The Dynamics of Post-Merger Boards: Retention Decisions and Performance Effects

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Abstract

This paper examines the construction of 131 large company post-merger boards based on the characteristics of the pre-merger bidder and target board members during the period 1997 to 2002. The data set provides evidence that target director retention is more common amongst these firms than previous research suggests. For both bidders and targets, firm size does not appear to play a role in inside director retention but does appear to influence outside director retention. CEO experience is found to be a factor in retention of outside target directors only. While other board service involving more than two additional directorships is a factor in retention of bidder outsiders and target insiders only. Post-merger performance measured by ROA and market to book appears sensitive to the characteristics of departing directors.

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1. Introduction

This paper examines the construction of post-merger boards of large companies. As boards are responsible for monitoring internal controls, external reporting, and executive performance evaluation and compensation, the directors of all boards are likely to bring expertise in one or more of these areas. However, as firms and their operating environments change, in this case due to a merger, the membership needs of the board are likely to change. In the event of a merger, there is likely a surplus of expertise and potentially significant differences in the level of expertise in the different areas of board responsibility amongst board members. Therefore, in the event of a merger, boards must decide which board members and accompanying expertise to retain. However, to date most evidence suggests that target director retention and bidder director departure are fairly rare events.[1] Since the relative size of the bidder to the target may influence director retention, this paper focuses on merger activity engaged in by large companies in order to capture more merger activity that involves other large public companies. Further, this paper examines expertise factors in director retention in this targeted size context.

Just as a merger event may represent an opportunity to restructure the target firm, a merger can represent an opportunity to integrate superior practices and talent from the target firm into the newly merged firm. A natural consequence of integrating superior practices and talent from a target firm then is a form of restructuring of the bidding firm. Therefore, at the board level, it is possible that redundant, insufficient, or unneeded expertise is a problem, which leads to an expertise rebalancing process. By studying who remains or departs and post-merger firm performance, based on the individual characteristics of board members, an estimate of the desirability of skill sets amongst post-merger firms in terms of employee and non-employee directors is obtained.

This paper is unique in six ways.

First, to date expertise has not been an issue of focus in literature on post-merger boards. In board related literature, Fich (2005) finds market reactions to the appointment of directors with CEO experience is significantly higher than when appointments involve directors without CEO experience. Li & Ang (2000), Ferris & Jaganathan (2001), Ferris, Jaganathan, & Pritchard (2003), and Harris & Shimizu (2004) all document significant differences between directors who serve on a single board and those who serve on multiple boards. Specifically, these authors note that these directors often serve on the boards of large corporations that perform well relative to their peers across multiple dimensions. Given these findings, this paper examines if CEO experience and other board experience positively influence post-merger board retention among pre-merger directors of bidder and target firms.

Second, this paper examines what influences bidding director retention. To date bidding director retention as a topic of examination seems to be ignored due to an impression that bidding directors are by default unlikely to depart as a result of a merger or acquisition. This issue appears to stem in part from sample selection and attendant issues associated with relative

[1] Harford (2003), Davidson, et al. (2004), and Becher & Campbell (2005) with regard to this point are discussed in the literature section of this paper.

firm size within samples collected (discussed in the next paragraph). However, the sample collected for this paper suggests that departure of bidding directors is more common than previously thought.[2] If departure of bidding firm directors is in fact common, then understanding what motivates retention and departure amongst bidders can provide further insight into what characteristics of directors are most desirable. Since there is ample reason to conclude that employee (inside) and non-employee (outside) directors should differ, this paper examines retention of bidders by these categories. The evidence here suggests that holders of the titles bidder Chairman and CEO are highly likely to be retained by the firm. Other board service on more than two boards by employees of the bidder also increases retention by the post-merger firm. However, proximity to retirement appears to mitigate retention of employee directors of the target firm.[3] With non-employee bidding firm directors, other board service on more than two boards strongly influences retention while being a new member on the bidder's board is also quite influential. Age appears to play a role in outside bidder departure but proximity to retirement seems to play less of a role. (Extent of problem, why important, how is this addressed)

