some 1480 FTSE-All Share firms as a benchmark. We tabulate our sample CEO, executive Chairman or other executive cash pay data, respectively, and combine it with the FTSE-All Share total executive pay from DataStream Advance[12] to estimate:

[11] Here we use information on the blockholder with the highest shareholding among the outsiders with ownership above 3%, as reported in the target annual report, which is the only way to proxy for outside shareholders of UK listed companies. Hillier et al. (2005) report that such a measure of institutional block-holdings is likely to be at best a noisy measure of the monitoring capability of these investors.

[12] DataStream Advance Datatype 126 is used here. Some adjustment had to be done on this data since it is for the total board of directors. We calculate the mean percentage fraction of each officer's and the other executive director's pay in his firm's total board pay for our sample firms and multiply this with the DataStream total board pay data to approximate for each of these. The average fraction of CEO, executive Chairman and other executive director cash pay to their total board pay is 28%, 18% and 21%, respectively. Notably, the small size of the targets

$$Y_i = \beta_0 + \beta_1 SIC\ Code_i + \beta_2 log(Market\ Capitalisation)_i + \beta_3 Year\ Indicator_i$$
$$+ \beta_4 Stock\ Return\ (prior\ 3\ years)_i + \varepsilon_i$$

where Y_i represents the CEO, executive Chairman or other executive total cash pay, respectively. We expect a positive relationship between abnormal compensation and managerial gains. The intuition is that target executives value the loss of economic rent extraction resulting from the sale of their firm and that such excess compensation leads to higher gains following completion of the M&A deal.

3. Data

3.1 Sample

UK listed companies have only recently begun to report relevant information on executive compensation following the recommendations of the Greenbury (1995) and Hampel (1998) Reports. In the absence of electronic databases covering all elements of UK boardroom pay, a unique sample of executive remuneration data is extracted directly from company financial statements. Using *Acquisition's Monthly*, we identify a total of some 580 corporate acquisition announcements during the period January 1997 to January 2004. The following filtering process is applied to this total.

We consider only completed transactions where both the bidder and the target company are publicly traded, the acquirers are either UK or US listed firms, and share price and other relevant accounting data are available (for both targets and buyers) from *DataStream Advance*. The need for annual report and proxy statement data availability for the year prior to the acquisition (for both targets and bidders) and at least one year following its completion (bidders) further reduces our sample size. These yield a candidate sample of 125 deals. We drop any deals in which the acquirer held a dominant ownership position (more than 50%) in the target. We thus focus on the remaining 121 target companies, their CEOs,

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in our sample might understate the magnitude of this variable for all three roles. Given that past research has highlighted the great dispersion of pay along firm hierarchy, this understatement could me more intense for CEOs and executive Chairmen.

executive Chairmen, and any other target director who is offered employment by the buyer following completion of the deal. For each we obtain ownership and compensation information from annual reports and deal-related information from *Acquisition's Monthly*, the *News Regulatory Service*, or other document (if any) filed in connection with the transaction. We also collect information on the target company CEO and executive Chairman future career paths from the *Lexis-Nexis* News Search and the *Hemscott Academic Search Guru* database.

3.2 M&A hostility

The number of hostile takeovers in the UK seems to have followed a similar pattern to that reported in the US market, decreasing over time and leading to a more collaborative deal environment.[13] Powell (1997) reports that 23.6% of UK takeovers during the period 1984 to 1991 were hostile. Cosh and Cyert (2001) report some 23% of UK transactions being hostile for 1985-1995, O'Sullivan and Wong (1998) examine 331 takeovers for 1988-1995 and report 26% as hostile, and Weir and Lang (2002) find 10.3% hostile takeovers for 1990-1998. In a similar vain, our sample transactions indicate that the vast majority of deals are friendly acquisitions since a mere 2.5% are classified as hostile.

This is in line with Hartzell et al. (2004) who note that 'if one sees hostile takeovers as disciplining and friendly as synergistic…a reduced frequency of hostile takeovers implied changes in the acquisition negotiation process. The combination of a large number of mergers and a friendlier negotiating environment leads us to ask what target CEOs receive in order for them to agree so often to such transactions'.[14] This implies that the relative safety from a hostile[15] and usually disciplining takeover environment adds to the target managers' bargaining power to negotiate for larger personal instead of shareholder gains before agreeing

[13] North (2001) reports 8.8% hostile deals in the US for 1990-1997, and Hartzell et al. (2004) report that less than 3% of acquisition transactions were hostile for 1995-1997.
[14] Hartzell et al. (2004), p.40
[15] Schwert (2000) shows that for most US deals that were classified as hostile, their economic terms were not distinguishable from friendly transactions, with the exception to the fact that hostile transactions involve publicity as part of the bargaining process.

to the sale of their firms. Such personal benefits could take the form of short term compensation arrangements with the buyer, long term career offers by the buyer, or both.

3.3 Sub-samples

One of the leading recommendations of the Cadbury (1992) report was the separation of the CEO and Chairman roles in UK firms in an attempt to eliminate the power exercised by a single individual on board decisions. The evidence shows that this has been adopted by most UK firms.[16] This separation of roles introduced a regime under which UK CEOs run the companies on a day-to-day basis and Chairmen manage the boards of directors. Nevertheless, under this context where 'the Chairman has a significant input in both the decision-making process of the firm and the composition of the board'[17] certain decisions, such those about the deal specifications and their acceptance, might be taken in common by the CEO and Chairman or by either of the two that exerts more power.

Non-executive Chairmen usually hold executive or officer positions in other listed firms and, as a result, might not have as intense career and wealth concerns (following M&A completion) as their CEO and executive Chairman counterparts, respectively. By contrast, the executive Chairman may have as (or even more) intense career concerns as the target company CEO since completion of a deal could result in long periods of unemployment and being downgraded to non-officer-related roles in the short- and long-term. In a friendly acquisition environment, these concerns and the investment of human-capital in the target might lead executive Chairmen to support deal rejection or engage in tougher negotiations for personal rather than shareholder-related gains that would compensate them for lost streams of compensation, status and rent extraction. Finally, an executive Chairman with greater share ownership than the CEO could negotiate higher premiums instead of personal or CEO extraordinary treatment.

[16] Among others, Florou (2002) reports that only 12% of the 300 largest UK listed firms had CEO-Chairman roles duality for 1990-1998.
[17] Florou (2002), p.3

We investigate the relationship of such gains with deal and company characteristics and the trade-off between shareholder premiums and such personal gains for a sub-sample of 46 executive Chairmen, and provide evidence on their career paths following the completion of the M&A deal. To provide a more complete picture of the characteristics, gains and takeover premium negotiations of all self-interested target company agents, we also analyse a sub-sample of 53 other target executives that join the buyer following M&A completion.

Past research has established significant differences in company, CEO pay and deal characteristics between UK and US acquirers of UK targets.[18] US acquirers are usually larger in size, complete more expensive deals and due to the higher costs and risks associated with accomplishing a cross-border M&A. They thus may have stronger incentives to complete a deal compared to a buyer in a domestic acquisition transaction. In order to provide a more complete picture, we contrast targets acquired by UK bidders with those by US bidders and investigate the relationship and tradeoffs between deal and CEO characteristics and gains.

4. Empirical findings

4.1 Descriptive statistics

4.1.1 Deal and managerial characteristics

Table 1 presents our full sample of some 121 targets firms and the sub-sample of 46 targets with executive Chairman transaction characteristics (Panel A) and governance structures (Panel B).

[Table 1 around here]

Only 2.5% of our sample deals are hostile and 0.8% are reported as unsolicited. The average (median) target company capitalisation one month prior to the deal is £562m (£63.6m), and the subsequent mean (median) ratio of target to bidder value is 1.03 (0.13). Target companies have an average cumulative abnormal return (*CAR(-364;0)*) of 6.5% corresponding to the one-year time window prior to the acquisition, and they received, on average, a 43.4%

[18] See Coakley and Iliopoulou (2006).

premium over their share price prior to announcement of the offer. Targets with executive Chairman are larger on average, have slightly higher *CAR(-364;0)* and, on average, received lower acquisition premiums from the buyer compared to our total sample.[19] Panel B indicates although the median CEO does not hold the dual CEO-Chairman role, he is a member of the nominations committee and as a result might be able to affect the selection and appointment of board members. Boards with executive Chairman have a higher proportion of executive to non-executive directors and our median executive Chairman participates in the nominations committee.

Table 2 (Panel A) presents descriptive statistics for our sample CEO and our sub-sample executive Chairman and other executive (joining the buyer's board) characteristics, respectively. The average CEO is 51 years old and has led the target's board for 8.8 years. Our sample is almost equally split between CEO with less (43% on average) and more-than five years' tenure.[20] On average, CEO exposure to target firm's equity and *EBC* represent 4% and 5% of firm stock, respectively. Executive Chairmen are significantly older with considerably more years of *Service* with the target company, and hold significantly more of their firm's stock in the form of direct equity (9% on average) as compared to their CEO counterparts. The overall *EBC* exposure of executive Chairmen is significantly higher than that of the target firms' CEOs (10% as opposed to 5%), which could be attributed to the differences in the tenure and age of the former compared to the latter. Our data indicate that another (besides the CEO or Chairman) executive director joins the buyer following deal completion in 45% of our sample firms. Of those, 49% held the finance officer's or another officer-related post in the target. The average other executive is 45 years old, with 7 years of employment with the target, and his *EBC* stock ownership represents 1% of the target firm stock prior to the deal.