Third, this paper controls for the role of relative size both by selecting a sample where differences in the negotiating power and expertise of directors are less likely to be extreme and by using a relative size measure to capture differences associated with relative size. To date, Harford (2003) and Becher & Campbell (2005) appear to be the only examinations of post-merger board membership in terms of individual board members (instead of just the target firm's CEO). Due to the nature of Harford's study, relative size of the target firm and the acquiring firm is ignored, unlike in Becher & Campbell and Davidson, et al. (2004). Since the focus in Becher & Campbell is on banks, prior evidence about industrial and service firms comes from either Harford, which does not account for size, and Davidson, et al., which does not examine post-merger board membership in terms of individual board members. So by choosing to focus on large firms and their acquisitions of public companies and using a relative size measure, this

[2] Davidson, Sakr, & Ning (2004) do report comparable numbers for outside (non-employee) bidding directors but differ from this study with respect to inside (employee) bidding directors.
[3] Proximity to retirement is discussed further in two paragraphs.

paper focuses on cases where differences in negotiating power and expertise of directors is less likely to be extreme.[4]

Fourth, this paper controls for the role of director retirement in the context of post-merger board construction to eliminate the possibility that departure is unrelated to negotiating power or expertise. Harford (2003) reports that the median (and the mean) age of all directors in his sample is 60 years. Becher & Campbell find that the mean age of CEOs is approximately 55 to 56 years for both targets and bidders in their sample. Comparable to the results of Becher & Campbell, Wulf and Singh (2006) report that the mean age of CEOs in their sample is approximately 54 years for both targets and bidders in their study of CEO retention. Wulf and Signh recognize that CEO retention is likely partially influenced by proximity to retirement and use a dummy variable based on CEO age being in excess of 60 years to control for the influence of retirement on CEO retention. This paper takes a similar approach in examining retention of employee (inside) and non-employee (outside) directors of both the bidder and target firms despite the fact that Wulf and Singh do not find the variable significant in predicting CEO retention. Interestingly, it appears that retention of insiders at the bidding firm is sensitive to proximity to retirement.

Fifth, this paper controls for the characteristics of the acquiring firm (beyond relative size measures) such as bidder outsider percentage or bidder CEO power (duality) to determine if these are factors in retention. These measures, to date, do not appear in research on post-merger retention of directors despite evidence regarding the role of CEO power (duality) and board independence on other types of board decisions.[5] Here, the following evidence suggests that bidder board independence reduces retention of outsiders from the board of the bidder and increases retention of outsiders from the board of the target. Further, bidder CEO power (duality), according to the evidence, seems to increase retention of outside directors from the bidding firm.[6]

Sixth, this paper examines the directors who depart (and remain) relative to post-merger performance to assess what constitutes director dissent (or signs of potential trouble) versus

[4] Table 1, which follows, notes the average retention of target and bidder directors by insider and outsider affiliation for this paper, Becher & Campbell (2005), Davidson, et al. (2004) and Harford (2003).
[5] Cite references here regarding the role of board independence and CEO power (duality) in the context of research on other types of board decisions.
[6] Target outsider percentage (independence) and target CEO power (duality) do not appear significant with respect to retention of directors of either the bidder or the target regardless of whether the director is an employee (insider) or non-employee (outsider).

director retirement or the rebalancing of director expertise. To date this appears to be first paper to broach this issue in this manner. If markets perceive the departure of a board member to be due to dissent this is likely thought of as a sign of trouble which will adversely affect the market price of the securities of the post-merger firm, then such a perception will negatively affect the change a measure like the market to book ratio (which is also proxy for growth opportunities, which problems will hurt). However, these are purely market perceptions. Looking at the change in return on assets allows for an assessment of whether departing expertise adversely influences the actual results of the firm. With regard to the evidence on change in market to book, ownership of departing outside target directors decreases the change while blockholding and other board service (greater than two) of departing inside target directors decreases the change in market to book. With respect to the evidence on the change in return on assets, blockholding of departing inside bidding directors decreases the change. While departure of the target firm CEO reduces the change in market to book and departure of the target firm Chairman reduces the change in return on assets. Hence departure appears to imply consequences that may have predicated dissent and departure due to dissent.[7]

The following examination of retention amongst target directors represents both an advancement in the assessment of the robustness of prior merger related results and a new analysis of additional information (specifically, director specific characteristics such as CEO experience, other board experience, international experience, government experience, and measures of retirement[8]) chosen based on evidence from prior research on board composition.[9] In addition, given the paucity of knowledge about bidding director retention, applying a similarly comprehensive analysis to bidding directors is also a significant and new contribution. Further, examining post-merger firm performance with respect to departures represents a new approach to the analysis of the dynamics of post-merger director retention.