[Table 2 around here]

[19] We perform the Wilcoxon/Man-Whitney test on equality of Medians between our CEO sample and executive Chairman sub-sample deal characteristics. The results (available upon request by authors) indicate that there are no significant differences in Means or Medians between the two groups' *Target Value (prior to Offer)£m*; *T/B Value*; *CAR(-1;0)*; *CAR(-19;0)*; *Premium(-29;0)%*; *Premium(-29;0)£*.

[20] Due to poor disclosure by some target companies we are unable to collect data about the number of years the CEO has served. In order to increase our sample we trace back these companies' Annual Reports and check their respective boards. Availability restrictions still prevent us from a full sample of data for CEO tenure.

4.1.2 Overview of the sources of financial gains

Table 2 also presents summary statistics about the wealth increases experienced by target CEOs, executive Chairmen, and other executives, respectively (Panel B), as well as their post-merger role in the control of the buyer (Panel C). The latter represents an additional (other than directly financial) gain to these directors. On average, the executive Chairman stock (*Share gains*) and total gains (*TG[Premium(-29;0)£]*), representing the level of increased wealth as a result of the acquisition transaction (£8.8m and £2.6m) dwarf those realised by CEOs (£0.138m and £0.75m).[21] On average CEOs gain £304k from their *EBC* holdings prior to the offer, and £431k as a result of their golden parachute provisions. Total acquisition-triggered wealth gains for the median CEO are approximately 4 times annual salary plus bonus pay, which is just half that reported by Hartzell et al. (2004) for target firms in the US during 1995-1997.

Executive Chairmen gain an average of £8.98m from their *EBC* holdings and £411k from their golden parachute provisions, and have more than three times (significantly) higher *total gains* to *salary+bonus* ratio (13 as opposed to 3.9) than target CEOs. Further, there are significant differences in the mean and median *Excess Pay Residual* of CEOs (-21.2 and -48.4) and executive Chairmen (-30.5 and 29.6), indicating that more CEOs are relatively underpaid than executive Chairmen (64% and 41%, respectively).[22] The average other executive is the most underpaid director (*Excess Pay Residual* of -98).

The data indicate that the largest source of CEO wealth gains comes from golden parachute provisions instead of the premium-driven gains through their equity holdings as is the case in the US. The opposite is true for our executive Chairmen. Whereas the latter are only obtained because shareholders receive a premium price from the buyer, the former could be a possible source of conflict between shareholders and managers. The golden parachute provisions may well be the outcome of powerful CEOs' negotiated terms.

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[21] Both the equality of Means (reported in Table 3) and the equality of Medians (available upon request) tests on these groups support the significant differences at the 1% level.
[22] The equality of Medians test indicates differences between the two groups' *Excess Pay Residual* (probability of 0.04), *Officer* (probability of 0.05) and *TG[Premium]/Salbon* (probability of 0.00) at the 5% and 1% levels, respectively. Results are available upon request by the authors.

Another source of direct cash gains to the CEO following an M&A is special cash bonus payments negotiated as part of the terms of the deal. Only a small fraction (2%) of our sample CEOs receive such compensation with no rationale provided.[23] Dividing the average special bonus (£22k) by the frequency (2%), we find that the average special merger-related bonus equals £1.1m (when paid), which is much smaller that the average US special bonus of $4.42m reported by Hartzel et al. (2004).[24]

4.1.3 Subsequent managerial career paths

Another possible source of gain for target CEOs is employment either on the acquirer's board or in a subsidiary firm. We track the future employment of all CEOs and executive Chairmen in our sample using online keyword searches. [25] Panel C of Table 2 indicates that on average, 10% (26%) of our sample target CEOs (executive Chairmen) are offered jobs as officers, 20% (13%) as (either executive or non-executive) directors in the new firm, and a further 20% (11%) accept offers to join a subsidiary of the buyer upon completion of the deal.[26] Notably, while 17% of other executives joining the buyer are granted a director post, the majority (51%) of them join a buyer's subsidiary and only a small fraction (4%) obtain an executive officer position.[27]

Managerial career concerns could provide significant motives for sacrificing shareholder gains for future employment. To further investigate this issue, Figure 1 illustrates

[23] See Holl and Kyriazis (1997) for a discussion on the defence strategies employed by target companies in UK takeovers and an analysis of the restrictions imposed by General Principle 7 of the UK Code on Mergers and Takeovers (2002). These restrictions may explain the small amount of special bonuses and parachute augmentations in our UK sample compared to those reported by Hartzell et al. (2004) in the US.

[24] Our approach is similar to that of Hartzell et al. (2004), who report that 27% (or 74 of 272) of their sample CEOs received a special (last-minute) bonus amounting, on average, to $1.2m. Dividing this average by the rate of occurrence gives them $4.42m (p.46).

[25] Regarding the CEO names that disappear from the databases following the deal, Hartzell et al. (2004) note that 'the large majority of CEOs who leave end up either retired, working in a non-profit or government job, or [almost 60% of them] simply vanished from our large array of data sources' (p.51). Our study verifies a similar pattern for UK CEOs and executive Chairmen.

[26] This in many cases implies remaining in his current post in the target company which becomes a fully owned subsidiary of the buyer.

[27] The remaining 15/53 (or 28%) of other directors were reported to stay following the deal completion but no other information was provided on their capacity in the new firm or one of its subsidiaries. Also, out of the 51% (or 27/53) other target directors that joined a buyer's subsidiary, 30% (or 8/27) left this post less than 1 year following the M&A.

the career paths of the target CEOs and the average time taken for departing CEOs to obtain a place on a new board.[28]

[Figure 1 around here]

Figure 1 indicates a substantial amount of job losses for CEOs when their firm is acquired and that it takes less time to obtain a job when the CEO stays in some capacity with the buyer following the acquisition (around 4 months) rather than when he departs immediately upon completion of the merger deal (9.7 months). The majority of CEOs that remain employed two years following a deal completion are those who join a subsidiary or, equivalently, keep their post in the target company which becomes a subsidiary of the bidder upon completion of the deal (33/40).

Figure 2 presents the post-acquisition career paths for our target executive Chairman sub-sample.

[Figure 2 around here]

Some 56% continue with the bidder in some capacity and the majority of those (73%) remain for more than 2 years. Some 74% (or 14/19) of the latter are the Chairmen that stayed as officers in a subsidiary including those in a target subsidiary.[29]

In Table 3 we present information about the status of CEOs (Panel A) and executive Chairmen (Panel B) who remain with the buyer after completion.

[Table 3 around here]

We report that the average (median) CEO joining the buyer's board receives for his first year of employment around 1.23 (1.03) times his old salary and 13 (no bonus payment) times his bonus in the target board. The survival rates for this group of CEOs are low with only 20% of them remaining as either officers or directors for more than one year following the completion of the deal, and just 7% of those departing after the first year receive loss-of-

[28] Data availability limits our iterations here. We were able to collect data only for 21 out of the 71 CEOs departing immediately after the completion of the deal and for 5 out of 10 departing after their first year of contract with the buyer. A possible explanation could be that the rest of the CEOs retire or get jobs that are not in boards of directors (or not in listed companies that *Hemscott Academic Guru* and *Lexis-Nexis* would report, which is highly unlikely since both data sources report all directorships including those in non-listed firms).

[29] Data availability prevents us from obtaining a substantial number of observations with the exact month of departure or acquisition of a new post. As a result, we were unable to calculate the average time it took (the small fraction of) Chairmen that left the buyer immediately at completion of the deal or one year after as we did for our CEO sample.

office compensation (*LOC*), which, on average (median), amounts to £776k (£335k). By contrast, Panel B indicates that the average executive Chairman stays longer with the buyer (1.42 years) and receives higher *New/Old Salary* and *New/Old Bonus* (6.47 and 7.41, respectively).[30] However, we notice that both CEOs and Chairmen that join the buyer are offered stock options as golden hellos for their new posts. It is unclear whether these are related to the deal negotiations.[31]

4.1.4 US and UK acquired target CEOs

Table 4 presents summary statistics and tests on the equality of medians for target CEO and deal characteristics and target CEO gains, respectively, between the sub-samples of UK targets acquired by US (*N=31*) and UK (*N=90*) bidders.

[Table 4 around here]

We report significant differences in the median target and bidder size, respectively, with US bidders being larger and acquiring larger UK targets compared to their UK counterparts.[32] Also, US-acquired target companies pay significantly higher median levels of salary to their CEOs. Finally, the median gain from share option holdings for UK CEOs with US acquirers is almost double (£139k) that of targets of domestic M&As (£63.7k).[33]

4.2 Regression analysis on gains and deal characteristics

We predict that target officers will agree to hand over their firms for lower premiums when they are offered large personal M&A benefits. Given the sensitivity of their wealth to such premiums (consequential on their *EBC* ownership), we conjecture that these would be

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[30] Note that we have only a small number of observations for new salary and bonus pay received by Chairmen. This stems from the fact that the majority of them join a subsidiary of the buyer for which no compensation data are published in annual reports and accounts.
[31] This is an interesting point. Further research on this issue might provide new insights on a possible route to 'camouflaged' negotiated pay. A problem with this would be data availability since we cannot obtain UK pay data for subsidiaries where the majority of target executives are employed. For a discussion on golden handshakes, see Yermack (2004).
[32] Tests on the equality of means here indicate that US acquirers are significantly larger than their UK counterparts at the 5% level. Results are available upon request.
[33] Note that here we find no significant differences in the means of the two sub-samples. Results are available upon request.

acceptable only in return for obtaining a leading management position or for special compensation arrangements not directly related to the target's equity value.