[7] There is almost a form of market efficiency at test here if factors that influence changes in return on assets also explain changes in market to book (which reflect market returns).
[8] Harford (2003) finds age is not significant while Becher & Campbell (2005) find age is significant in determining target director retention. Harford is looking at takeover attempts among industrial and service firms. Becher & Campbell are looking at consummated mergers among banks. However, the difference in the data between the two may not be driving this result but rather age is serving as a proxy for retirement.
[9] On CEO experience see Fich (2005). On other board experience, see Li and Ang (2000), Ferris and Jaganathan (2001), Ferris, Jagannathan, and Pritchard (2003), Harris and Shimizu (2004), Perry and Peyer (2005), and Fich and Shivdasani (2006). On international experience, see Daily, Certo, and Dalton (2000).

2. Literature Review & Hypotheses

Three recent papers that examine post-merger board construction warrant special attention in the context of this paper. Harford (2003) focuses on monitoring and ex-post settling-up in a takeover setting. Davidson, Sakr, & Ning (2004) focus on negotiation strength of the target firm and board. Becher & Campbell (2005) focus on director self-interest and governance efficacy in negotiation of a merger.

Table 1 summarizes Harford (2003), Davidson, et al. (2004), and Becher & Campbell (2005). In addition, Table 1 notes how this paper is constructed relative to the other papers. Not listed in Table 1 is the less closely related article of Keys and Li (2005). Keys and Li examine successful tender offers to determine what happens to outside directors (of target firms) who are *not* retained by the post-merger firm. Keys and Li find that, amongst 129 tenders of firms with a value of $100 million or more, new appointments of outside target directors after the merger are roughly three times more likely amongst directors that serve as an outsider on a board other than the target, versus outside directors who serve on only the target board. Keys and Li also find weak evidence that target firm size and pre-merger performance reduce the likelihood of post-merger appointments at other firms, while evidence is stronger that target board independence and tenure positively influence the likelihood of post merger appointment at other firms.[10]

Harford (2003) examines the financial impact on and the subsequent appointment likelihood of outside directors of firms targeted for acquisition. His analysis looks at Fortune 1000 firms receiving takeover bids between 1988 and 1991. The financial impact for target firm outside directors is negative with outside directors less likely to serve on new boards following the takeover attempt, whether the acquisition succeeds or fails. Harford finds that retention on the post-merger board of target outside directors is unlikely following a successful acquisition

[10] Keys and Li (2005) make two interesting points that this paper can help clarify.

First, Keys and Li note that the negative influence of target size on future appointment may be due to a self-selection bias (outside directors of large targets are more selective) or a size bias (appointments at all private firms are excluded). An alternative explanation is that an out of sample bias exists. Specifically, it is possible that the most desirable outside directors serve on the boards of large target firms and are in fact retained post-merger while those directors serving on the boards of smaller target firms are less desirable and often must depart.

Second, Keys and Li suggest that the positive influence of a larger target board size on future appointment may be due to the ability to distribute blame for poor performance that leads to a merger or acquisition more widely. This suggests that the perception may lack substance, whereas substance likely leads to such a perception. With larger boards the probability of shirking (or poorly functioning committees) likely increases as the number of board members increases. Hence, the level of deviations in quality and professional experiences is likely higher in boards of a larger size. In other words, the distribution of attributes such as quality may significantly differ between small and large sized boards.

and that only positive performance of the target prior to the announcement of an acquisition plays an important role in determining future service as an outside director on other boards. In terms of insiders, Harford finds that pre-bid performance, share block-holders, and service as CEO increase the likelihood of retention on the post-takeover attempt board, while acquisition hostility, acquisition by a private or foreign firm, and merger success reduce the likelihood of retention on the post-takeover attempt board. Harford concludes that his results support the ex-post settling-up hypothesis of Fama (1980) by noting that, in his analysis, directors terminating a bid for pecuniary reasons appear to harm their reputation in terms of future board seats.[11]

Davidson, Sakr, & Ning (2004) examine the relationship between retention of target directors and target firm size and performance and target board structure. Evidence indicates that insiders of relatively smaller market value targets are less likely to serve on the post-merger board. In addition, small percentages of insiders on target boards reduce the likelihood of post-merger board retention. For target outsiders, higher relative market value of the target also increases the likelihood of post-merger board retention. Davidson et al. surmise that their results support the hypothesis that bargaining power determines post-merger board construction and that bargaining power is a function of whether the merger is a form of disciplinary control or whether the merger is a form of strategic alliance.[12]