We employ cross-section regressions to examine the effect of deal and target characteristics on the broadest measure of all financial gains measured by our *All cash & stock gains* variable. We perform Tobit analysis to estimate the effect of these characteristics on *Total cash gains* received by the officer due to the substantial number of zero-valued observations for the dependent variable. The latter is important since such payments constitute the majority of managerial merger-related gains and they include payments negotiated for relinquishing control.[34] In particular, we estimate the following model by OLS and Tobit for each type of gains:

$$\begin{aligned} Y_i = {} & \beta_0 + \beta_1 Officer_i + \beta_2 Director_i + \beta_3 Expected\ Retirement_i + \beta_4 T/B\ Value_i \\ & + \beta_5 Target\ Value_i + \beta_6 Share\ Ownership_i + \beta_7 CAR\ (\text{-}364;0)_i \\ & + \beta_8\ Excess\ Pay\ Residual_i + \beta_9 Duality_i + \beta_{10} Board\ Size_i + \beta_{11} Service_i + \varepsilon_i \end{aligned}$$

where, Y_i is the measure of managerial gains (*All cash & stock gains* or *Total cash gains*) for our CEO sample as well as for our executive Chairman and other executive director sub-samples, respectively. The independent variables capture elements of deal and target firm characteristics and are as previously defined.

4.2.1 CEO sample results

Table 5 presents the OLS and Tobit analysis on the relationship between CEO gains and offer characteristics.

[Table 5 around here]

The coefficients in Table 5 indicate that the more years to retirement, the lower the *All cash & stock gains* for the CEO. This result verifies that, as expected, equity accumulation increases with the passage of time. Although we expected that the size of the golden parachute

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[34] Hartzell et al. (2004) also estimate a Tobit model purely for the negotiated cash gains comprising of negotiated cash bonus and parachute augmentations. The small amount of special bonus payments and parachute augmentations in our sample restrict us from estimating a model for these negotiated pay components only. The small number of such cases in the UK may be related to regulations in the UK (as opposed to the US) market 'forbidding' some managerial anti-takeover mechanisms, like the adoption of poison pills etc. For a discussion see, among others, Thompson (2005) and Holl and Kyriazis (1997).

provisions would increase with the passage of time also, the insignificant coefficient indicates that CEO age has no effect on the absolute size of (negotiated) *Total cash gains*.

Our estimates of excess compensation have coefficients of 7.12 and 1.42 in the first and second specifications, respectively, with strong statistical significance in both. If the amount by which a CEO is overpaid relative to his industry peers is an economic rent, then these results imply that CEOs receive "settling up" payments of between 1.4 to 7 times their annual rent following the sale of the target. While larger target boards are associated with lower CEO total gains, the second specification shows that larger boards are associated with higher parachute and special bonus-related gains.[35] The former result could be the outcome of lower equity exposure of CEOs of larger boards or the diminished effectiveness of these boards.

The sum of gains from stock ownership, options, and golden parachute payouts has a zero net relation with the subsequent career of the CEO.[36] By contrast, we find that CEO deal-related *Total cash gains* are positively related to the grant of an officer position with the buyer. This indicates that, when the CEO becomes either the CEO or the executive Chairman of the new firm, he gains about £414k more in negotiated cash from golden parachute augmentations and special merger bonus.

We examine whether CEOs expect future compensation to exhibit mean reversion by looking at the compensation of those CEOs who stay with the buyer the year following the completion of the deal.[37] We consider a sub-sample of some 23[38] CEOs who remained with the buyer following completion of the M&A which is split equally between underpaid and overpaid (relative to our sample median *Excess Pay Residual*). The mean (median) increase in *salary+bonus* for the former group of CEOs is 21.3% (2.6%), while that for their overpaid

[35] We find no significant effect of the number of directors joining the new firm to the negotiated CEO cash gains and so drop this variable in line with Hartzell et al. (2004).

[36] Following Hartzell et al. (2004; p.54) we test the sensitivity of this estimate to outliers by running the same model in a probit format, setting the dependent variable to one of all CEOs who receive negotiated cash payments. The coefficient on the *Officer* indicator variable is significant at the 5% level (coefficient of 1.18 and *t*-statistic of 1.79), strongly suggesting that CEOs who do not receive officer positions in the acquirer can be expected to receive lump-sum cash payments. Results are available upon request.

[37] Detailed results for this section are available upon request.

[38] Data availability constraints on future compensation reduce our initial sample of 50 CEOs continuing with the buyer by almost one half.

counterparts is 6.6% (0.6%). In line with Hartzell et al. (2004), these CEOs' pay increases exhibit correlation with the excess compensation variable equal to -0.16.[39] In line with Hartzell et al. (2004), a test for equality of means between the two groups indicates that no significant differences between the pay increases received by underpaid and overpaid CEOs.

4.2.2 Executive Chairman and other executives

Tables 6 and 7 present the results for our executive Chairman and other executive director sub-samples, respectively.

[Table 6 around here]

The negative relationship between gains and our *Officer* and *Director* variables (in both specifications) implies that future directorships are valued more than deal gains by executive Chairmen. This is because they are willing to give up around £3.9m (£0.46m) and £5.3m (£0.8m) of their *All cash & stock gains* (*Total cash gains*) for an officer or director position in the buyer, respectively.

Apart from giving up gains for a career settlement, the Chairman gains are positively related to measures of his power on the target board of directors. First, executive Chairmen that have the dual Chairman-CEO role in the target firm receive £4.8m (£0.34m) higher *All cash and stock gains* (*Total cash gains*) and around £1.1m extra gains for each additional member in their board of directors. The coefficient on our estimate of excess pay is only significant for our *Total cash gains* approximation which includes negotiated cash. This indicates that executive Chairmen receive a "settling up" payment of 0.39 times their overpayment relative to the market. Finally, target executive Chairmen with longer tenure receive higher cash gains. Overall, our results imply that more powerful target Chairmen realise significantly higher gains upon completion of the M&A.

Table 7 presents our results for the sub-sample of targets with an (other than the CEO and Chairman) executive director being offered a post with the bidder.

[Table 7 around here]

[39] Hartzell et al. (2004) report a negative correlation of -0.286 and mean (median) CEO increases following the acquisition equal to 25.9% (10.7%) for their US sample.

As expected, due to the lower levels and routes for power exertion by this group of executives (compared to those by CEOs and Chairmen), their *All cash & stock gains* (*Total cash* gains) grow with their ownership of target firm stock and with *Board size* and years of *Service*, respectively. Firms with large boards are usually large in size and there is a positive relationship between firm size and executive compensation. In contrast, we report that these directors obtain around £190k more *Total cash gains* because they are offered a future directorship with the buyer that is somewhat surprising and may hint at golden hello grants. These gains also grow along with increases in the negotiating power of target boards. However, the positive coefficient on target company market value could also be associated with the skills of these directors in managing a larger firm with more complex and demanding operations.

4.2.3 US and UK acquired target CEOs

Table 8 present our results on CEO deal-related gains for the sub-samples of UK targets acquired by US and UK firms.

[Table 8 around here]

Target CEOs trade around £576k (£180k) of their *All cash & stock* (*Total cash*) *gains* for a directorship in a US buyer. Younger target CEOs earn £23.6k more (£12.5k less) *All cash & stock gains* (*Total cash gains*) than their older counterparts. Also, good past performance (larger size) for targets is associated with lower (higher) financial gains for the CEO. These gains increase with the power of the target CEO. More specifically, CEOs gain 1.69 (0.88) times their overpayment relative to the market through their total (cash) deal-related gains and, when they hold the CEO-Chairman dual role, they gain £2.4m more *All cash & stock gains* than their non-Chairman counterparts.

The Table also indicates that in domestic acquisitions, UK target CEOs gain an additional £322k when they join the buyer’s board of directors and that their deal-related gains are only determined by measures of managerial power. The CEO *Excess Pay Residual* values of 1.06 and 7.05 represent “settling-up” payments in the form of *Total cash* and *All* *cash & stock gains*, respectively. CEOs who also serve as Chairmen of the target board prior to the M&A attain around £2.2m more *All cash & stock gains* than their non-Chairman counterparts. Also, CEO cash gains increase by around £60.7k for every additional director in the target board. This might be explained by higher complexity associated with larger boards or may be the outcome of higher CEO power over these boards.

4.3 The tradeoffs between premiums and gains

We explore the relationship between a manager's personal gains from the M&A transaction and the level of agreed shareholder premiums by estimating the following cross-section regression by OLS:

$$
\begin{aligned}
Premium(\text{-}29;0)_i = {} & \beta_0 + \beta_1 Officer_i + \beta_2 Director_i + \beta_3 Subsidiary_i \\
& + \beta_4 Expected\ Retirement_i + \beta_5 T/B\ Value_i + \beta_6 Share\ Ownership_i \\
& + \beta_7 Value(shares + Options)_i + \beta_8 CAR\ (\text{-}364;0)_i + \beta_9 Blockholder_i \\
& + \beta_{10} Duality_i + \varepsilon_i
\end{aligned}
$$

where $Premium(\text{-}29;0)_i$ is the percentage premium received by the target company i on completion of the deal, calculated with the closing price 30 days prior (and including) the acquisition announcement. We also employ the *Sum of gain dummies* variable to capture extraordinary managerial treatment.[40]

We also examine the sub-samples of some 61 (or 50%) CEOs, 21 (or 46%) executive Chairmen, and 27 (or 51%) other executives with low *EBC* exposure.[41] We expect that, since wealth is less sensitive to the agreed share price and the subsequent premiums for this group of directors, they may be more predisposed to trade off shareholder premiums for personal gains.