Becher & Campbell (2005) examine the influence of target premium on post-merger board service amongst target directors. As target premiums increase, the likelihood of director retention decreases suggesting that directors attempt to compensate for the loss of their board seat and any potential reduction in post-merger human capital (including seats on other boards). However, Becher & Campbell find that high individual share ownership amongst directors does increase the likelihood of post-merger board service suggesting that support or cooperation among such directors merits additional compensation. The data set is composed of 146 bank

[11] In a somewhat different vein and prior to Harford (2003), Brown and Maloney (1999) examine acquisition performance given the acquiring boards' mix of insiders and outsiders, turnover amongst insiders and outsiders, stock-holdings, firm size, board size, target firm stock performance, and percentage of acquisition price paid in cash. Brown and Maloney find that high inside director turnover and low outside director turnover amongst acquirers is associated higher acquisition announcement returns. This evidence, Brown and Maloney note, suggests that outside directors choose to exit the board when they perceive their influence over acquisition decisions or managerial execution to be weak. This result is in keeping with Mace (1971) and Jensen (1993) in suggesting that outside director exit is a less costly alternative to replacement of, or to challenging, problematic managers and decisions.

[12] A limitation of Davidson, Sakr, and Ning (2004) is the choice to use an endogenous variable representing ownership in the post merger firm, versus the choice in both Harford (2003) and Becher & Campbell (2005) of using *target* share ownership and *target* blockholders as variables. In each paper, the variables representing share ownership are often significant.

mergers during the period 1990 to 1999. Becher & Campbell argue that these results are support for a hypothesis that directors bargain out of self-interest first and that only alignment of director interests with shareholder interests leads to evidence of efficient corporate governance.[13]

A. Hypotheses

Since Fich (2005) finds that markets appear to react favorably to the appointment of outside directors with CEO experience under normal conditions, one might conclude either that such a choice is likely favorable in the unusual circumstances of merger or acquisition or that such circumstances make such a choice either unimportant or unfavorable. How the latter may occur is if other factors significantly outweigh the influence of CEO experience. For example, ownership in the firm, title of the director if they are an employee, and experience on multiple other boards as a director may make CEO experience insignificant.

> *Hypothesis 1: Pre-merger directors with CEO experience are more likely to be retained by the post-merger board of directors when controlling for firm and transaction influences and when segregated by insider and outsider and by bidder and target.*

Li & Ang (2000), Ferris & Jaganathan (2001), Ferris, Jaganathan, & Pritchard (2003), and Harris & Shimizu (2004) all document significant differences between directors who serve on a single or no other board and those who serve on multiple boards in the context of board construction. Such results suggest that service as a director on other boards may factor into the retention or departure of pre-merger directors on the post-merger board. Two possible and opposite outcomes may occur. First, retention may occur because of the expertise and the clear signal that multiple board service entails. Or, second, departure occurs because of the extensive pre-existing commitments that multiple board service entails and increasing demands associated with merger post-merger activities.[14]

> *Hypothesis 2: Pre-merger directors with other (or multiple) board experience are more likely to be retained by the post-merger board of directors when controlling for firm*

[13] As suggested in Davison, Sakr, and Ning (2004), but not argued in Becher and Campbell, 2005, it is plausible that target premium represents a measure of acquirer control of the target firm post-acquisition. Said differently, low target premiums represent an attempt at cooperative control of the target firm while high target premiums represent a shift of total control to the acquirer.

[14] This second outcome seems less likely. Mergers likely require significant commitments from board members prior to closing and so director departures due to outside commitments after the closing implies that post-merger demands are much higher than pre-merger demands on directors.

and transaction influences and when segregated by insider and outsider and by bidder and target.

Both of the previous hypotheses are heavily based on prior results on board construction. This next hypothesis is as well but in a more indirect manner.

Positive market reactions to the appointment of outside directors with CEO experience or service on multiple (other) boards suggests that such directors positively influence the performance of the firm post-appointment. If a relationship between certain directors and post-appointment firm performance does exist under normal circumstances, then such a relationship between certain directors and post-merger appointment firm performance may exist as well.

Hypothesis 3: Characteristics of inside and outside directors, departing and retained, from bidding or target firms influence future performance when controlling for other variables.