4.3.1 CEOs

[40] This variable represents the CEO, executive Chairman or other executive, respectively, deal-related extraordinary treatment. It equals 1 when each director, respectively, is either offered future employment in some capacity, or receives a special bonus or a parachute augmentation prior to the deal completion, and 0 otherwise.

[41] Median *EBC* value 30 days prior to and including the acquisition announcement equals £1014k, £1841k and £359k for our CEO, executive Chairman and other executive samples, respectively.

Table 9 indicates that measures of CEO personal gains or extraordinary treatment and power have a significantly negative effect on shareholder premiums.

[Table 9 around here]

More specifically, we find that target shareholders receive around 24% and 19% lower premiums when the CEO is offered employment in a subsidiary of the buyer and when the CEO is also the chairman of the target board, respectively. The former result is in line with Hartzell et al. (2004) who report a negative but insignificant relationship for their US target CEO sample. Moreover, any sort of extraordinary CEO treatment has a negative and significant effect on premiums of 19.9%. Overall, these results suggest that CEOs trade shareholder acquisition gains when offered special personal treatment or new career opportunities.

Our low *EBC* sub-sample comprises of 61 CEOs whose total *EBC* value 30 days prior to the acquisition announcement is lower than our sample's median of £1014k. As expected, there is a negative relationship between personal gains and shareholder premiums but the impact is not stronger than that for our full sample, raising some concerns on the effectiveness of *EBC* as an incentive alignment mechanism. Further, past performance as proxied by *CAR(-365;0)* has a positive effect on the premium received upon deal completion, indicating that CEOs of better performing targets have stronger negotiating power to obtain premiums for their shareholders.

4.3.2 Executive Chairmen and other executives

We present our results for the executive Chairman (*N=46*) and other executive joining the buyer upon M&A completion (*N=53*) sub-samples in Tables 10 and 11, respectively.

[Table 10 around here]

Table 10 results indicate that the major source of decreases in shareholder premiums is the number of years until the executive Chairman retires which is strongly significant in all three specifications. This indicates that younger Chairmen agree to lower premiums for their shareholders than their older (or non-CEO) counterparts, respectively. However, shareholder premiums increase by around 37% to 55% with improved target past performance and around 2.2% for each percent additional point of block ownership from a single outside shareholder. This implies that the less dispersed the outside ownership is, the higher are the acquisition premiums for target shareholders.

[Table 11 around here]

The results for our other executive joining the buyer's board of directors in Table 11 indicate that premiums are negatively related to target company past performance at the 1% level of significance.[42]

4.3.3 US and UK acquired target CEOs

Table 12 shows that when acquired by US firms, UK target CEOs (with low *EBC* holdings prior to the deal) trade 21.2% (58.4%) of shareholder premiums for employment in a buyer's subsidiary (special personal gains). In these transactions, target shareholder premiums decrease slightly with the value of CEO total share and option holdings prior to the deal announcement (by 0.3-0.4% for an £1k increase in *Value(Shares+Options)*) and more substantially with target firm past performance. However, for our target CEOs with low *EBC* sub-sample, premiums decrease by some 2.02% for each percentage additional outside ownership.

[Table 12 around here]

Substantial bartering of premiums for target CEO special treatment and for a career in a buyer's subsidiary takes place in domestic transactions as shown in Table 13.

[Table 13 around here]

Our results for this sub-sample of 90 target CEOs indicate that good (above market) past target performance is rewarded by higher shareholder premiums of 17-19%. The latter increase by 3% per £1k increase in *V(Shares+Options)* for the low *EBC* target CEO sub-sample.

4.3.4 Discussion

[42] The weaker results on the other executive sub-sample premiums could be due to the small size of this sample or the fact that these directors join the buyer's board of directors.

Overall, our results in Tables 5-13 indicate that managerial power and personal concerns are robust determinants of target company managerial gains following UK M&As. CEOs (other executives) who remain in the top hierarchy (as directors) of the bidder receive higher cash (cash and total) pay negotiated as part of the deal. By contrast, executive Chairmen give up significant parts of their gains in exchange for a post on the buyer's board. This is probably because Chairmen are older and that, following the M&A, there is a limited number of available positions on the board of the combined firm. While target CEOs in domestic acquisitions receive higher cash gains, those whose companies were acquired by a US firm forego significant amounts of their deal-related financial gains for future career settlements with the buyer.

We find that both CEOs and executive Chairmen receive "settling up" payments for the loss of rent extraction opportunities following the sale of the target.[43] These payments are received by UK target CEOs of both UK and US bids but are larger for the former bids. CEOs receive larger amounts than their Chairman counterparts reflecting the higher levels of managerial power exertion by CEOs. This power increases and results in higher gains for those CEOs who are also the Chairmen of the target (and even higher when they are also acquired by a US firm) and is positively associated with the tenure of the executive Chairman at the target. Managerial cash gains from M&A deals increase with target board size across our CEO sample (the sub-sample of UK acquired target CEOs) and Chairman and other director sub-samples. Notably, the other director's gains may increase due to the fact that he is chosen out of around 8 other target executives. Since on average one director (apart from the CEO and Chairman) joins the buyer's board following the M&A, this sample of executives joining the bidder should represent the most valuable target directors (after the officers) for the buyer. However, these increases by CEOs and Chairmen could be the outcome of less independent and effective boards and higher managerial power.

Our most interesting finding is that CEOs trade shareholder premiums for extraordinary personal treatment and that they are more powerful negotiators of personal

[43] For a discussion on "settling up", see Fama (1980) and Harford (2003).

benefits at the expense of shareholder premiums than their Chairman counterparts. Potentially self-interested negotiations by the Chairmen are constrained by outside monitoring. We find that the more concentrated is outsider ownership and the greater the monitoring, the higher the premiums that are negotiated for target shareholders. CEO-Chairmen are more entrenched and powerful and typically obtain lower premiums for their shareholders. Finally, good past target performance is an effective mechanism for higher acquisition premiums for target shareholders since it adds to the negotiating power of target management.

Target CEOs of both UK and US acquisitions trade approximately 20% of their shareholder premiums for a future career in a subsidiary of the buyer, and in domestic deals they exchange 15.7% of premiums for special treatment by the buyer. Such exchanges are greater when the buyer is a US firm and the target CEO *EBC* holdings are low (58.4%). This extraordinary treatment is mainly related to future employment with US acquirers and the traded size of premiums is colossal when compared to the foregone premiums in our full sample target CEOs (19%). Finally, although good performance prior to the deal strengthens target CEO negotiating power and increases shareholder premiums in domestic acquisitions, it has the opposite effect in acquisitions by US firms. This could be either the outcome of US bidders being skilful negotiators or UK targets directing their negotiating efforts away from premiums and towards other personal gains.

5. Concluding remarks

There is considerable debate on what drives target management to agree to the surrender of control of their firms in a friendly acquisition environment. Are target firm management efforts in M&A deal negotiations focused on shareholder wealth maximisation or on personal gains? This paper employs a unique manually-collected sample of 121 UK targets of successfully competed acquisitions 1997-2003 to investigate the wealth effects of M&A negotiations on these questions.

We find significant job losses for target senior management and especially for CEOs following M&As. Our sample yields a significantly larger number of underpaid CEOs compared to their executive Chairman counterparts prior to the M&A. Executive Chairmen that join the buyer following deal completion stay longer than CEOs.

Our results indicate that CEO and executive Chairman gains following acquisition transactions are driven by concerns about their future careers and lost stream of economic rent extraction as well as by measures of managerial power. We report evidence of a type of power sharing in deal negotiations with the buyer between target CEOs and executive Chairmen. CEOs trade shareholder premiums for personal extraordinary treatment and Chairmen incentives are aligned towards those of shareholders under more intense monitoring by less dispersed and larger target shareholders. Target firm performance prior to the deal announcement provides significant negotiating power for higher shareholder premiums. However, this has the opposite effect in the sub-sample of executive directors (other than the CEO and executive Chairman) that are granted employment by the buyer.

We report significant differences in deal characteristics and gains for CEOs and shareholders whose firms were acquired by UK and US firms. US buyers are larger, acquire larger targets and offer their CEOs more valuable career opportunities than their UK counterparts. While target CEOs give up considerable amounts of their deal gains for a position with a US bidder, they receive extra cash on joining a domestic buyer. Abnormal past target performance increases CEO negotiating power and results in higher shareholder gains in UK-for-UK acquisitions but has the opposite effect in US-for-UK transactions.

Overall, our results suggest that target CEOs and executive Chairmen use M&A deal negotiations for personal short-term (financial) or long-term (career-oriented) gains instead of shareholder wealth creation through higher premiums. They are in line with those reported in the Hartzell et al. (2004) study of US CEOs. Our results favour the managerial power as opposed to agency theory approaches in explaining M&A deal negotiations by target management. They raise concerns about the ability of existing UK monitoring and incentive alignment mechanisms to protect target shareholders from self-interested managers.

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Table 1

Deal transaction & governance characteristics

The Table presents summary statistics for CEO sample (121 UK targets for 1997-2003) and executive Chairman sub-sample (46 UK targets for 1997-2003) M&A transaction (Panel A) and governance (Panel B) characteristics. *Hostile* is a dummy variable taking the value 1 if the deal is classified as a hostile takeover and 0 otherwise; *Unsolicited* is a dummy variable taking the value 1 if the deal is reported as unsolicited and 0 otherwise; *Target Value* is the market value of the target company (in £m) one month prior to the acquisition announcement; *T/B Value* is the ratio of the target to bidder market value one month prior to the offer; *CAR (-364;0)* represent the cumulative abnormal returns in the respective event window; *Premium(-29;0)%* and *Premium (-29;0)£* represent the 30-days, including the announcement, premium paid to the target's share price expressed in a percentage and in £pence, respectively; *Board size* is the total number of directors (executive and non-executive) in the board; *Ex/NE ratio* is the ratio of executive to non-executive directors; *Duality* is a dummy variable taking the value 1 if the CEO is the chairman of the company or the Executive Chairman is not the CEO, respectively, and 0 otherwise; *Nominations* is a dummy variable taking the value 1 if each officer does not participate in the nominations committee, and 0 otherwise.

	CEO		**Executive Chairman**	
	Mean	Median	Mean	Median
Panel A. Deal Characteristics				
Hostile	0.025	0		
Unsolicited	0.008	0		
Target Value £m	562	63.6	1152	110
T/B Value	1.03	0.13	0.84	0.10
CAR (-364,0)	0.065	0.067	0.10	0.08
Premium (-29;0) %	43.4	41	36	38
Premium (-29;0) £	85.3	53.5	79.6	42.3
Panel B. Governance Structures				
Board size	8	8	8	7
Ex/NE ratio	1.3	1	1.7	1.3
Duality	0.17	0	0.35	0
Nominations	0.3	0	0.1	0

Table 2

Target firm CEO, executive Chairman and other executive characteristics & gains

The table presents summary statistics and tests on the equality of means for the characteristics (Panel A), monetary (Panel B) and other gains (Panel C) of 121 CEOs, 46 executive Chairmen (each officer hereafter) and 53 other executive directors (offered employment from the buyer) of UK targets for 1997-2003. *Share gains* represent gains from each officer's direct equity holdings, calculated as [(Value of shares 1 day prior to announcement)*Premium (29;0)%]; *Option gains* represent gains from each officer's option-holdings, respectively, calculated as [(number of options)*Premium (29;0)£]; *EBC gains* is gains from shares, options and long-term incentive plans for each officer; *TG [Premium (-29;0)£]* is total gains (i.e. *Stock gains+Cash gains*) for each officer and the other director, respectively, calculated with the use of the 30-day premium (in £pence); *TG[Premium]/Salbon* is the ratio of *TG [Premium (-29;0)£]* and each officer's salary+bonus. The remaining variables are as previously defined in section 2. * indicates significant difference between means at the 5% level.

	CEO		**Executive Chairman**			**Other Executive**	
	Mean	Median	Mean	Median	*t-stat.*	Mean	Median
Panel A. Executive Characteristics							
Age (years)	51	51	55	55	3.34*	45	44
Service	8.8	7	15	13	3.95*	7	5
Expected Retirement (years)	14	14	10	10	3.29*	17	17
Tenure	0.4	0	0.2	0	2.90*		
Share Ownership	0.04	0.001	0.09	0.02	1.83*	0.01	0.0004
EBC Ownership	0.05	0.009	0.10	0.024	2.73*	0.01	0.002
Salary £000	181	155	178	157	0.16	125	105
Bonus £000	57	20	67	30	0.48	40	16
Panel B. Monetary Gains							
(a) Stock-ralated Gains							
Share gains £000	138	9.02	8846	959	5.63*	155	120
Option gains £000	161	68.8	135	6.02	0.38	47.5	6.4
EBC gains £000	304	160	8981	1572	3.81*	207	62
(b) Cash Gains							
GoldenP £000	431	359	411	301	0.27	258	179
Xtrabonus £000	22.1	0	21	0	0.03	7.9	0
(c) Total Gains							
TG[Premium(-29;0)£] £000	752	628	2590	955	2.59*	474	298
TG[Premium]/Salbon	3.9	3.0	13	7.2	4.68*	3.6	2.4
Excess Pay Residual	-21.2	-48.4	-30.5	29.6	1.82*	-98	-58
Underpaid	64%		41%				
Panel C. Other Gains							
Officer	0.1	0	0.26	0	3.57*	0.03	0
Director	0.2	0	0.13	0	0.55	0.27	0
Subsidiary	0.2	0	0.11	0	1.57	0.54	1

Table 3

Status of target CEOs and executive Chairmen joining the buyer

The Table presents summary statistics for the status of target CEOs (Panel A) and Executive Chairmen (Panel B) of UK targets for 1997-2003 that became Officers or Directors of the buyer following the completion of the M&A. *Years Stayed* is the number of years each officer stayed with the bidder; *Officer/Director (year 1+)* is a dummy variable taking the value 1 if each officer remained as an Officer or Director of the buyer one year following the deal completion and 0 otherwise; *New/Old Salary* and *New/Old Bonus* are the ratios of each officer's salary paid by the new firm to the last officer's salary pay by the target firm and each officer's bonus paid by new firm to the last officer's bonus pay by the target firm, respectively; *LOC (year 1)* is a dummy variable taking the value 1 if the officer received loss-of-office compensation (LOC) one year after joining the buyer as a result of the M&A and 0 otherwise; *Paid LOC (1 year)* is the LOC paid to the officer on departure from the buyer 1 year following completion of the deal; *TEX joining* indicates the number of target executive directors joining the new board following completion of the deal; *TEX joining/New Board Size* is the ratio of the number of target executives joining the bidder to the size of the new board of directors; *Name Change* is a dummy variable taking the value 1 if the buyer changed name following the completion of the deal and 0 otherwise.

	Mean	Median	St. Dev.	Observ.
Panel A. CEO Sample				
Years Stayed	0.93	0	3.57	114
Officer/Director (year 1+)	0.20	0	0.41	121
New/Old Salary	1.23	1.03	0.94	23
New/Old Bonus	13	0	31	23
LOC (year 1)	0.07	0	0.25	121
Paid LOC (year 1) £000	776	335	1003	6
TEX joining	1	0	1.4	121
Panel B. Executive Chairman Sub-sample				
Years Stayed	1.42	1	1.83	12
New/Old Salary	6.47	6.47	6.72	2
New/Old Bonus	7.41			1
Paid LOC(year 1) £000	500			1
TEX joining	1.1	1	1.5	46

Table 4

US versus UK acquired CEO and Deal characteristics & gains

The Table presents summary statistics and tests on the equality of medians for deal transaction characteristics (Panel A), target CEO characteristics (Panel B) and gains (Panels C and D) of 31 UK targets acquired by US bidders and 90 UK targets acquired by UK bidders, respectively, for 1997-2003. The variables are as previously defined. * indicates significant differences between medians at the 5% level.

	US buyer		**UK buyer**		
	Mean	Median	Mean	Median	*t-stat.*
Panel A. Target and Deal Characteristics					
Target Value £m	498	121	520	63	2.22*
Buyer Value £m	49175	8382	5250	330	4.89*
T/B Value	0.31	0.03	1.46	0.24	4.46*
CAR (-364,0)	0.11	0.07	0.06	0.08	0.44
Premium (-29;0) %	47	52	43.7	40	1.27
Panel B. CEO Characteristics					
Service	8	8	9	6	0.36
Expected Retirement (years)	15.8	14	14	14	1.54
Duality	0	0	0.16	0	0.33
Share Ownership	0.04	0.001	0.04	8E-03	0.91
Option Ownership	0.03	0.002	0.01	0.002	0.71
Salary	196	177	175.3	145.4	1.89*
Bonus	72	40	54.3	25	1.72
Panel C. Monetary Gains					
Share Gains	1466	34.5	613	9.02	1.4
Option Gains	195	139	161	63.7	1.8*
GoldenP	393	382	443	360	0.1
TG[Premium(-29;0)£] £000	2001	669	1253	641	1.0
TG[Premium]/Salbon	1.7	2.7	5.05	3.22	0.9
Panel D. Other Gains					
Officer	0.10	0	0.09	0	0.0
Director	0.17	0	0.23	0	0.2
Subsidiary	0.47	0	0.27	0	1.8*

Table 5

CEO monetary gains and deal characteristics

The Table presents Cross section analysis on 121 UK target (for 1997-2003) CEOs *All cash & stock gains* calculated with the *Premium (-29;0)£* (in £pence) and Tobit analysis for *Total cash gains* calculated as the sum of bid-related (special) bonus payment and the golden parachute provision as reported in the last annual report prior to the completion of the deal. The independent variables are presented in the left hand side of the table. *Officer* is a dummy variable taking the value 1 if the target CEO joins the bidder's board as an officer following completion of the deal and 0 otherwise; *Director* is a dummy variable taking the value 1 if the target CEO joins the bidder's board as a director following completion of the deal and 0 otherwise; *Expected Retirement* is the number of years until the CEO retires, calculated as the max {65-Age, 0}; *T/B Value* is the ratio of the target to bidder firm market value one month prior to the deal; *Target Value* is the market value of the target company (in £m) one month prior to the acquisition announcement; *Share Ownership* is the ratio of shares owned by the CEO over the target firm shares; *CAR (-364;0)* is the cumulative abnormal return one year prior to the acquisition announcement; *Excess Pay Residual* is the residual from a simple cross-section regression on CEO cash pay; *Duality* is a dummy variable taking the value 1 if the CEO is also the Chairman of the company, and 0 otherwise; *Board size* is the total number of directors (executive and non-executive) in the target board; *Service* is the number of years the CEO has served the target company. $^{*, **, ***}$ indicate significance at the 1, 5 and 10% levels, respectively.