4. Data & Methodology

To address differences in the negotiating power and expertise of directors due to the role of relative size of merging firms in the sample, larger firms are sought in the construction of the sample. Further, mergers and acquisitions examined are constrained to those involving large firms and other publicly listed firms. Requiring firms be publicly listed ensures that data accessibility and sufficiency issues are limited and that differences associated with board service amongst private firms are not introduced. The sample of large firms comes from the Forbes 500 annual study of public firms.

Forbes prepares four lists for their annual Forbes 500 issue. The four Forbes 500 lists are by market value, sales revenues, total assets, and corporate profits. Only firms on *all four* Forbes 500 lists in the same year, during any year within the period 1997 to 2002, are eligible to be included in the data set.[15] If a firm is eligible and merges during the period 1997 to 2002, then the records within the data set represent the directors for both pre-merger firms and the surviving directors of the post-merger firm. There are 131 mergers (262 companies) during the period

[15] Agrawal and Walkling (1994) use a similar methodology to collect a sample of 182 firms involved in acquisitions during the period 1980 to 1986 for studying executive compensation and careers around takeovers. At that time, Agrawal and Walkling note, the four lists were composed of roughly 800 firms. From 1997 to 2002, the four lists contain 1460 firms. Requiring firms to appear on all four lists for at least one year during the period brings the number of firms to 438. Of the 438 firms that appear on all four lists only 109 appear on all four lists for all six years in the sample. Between 228 (2000) and 277 (1997) firms appear on all four lists in a single year between 1997 and 2002.

1998 to 2002 involving firms that appear on all four lists during the period 1997 and 2002 after excluding firms that merge with a foreign partner (15) and firms with data sufficiency problems (4). Of the 131 mergers, 45 involve financial services firms (banks, brokers, or insurers) and 15 involve utilities (water, natural gas, or electricity generation or delivery). Merger terms include 10 all cash, 19 mixed cash and stock, and 102 all stock deals amongst the 131 mergers. Of the six mergers described as hostile, five were industrial mergers and one was a financial merger. While of eight mergers involving multiple firms bidding for the target, five were industrial mergers and three were financial mergers.

Data for board member characteristics comes from the biographies provided within proxy statements filed with the Securities and Exchange Commission's EDGAR system. Firm financial statement items come from the annual reports of the firms available through Research Insight (COMPUSTAT). Announcement dates, merger approval dates, and merger completion dates come from LEXIS-NEXIS news searches. Confirmations of closing announcement dates, which are not always publicized, come from CRSP by examining when reporting ceases.

Mergers involve three important dates. First, mergers usually have a formal announcement associated with a submitted bid that has either been accepted or rejected by the target's board of directors. This will be referred to as the announcement date, t_a. Second, mergers usually require shareholder approval. However, due to regulatory or legal matters, mergers do not always close on the same day that shareholders vote their approval. Hence, a third date, the merger completion date, t_c, usually marks the end of the merger process. The merger completion date is usually when the shares of the target cease trading and an announcement is made that the merger transaction is completed.

When measuring transaction and target or bidder characteristics, many of the definitions are based on values at the announcement date or the merger completion date. For example, Target premium is measured as the equity market value of the target at the merger completion date (t_c) relative to a six-week average of market value, eight weeks prior to the announcement date (t_a) of the merger (t_a–70 to t_a–40). Market values of equity are measured eight weeks prior to the merger announcement (t_a–40) or eight weeks after the merger completion (t_c+40). Since relying on just one date runs the risk that a significant news event influences the observation, average market values are used and are calculated based on a thirty trading day window eight weeks prior to the merger announcement (t_a–70 to t_a–40) and eight weeks after the merger completion (t_c+40 to t_c+70). Measuring pre-bid performance is by cumulative equity return from t_a–120 to t_a–41. Relative Size is measured as the average market value of equity for the bidder divided by the average market value of equity for the target.

Pre-announcement assets and book value of bidder and target come from the last 10Q or 10K filed prior to the announcement of the merger. Post-completion assets and book value of the successor firm come from the first 10K filed after the completion of the merger. The choice to use post-completion assets and book value from the first 10K reflects the expectation that merged firms are more likely to recognize charge offs and merger related costs as part of preparing their audited annual statements. Unfortunately, by using the first 10K, it is possible that a significant amount of time may lapses between the completion of the merger and the first 10K. However, since not all mergers reach completion quickly, it already is possible for a significant amount of time to lapse between announcement and completion, which means that the sense of precision from using the first 10Q or 10K may be artificial, especially in light of the idea that merger related write-off may not be recognized until the next 10K. Return on assets is measured pre-bid and post-completion using 10Ks for the same reason.