	All cash & stock gains		*Total cash gains*	
	Coefficient	*t-statistic*	*Coefficient*	*z-statistic*
C	7472	3.21	282	1.47
Officer	1620	0.85	414	2.65^{***}
Director	751	0.67	-117	-1.26
Expected Retirement	-152	-2.01^{**}	-2.69	-0.43
T/B Value	24.5	0.18	6.96	0.62
Target Value	0.31	1.18	-0.01	-0.29
Share Ownership	1032	0.33	-254	-0.98
CAR (-364;0)	-737	-0.66	-116	-1.27
Excess Pay Residual	7.12	2.35^{***}	1.42	5.70^{***}
Duality	-1755	-1.20	-8.49	-0.07
Board Size	-503	-2.29^{***}	36.7	2.03^{**}
Service	-50.5	-0.64	-3.40	-0.63
Adj. R-sq	7%		35%	

Table 6

Executive Chairman monetary gains and deal characteristics

The Table presents Cross section analysis on some 46 UK target (for 1997-2003) executive Chairmen *All cash & stock gains* calculated with the *Premium (-29;0)£* (in £pence) and Tobit analysis for *Total cash gains* calculated as the sum of bid-related (special) bonus payment and the golden parachute provision as reported in the last annual report prior to the completion of the deal. The independent variables are presented in the left hand side of the table. *Officer* is a dummy variable taking the value 1 if the target executive Chairman joins the bidder's board as an officer following completion of the deal and 0 otherwise; *Director* is a dummy variable taking the value 1 if the target executive Chairman joins the bidder's board as a director following completion of the deal and 0 otherwise; *Expected Retirement* is the number of years until the executive Chairman retires, calculated as the max {65-Age, 0}; *T/B Value* is the ratio of the target to bidder firm market value one month prior to the deal; *Target Value* is the market value of the target company (in £m) one month prior to the acquisition announcement; *Share Ownership* is the ratio of shares owned by the executive Chairman over the target firm shares; *CAR (-364;0)* is the cumulative abnormal return one year prior to the acquisition announcement; *Excess Pay Residual* is the residual from a simple cross-section regression on executive Chairman cash pay; *Duality* is a dummy variable taking the value 1 if the executive Chairman is also the CEO of the company, and 0 otherwise; *Board size* is the total number of directors (executive and non-executive) in the target board; *Service* is the number of years the executive Chairman has served the target company. *, **, *** indicate significance at the 1, 5 and 10% levels, respectively.

	All cash & stock gains		*Total cash gains*	
	Coefficient	*t-statistic*	*Coefficient*	*z-statistic*
C	-8078	-1.53	-143	-0.30
Officer	-3944	-1.91*	-464	-2.53***
Director	-5259	-1.60*	-808	-2.34***
Expected Retirement	-1.35	-0.01	15.5	1.08
T/B Value	154	0.51	25.3	0.85
Target Value	-0.62	-1.43	-0.01	-0.36
Share Ownership	13164	1.45	-285	-0.31
CAR (-364;0)	983	0.56	-59.9	-0.38
Excess Pay Residual	2.24	1.29	0.39	2.51***
Duality	4788	2.11**	342	1.67*
Board Size	1111	1.81*	43.2	0.79
Service	120	1.16	20.3	2.21***
Adj. R-sq	7%		20%	

Table 7

Other executive monetary gains and deal characteristics

The Table presents Cross section analysis on some 53 UK target for 1997-2003 other executive directors (who join the bidders' board of directors upon completion of the bid) *All cash & stock gains* calculated with the *Premium (-29;0)£* (in £pence) and Tobit analysis for *Total cash gains* calculated as the sum of bid-related (special) bonus payment and the golden parachute provision as reported in the last annual report prior to the completion of the deal. The independent variables are presented in the left hand side of the table. *Officer* is a dummy variable taking the value 1 if the target executive joins the bidder's board as an officer following completion of the deal and 0 otherwise; *Director* is a dummy variable taking the value 1 if the target executive joins the bidder's board as a director following completion of the deal and 0 otherwise; *Expected Retirement* is the number of years until the executive retires, calculated as the max {65-Age, 0}; *T/B Value* is the ratio of the target to bidder firm market value one month prior to the deal; *Target Value* is the market value of the target company (in £m) one month prior to the acquisition announcement; *Share Ownership* is the ratio of shares owned by the executive over the target firm shares; *CAR (-364;0)* is the cumulative abnormal return one year prior to the acquisition announcement; *Excess Pay Residual* is the residual from a simple cross-section regression on executive cash pay; *Duality* is a dummy variable taking the value 1 if the CEO is not the executive Chairman of the company, and 0 otherwise; *Board size* is the total number of directors (executive and non-executive) in the target board; *Service* is the number of years the executive has served the target company. *, **, *** indicate significance at the 1, 5 and 10% levels, respectively.

	All cash & stock gains		*Total cash gains*	
	Coefficient	*t-statistic*	*Coefficient*	*z-statistic*
C	-607	-1.22	-477	-1.96
Officer	-314	0.40	-124	-0.32
Director	78.9	0.44	190	2.20***
Expected Retirement	8.92	0.99	5.83	1.33
T/B Value	9.56	0.23	3.76	0.19
Target Value	0.02	0.71	0.04	2.58***
Share Ownership	21463	3.89***	2214	0.83
CAR (-364;0)	91.5	0.53	117	1.40
Excess Pay Residual	0.08	0.41	0.05	0.52
Duality	113	0.56	91.4	0.93
Board Size	60.4	1.73*	41.6	2.46***
Service	18.2	1.05	19.0	2.27***
Adj. R-sq	52%		53%	

Table 8

US and UK acquired CEO monetary gains and deal characteristics

The Table presents Cross section analysis on 31 CEOs of UK targets acquired by US-based and UK-based firms (for 1997-2003) *All cash & stock gains* calculated with the *Premium (-29;0)£* (in £pence) and Tobit analysis for *Total cash gains* calculated as the sum of bid-related (special) bonus payment and the golden parachute provision as reported in the last annual report prior to the completion of the deal. The independent variables are presented in the left hand side of the table. *Officer* is a dummy variable taking the value 1 if the target CEO joins the bidder's board as an officer following completion of the deal and 0 otherwise; *Director* is a dummy variable taking the value 1 if the target CEO joins the bidder's board as a director following completion of the deal and 0 otherwise; *Expected Retirement* is the number of years until the CEO retires, calculated as the max {65-Age, 0}; *T/B Value* is the ratio of the target to bidder firm market value one month prior to the deal; *Target Value* is the market value of the target company (in £m) one month prior to the acquisition announcement; *Share Ownership* is the ratio of shares owned by the CEO over the target firm shares; *CAR (-364;0)* is the cumulative abnormal return one year prior to the acquisition announcement; *Excess Pay Residual* is the residual from a simple cross-section regression on CEO cash pay; *Duality* is a dummy variable taking the value 1 if the CEO is also the Chairman of the company, and 0 otherwise; *Board size* is the total number of directors (executive and non-executive) in the target board; *Service* is the number of years the CEO has served the target company. *, **, *** indicate significance at the 1, 5 and 10% levels, respectively.

	US Buyer				**UK buyer**			
	All cash & stock gains		*Total cash gains*		*All cash & stock gains*		*Total cash gains*	
	Coefficient	*t-statistic*	*Coefficient*	*z-statistic*	*Coefficient*	*z-statistic*	*Coefficient*	*z-statistic*
C	374	0.69	496	2.00	1690	1.01	187	0.66
Officer	-369	-1.10	-239	-1.56	306	0.29	322	1.81*
Director	-576	-2.84***	-180	-1.94*	18.8	0.03	-90.0	-0.72
Expected Retirement	23.6	1.97*	-12.5	-2.26***	9.30	0.17	-1.00	-0.11
T/B Value	-74.2	-1.55	-12.4	0.57	56.6	0.66	9.69	0.67
Target Value	0.20	1.63*	0.10	1.86*	-0.06	-0.37	-0.01	-0.28
Share Ownership	-824	-0.94	-544	-1.35	257	0.13	-2.97	-0.91
CAR (-364;0)	-522	-2.77***	-148	-1.70*	115	0.15	-83.5	-0.67
Excess Pay Residual	1.69	2.20***	0.88	2.49***	7.05	3.95***	1.06	3.53***
Duality	2436	5.24***	118	0.55	2211	2.32***	11.8	0.07
Board Size	74.8	1.31	40.6	1.56	16.8	0.11	60.7	2.46***
Service	-6.20	-0.35	-213	-0.26	19.3	0.47	1.63	0.23
Adj. R-sq	81%		13%		22%		18%	

Table 9

Tradeoffs between CEO gains and takeover premiums

The Table presents Cross section results from the analysis on the tradeoffs between *Premium (-29;0)%* and CEO gains for our sample of 121 UK targets for 1997-2003. The independent variables are presented in the left hand side of the table. *Sum of gain dummies* is an indicator variable taking the value 1 if the CEO is offered employment or receives special bonus from the buyer; *Officer* is a dummy variable taking the value 1 if the target firm CEO joins the bidder's board as an officer following completion of the deal and 0 otherwise; *Director* is a dummy variable taking the value 1 if the target firm CEO joins the bidder's board as a director following completion of the deal and 0 otherwise; *Subsidiary* is a dummy variable taking the value 1 if the CEO joins a buyer's subsidiary following the acquisition and 0 otherwise; *Expected Retirement* is the number of years until the CEO retires, calculated as the max{ 65-Age, 0}; *T/B Value* is the ratio of the target to bidder market value one month prior to the offer; *Share Ownership* is the ratio of shares owned by the CEO over the total firm shares; *Value (Shares+Options)* is the value of shares plus the value of options held by the CEO at the announcement; *CAR (-364;0)* is the cumulative abnormal return one year prior to the acquisition announcement; *Blockholder* is the percentage ownership of the highest (outside) target shareholder; *Duality* is a dummy variable taking the value 1 if the CEO is also the Chairman of the company, and 0 otherwise. *, **, *** indicate significance at the 1, 5 and 10% levels, respectively.

	Premium (-29;0) %					
	Full Sample		**Full Sample**		**Low EBC**	
	Coefficient	*t-statistic*	*Coefficient*	*t-statistic*	*Coefficient*	*t-statistic*
C	54.8	5.43	53.8	5.40	37.9	2.22
Sum of gain dummies			-19.9	-3.18***	-19.1	-1.88*
Officer	-6.43	-0.49				
Director	-7.44	-0.90				
Subsidiary	-24.1	-3.14***				
Expected Retirement	0.25	0.50	0.25	0.50	0.56	0.68
T/B Value	-0.68	-0.67	-0.64	-0.64	-2.51	-0.79
Share Ownership	5.74	0.25	5.46	0.24	-191	-0.69
Value (Shares+Options)	-5E-03	-1.36	-4E-3	-1.20	0.02	1.55
CAR (-364;0)	7.41	0.91	8.77	1.11	19.8	1.71*
Blockholder	-0.14	-0.44	-0.02	-0.06	0.20	0.39
Duality	-19.2	-1.96*	-19.9	-2.07**	-15.5	-1.03
Adj. R-sq	9%		10%		11%	

Table 10

Tradeoffs between executive Chairman gains and takeover premiums

The Table presents Cross section results from the analysis on the tradeoffs between *Premium (-29;0)%* and executive Chairman gains for our sub-sample of 46 UK targets for 1997-2003. The independent variables are presented in the left hand side of the table. *Sum of gain dummies* is an indicator variable taking the value 1 if the executive Chairman is offered employment or receives special bonus from the buyer; *Officer* is a dummy variable taking the value 1 if the target firm executive Chairman joins the bidder's board as an officer following completion of the deal and 0 otherwise; *Director* is a dummy variable taking the value 1 if the target firm executive Chairman joins the bidder's board as a director following completion of the deal and 0 otherwise; *Subsidiary* is a dummy variable taking the value 1 if the executive Chairman joins a buyer's subsidiary following the acquisition and 0 otherwise; *Expected Retirement* is the number of years until the executive Chairman retires, calculated as the max{ 65-Age, 0}; *T/B Value* is the ratio of the target to bidder market value one month prior to the offer; *Share Ownership* is the ratio of shares owned by the executive Chairman over the total firm shares; *Value (Shares+Options)* is the value of shares plus the value of options held by the executive Chairman at the announcement; *CAR (-364;0)* is the cumulative abnormal return one year prior to the acquisition announcement; *Blockholder* is the percentage ownership of the highest (outside) target shareholder; *Duality* is a dummy variable taking the value 1 if the executive Chairman is also the CEO of the company, and 0 otherwise. $^{*, **, ***}$ indicate significance at the 1, 5 and 10% levels, respectively.

	Premium (-29;0)%					
	Full Sample		**Full Sample**		**Low EBC**	
	Coefficient	*t-statistic*	*Coefficient*	*t-statistic*	*Coefficient*	*t-statistic*
C	50.9	2.38	50.1	2.35	5.82	0.13
Sum of gain Dummies			-14.8	-0.93	18.3	0.39
Officer	-17.5	-1.04				
Director	-15.3	-0.62				
Subsidiary	10.2	0.42				
Expected Retirement	-3.75	-2.99***	-3.53	-3.09***	-1.29	-0.53
T/B Value	0.40	0.16	0.23	0.11	-0.65	-0.22
Share Ownership	11.9	0.19	2.26	0.04	-2874	-0.58
Value (Shares+Options)	-3E-03	-0.18	-7E-04	-0.18	0.01	0.44
CAR (-364;0)	36.5	2.66***	37.5	2.80***	55.1	2.44***
Blockholder	2.16	1.82*	2.25	1.95*	2.96	1.14
Duality	-26.4	-1.52	-28.8	-1.68*	-7.72	-0.18
Adj. R-sq	33%		38%		27%	

Table 11

Tradeoffs between other executive gains and takeover premiums

The Table presents Cross section results from the analysis on the tradeoffs between *Premium (-29;0)%* and other executive (who joins the bidders' board of directors upon completion of the bid) gains for our sub-sample of 53 UK targets and the sub-sample of some 27 with low EBC shareholdings for 1997-2003. The independent variables are presented in the left hand side of the table. *Sum of gain dummies* is an indicator variable taking the value 1 if the executive is offered employment or receives special bonus from the buyer; *Officer* is a dummy variable taking the value 1 if the target firm executive joins the bidder's board as an officer following completion of the deal and 0 otherwise; *Director* is a dummy variable taking the value 1 if the target firm executive joins the bidder's board as a director following completion of the deal and 0 otherwise; *Subsidiary* is a dummy variable taking the value 1 if the executive joins a buyer's subsidiary following the acquisition and 0 otherwise; *Expected Retirement* is the number of years until the executive retires, calculated as the max{ 65-Age, 0}; *T/B Value* is the ratio of the target to bidder market value one month prior to the offer; *Share Ownership* is the ratio of shares owned by the executive over the total firm shares; *Value (Shares+Options)* is the value of shares plus the value of options held by the executive at the announcement; *CAR (-364;0)* is the cumulative abnormal return one year prior to the acquisition announcement; *Blockholder* is the percentage ownership of the highest (outside) target shareholder; *Duality* is a dummy variable taking the value 1 if the CEO is also the executive Chairman of the company, and 0 otherwise.
*, **, *** indicate significance at the 1, 5 and 10% levels, respectively.

	Premium (-29;0)%					
	Full Sample		**Full Sample**		**Low EBC**	
	Coefficient	*t-statistic*	*Coefficient*	*t-statistic*	*Coefficient*	*t-statistic*
C	32.1	1.56	28.6	1.56	42.9	1.60
Sum of gain Dummies			3.43	0.30	-8.03	-0.45
Officer	41.3	0.54				
Director	-19.6	-1.13				
Subsidiary	3.38	0.25				
Expected Retirement	-0.02	-0.03	0.11	0.19	0.20	0.22
T/B Value	-4.68	-1.20	-2.71	-1.59	-2.42	-1.24
Share Ownership	-272	-0.47	-119	-0.24	-130	0.26
Value (Shares+Options)	0.02	0.73	0.02	0.80	0.01	0.52
CAR (-364;0)	-37.9	-2.56***	-34.5	-2.49***	-42.9	-1.45
Blockholder	0.64	0.99	0.04	0.07	-0.29	-0.29
Duality	15.4	1.01	15.3	1.14	9.92	0.51
Adj. R-sq	14%		6%		-17%	

Table 12

Tradeoffs between CEO gains and takeover premiums for US acquired Targets

The Table presents Cross section results from the analysis on the tradeoffs between *Premium (-29;0)%* and CEO gains for our sample of 31 UK targets acquired by US bidders for 1997-2003 and a sub-sample of 12 UK target CEOs with low (below median) EBC prior to the M&A. The independent variables are presented in the left-hand side of the table. *Sum of gain dummies* is an indicator variable taking the value 1 if the CEO is offered employment or receives special bonus from the buyer; *Officer* is a dummy variable taking the value 1 if the target firm CEO joins the bidder's board as an officer following completion of the deal and 0 otherwise; *Director* is a dummy variable taking the value 1 if the target firm CEO joins the bidder's board as a director following completion of the deal and 0 otherwise; *Subsidiary* is a dummy variable taking the value 1 if the CEO joins a buyer's subsidiary following the acquisition and 0 otherwise; *Expected Retirement* is the number of years until the CEO retires, calculated as the max{ 65-Age, 0}; *T/B Value* is the ratio of the target to bidder market value one month prior to the offer; *Share Ownership* is the ratio of shares owned by the CEO over the total firm shares; *Value (Shares+Options)* is the value of shares plus the value of options held by the CEO at the announcement; *CAR (-364;0)* is the cumulative abnormal return one year prior to the acquisition announcement; *Blockholder* is the percentage ownership of the highest (outside) target shareholder; *Duality* is a dummy variable taking the value 1 if the CEO is also the Chairman of the company, and 0 otherwise. *, **, *** indicate significance at the 1, 5 and 10% levels, respectively.