A. Summarizing the Data Set

Panel A of Table 2 breaks down the dataset with respect to bidder and target director service on post-merger boards classified by firm type (industrial, financial, and utility). Interestingly, less than one in five mergers involve none of the target directors serving on the post-merger board. Further, it appears that roughly one in twenty mergers involve both the retention of all bidding directors and the dismissal of all of the target directors. In terms of significance, examining Panel A, with the exception of the frequency of two-digit SIC matches among utilities, there does not appear to be a statistically significant difference when looking at the different firm types (industrial, financial, and utility) regarding post-merger service.

With respect to retention, target directors are significantly less likely to serve on the post-merger board than bidding firm directors. Perhaps a more surprising result is that the frequency of target director retention in the sample of this paper is significantly higher than that found in previous studies (also listed on Panel A of Table 2). This suggests that relative size differences play a significant role in either bargaining power or director expertise or both.

Panel B of Table 2 presents summary statistics for the bidders, the targets, and the transaction by firm type. Utilities significantly differ from the industrial firms in the sample only with respect to the bidder's market value of equity (pre-merger), which is on average smaller than that of the industrial firms. Financial firms significantly differ from the industrial firms in the sample with respect to total assets (pre-merger) and the presence of a block-holder for both the bidder and the target. Both bidder and target financial firms are larger in terms of total assets and have fewer block-holders than the respective industrial firms in the sample have. Financial firms also differ significantly from the industrial firms with respect to their larger average relative size as measured by bidder to target.

Looking at previous studies, with respect to industrial firms, the firms in Davidson et al. (2004) are significantly smaller and the relative size of bidders to targets is much larger than the sample collected for this paper. In a recent study using a large-firm oriented sample associated with merging firms, Hartzell et al. (2004) examines 309 acquisitions by large industrial firms during the period 1995 to 1997. The Hartzell et al. study, which focuses on CEO careers, has a median bidder to target ratio of 3.15 while this study has a median bidder to target ratio of 2.50. The size of the bidder and the target industrial firms in this study are on average 7.8 times the size of the firms in Hartzell et al. With the respect to financial firms, the banks in Becher & Campbell (2005) are significantly smaller then sample collected for this paper but the relative size relationship seen is comparable.

Panel C of Table 2 displays summary statistics for directors in the data set segregated by insider and outsider status and by bidder and target membership. As previously noted, retention of insiders and outsiders serving on the board of directors of the bidding firm is at a significantly higher level of frequency than insiders and outsiders serving on the board of the target firm. This data set appears to differ in retention rates from Harford (2003), Davidson, Sakr, and Ning (2004), and Becher and Campbell (2005) in terms of higher levels of target director retention.[16] Statistics regarding director characteristics do not appear to differ significantly from evidence from prior research.

In terms of employee director characteristics, Panel C of Table 2 indicates that, within the data set, the frequency of other board service of insiders significantly differs between the bidders

[16] Table 1 presents the levels of retention in the referred to articles. Only outsider retention of bidders in Davidson, Sakr, and Ning (2004) is not statistically different from the data in this data set. All other levels listed are statistically different at the 1% level.

and the targets. In addition, it appears that the frequency of new employee directors is higher amongst bidders. These findings suggest that other board service experience amongst employee directors is sensitive to firm characteristics and that target firms may anticipate acquisition and avoid new employee director appointment as a response. Although, it is possible that bidders appoint new employee directors in anticipation of acquisitions.

Turning to the characteristics of outside directors, Panel C of Table 2 indicates that other board service, CEO experience, and international experience is significantly more common amongst bidder firms. Given these findings, it is possible that higher outside director retention amongst bidder firms is attributable to differences in experience characteristic between bidder and target firms. Interestingly, government experience levels are nearly identical between bidder and target firms, which suggests that government experience, while likely important in different contexts, is likely irrelevant in the context of mergers and acquisitions.[17]

B. Methodology

The methodology applied in the analysis of the data for hypotheses 1 and 2 is logistic regression. In these regressions the dependent variable is a dummy variable which represents whether a director is retained (1) or departs (0) as a result of the consummation of the merger of two firms. Regressions are grouped into four categories based on whether the director serves the bidder or the target and whether the director is an employee (insider) or a non-employee (outsider). Table 3 presents the format of this test and notes how this test differs from Table 6 of Harford (2006) which represents the most closely associated study in this area. In addition, this table notes predicted signs including positive signs for CEO experience and other board service. The format for these regressions is shown in equation (1).