	Premium (-29;0) %					
	Full Sample		**Full Sample**		**Low EBC**	
	Coefficient	*t-statistic*	*Coefficient*	*t-statistic*	*Coefficient*	*t-statistic*
C	71.7	3.42	68.1	3.25	119	4.60
Sum of gain dummies			-18.5	-1.40	-58.4	-2.80***
Officer	-10.5	-0.49				
Director	-24.1	-1.48				
Subsidiary	-21.2	-1.60*				
Expected Retirement	1.60	1.53	1.33	1.26	0.67	0.52
T/B Value	-3.01	-0.68	-2.68	-0.61	82.2	0.41
Share Ownership	71.5	1.13	77.2	1.22	485	1.50
Value (Shares+Options)	-0.004	-3.45***	-0.003	-3.21***	-0.01	-0.34
CAR (-364;0)	-32.5	-1.91*	-29.7	-1.76*	-49.4	-1.59
Blockholder	-0.81	-1.17	-0.67	-0.99	-2.02	-2.27***
Duality	-14.7	-0.61	-19.9	-0.86	-15.9	-0.73
Adj. R-sq	45%		43%		25%	

Table 13

Tradeoffs between CEO gains and takeover premiums for UK acquired Targets

The Table presents Cross section results from the analysis on the tradeoffs between *Premium (-29;0)%* and CEO gains for our sample of 90 UK targets acquired by UK bidders for 1997-2003 and a sub-sample of 44 UK target CEO with low (below median) EBC prior to the M&A. The independent variables are presented in the left hand side of the table. *Sum of gain dummies* is an indicator variable taking the value 1 if the CEO is offered employment or receives special bonus from the buyer; *Officer* is a dummy variable taking the value 1 if the target firm CEO joins the bidder's board as an officer following completion of the deal and 0 otherwise; *Director* is a dummy variable taking the value 1 if the target firm CEO joins the bidder's board as a director following completion of the deal and 0 otherwise; *Subsidiary* is a dummy variable taking the value 1 if the CEO joins a buyer's subsidiary following the acquisition and 0 otherwise; *Expected Retirement* is the number of years until the CEO retires, calculated as the max{ 65-Age, 0}; *T/B Value* is the ratio of the target to bidder market value one month prior to the offer; *Share Ownership* is the ratio of shares owned by the CEO over the total firm shares; *Value (Shares+Options)* is the value of shares plus the value of options held by the CEO at the announcement; *CAR (-364;0)* is the cumulative abnormal return one year prior to the acquisition announcement; *Blockholder* is the percentage ownership of the highest (outside) target shareholder; *Duality* is a dummy variable taking the value 1 if the CEO is also the Chairman of the company, and 0 otherwise. *, **, *** indicate significance at the 1, 5 and 10% levels, respectively.

	Premium (-29;0) %					
	Full Sample		**Full Sample**		**Low EBC**	
	Coefficient	*t-statistic*	*Coefficient*	*t-statistic*	*Coefficient*	*t-statistic*
C	42.9	3.78	43.1	3.84	49.9	2.62
Sum of gain dummies			-15.7	-2.32***	-8.40	-0.79
Officer	1.47	0.12				
Director	-11.0	-1.22				
Subsidiary	-19.8	-2.57***				
Expected Retirement	0.80	1.36	0.78	1.33	0.15	0.16
T/B Value	-0.65	-0.65	-0.70	-0.70	-2.14	-0.75
Share Ownership	5.51	0.24	4.42	0.19	-321	-1.01
Value (Shares+Options)	-5E-6	-0.02	2E-5	0.06	0.03	1.99*
CAR (-364;0)	17.6	2.02**	19.0	2.22***	-5.40	-0.38
Blockholder	-0.09	-0.25	-0.04	-0.13	-0.13	-0.26
Duality	-8.20	-0.80	-8.30	-0.81	-16.4	-1.08
Adj. R-sq	8%		9%		5%	

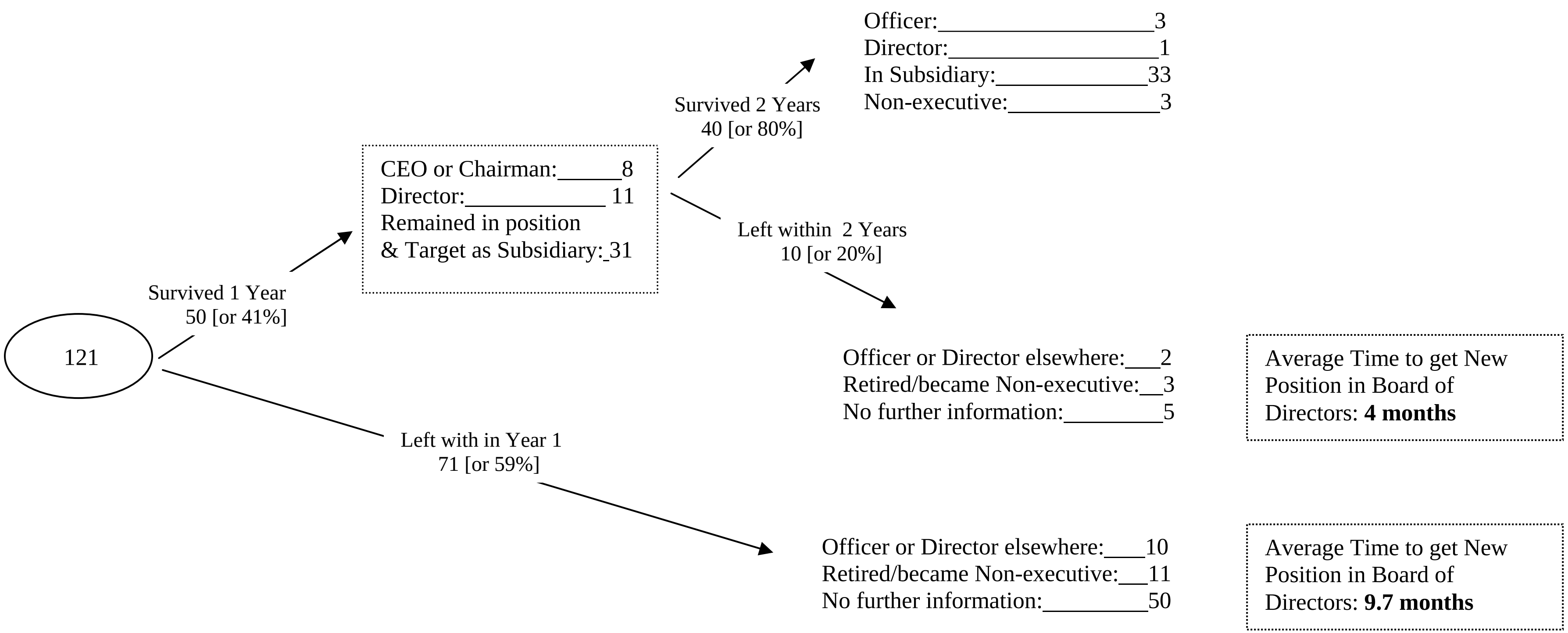

Figure 1. *Target CEO post-acquisition career paths*

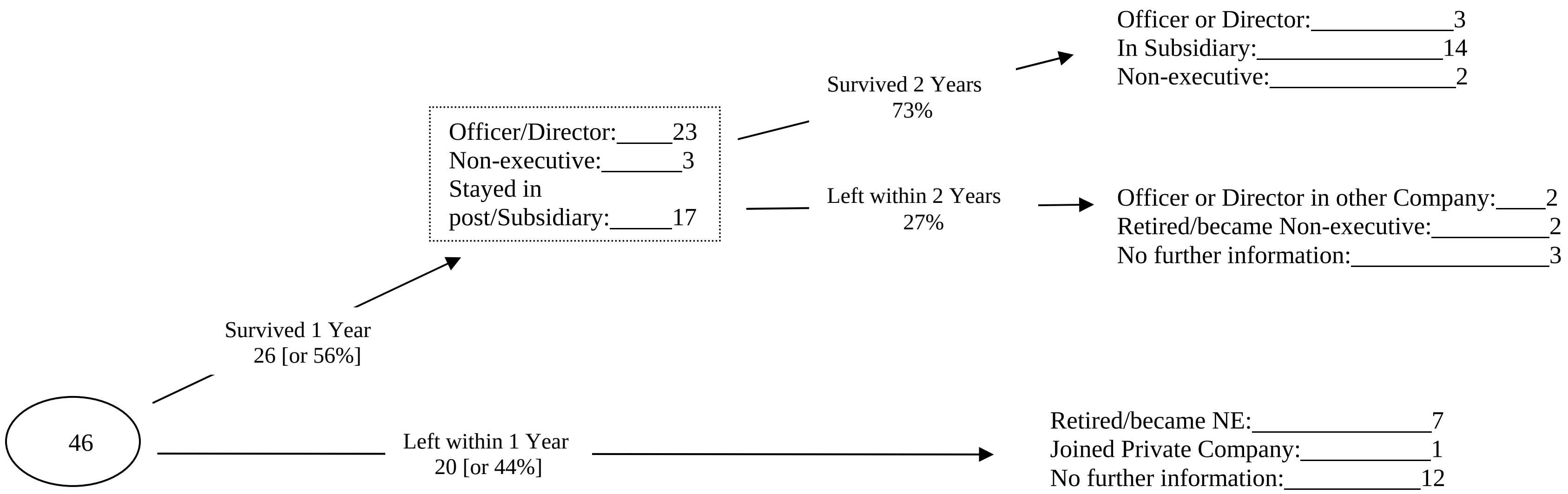

Figure 2. *Target executive Chairman post-acquisition career paths*