$$Retention(0,1)_i = \alpha + \beta(TRX_i) + \beta(DIR_i) + \beta(TAR_i) + \beta(BID_i) + \beta(IND_i) + \varepsilon \qquad (1)$$

where:
TRX = Transaction Characteristics
DIR = Director Characteristics
TAR = Target Firm Characteristics
BID = Bidding Firm Characteristics
IND = Industry Controls

[17] Examining this further using firm types (financial, utility, and industrial) is possible and is probably a fruitful exercise.

Five categories of variables are employed in testing director retention. First, *transaction characteristics* are included. Transaction characteristics are four binary variables, which indicate whether the merger was hostile, involved multiple bidders, involved an all cash payment, or involved an all stock payment at consummation of the merger. In addition, the target premium is used as a transaction characteristic. Second, *director characteristics* are included. Director characteristics are binary, except for age, tenure and share ownership, and include other (outside) board service experience, CEO experience, international experience, government experience, firm title (if applicable, CEO, Chairman, or both), block-holders present, and age within range of retirement (specifically age greater than 61 years).[18] Third and fourth, *target and bidder firm characteristics* are included. Target firm characteristics included are pre-bid performance, bidder to target size, target outsider percentage, and whether the target's CEO is Chairman of the board. Bidder firm characteristics included are bidder outsider percentage and whether the bidder's CEO is Chairman of the board. Finally, *control characteristics* are included. Control characteristics are four binary variables, which indicate whether firms are financials or utilities and whether the merging firms match with respect to SIC codes at the two-digit or the four-digit level.

The methodology employed in the analysis of the post-merger performance data of hypothesis three is OLS regressions. Regressions are segregated by whether directors are from the bidding or the target firm, whether the director is retained or departs, and whether the director is an employee or an outsider. In these regressions, the independent variables are the same as those used in testing of director retention and the dependent variable is either change in return on assets (profitability) or change in market to book (growth opportunities). Table 4 presents the format of this test. In addition, this table notes predicted signs including a negative sign for ownership, block-holding, CEO experience, and multiple other board experience for departing board members. The format for these regressions is shown in equation (2).

[18] Wulf & Singh (2006) define proximity to retirement based on an age greater than 60. Other research on board construction has used similar measures (an early reference is Hermalin & Weisbach, 1988). The choice to use greater than 61 years for retirement reflects the average age of outside directors falling at just above 60 years and the average insider age of approximately 56 years. Setting the age of retirement proximity below the average age of an outside director and less than 5 years after the average age of an insider seemed inappropriate.

$$\Delta\frac{MV}{BV}(or\ \Delta ROA)_i = \alpha + \beta(TRX_i) + \beta(DIR_i) + \beta(TAR_i) + \beta(BID_i) + \beta(IND_i) + \varepsilon \qquad (2)$$

where:
TRX = Transaction Characteristics
DIR = Director Characteristics
TAR = Target Firm Characteristics
BID = Bidding Firm Characteristics
IND = Industry Controls

Tests of hypothesis three analyze the change in market to book and the change in return on assets. Both changes for target firms and for bidding firms are analyzed. The change is defined as the beginning ratio less the ending ratio. The beginning ratio is based on data 30 days prior to the first announcement by the winning bidder. The ending ratio is based on data one year after the completion of the merger (in some cases, the date of the approval of the merger is used as no formal announcement of the completion of the merger occurs, which often happens when the approval represents the actual completion as no regulatory hurdles remain).

5. Results

A. Director Retention & Characteristics

Table 3 presents the results of tests of hypotheses 1 and 2. In these tests, the dependent variable is an indicator of retention on the post-merger board and the independent variables are the characteristics of the transaction, the directors, the bidding firm, and the target firm.

With respect to hypothesis 1, that pre-merger directors with CEO experience are more likely to be retained by the post-merger board, the evidence rejects this conclusion except in the case of target outside directors. Retention of a target outside director appears to increase significantly with CEO experience. The only other significant factors influencing the retention of target outside directors relate to the characteristics of the two firms merging and the merger transaction.

However, employee directors that serve as Chairman and CEO of either the bidding or the target firm are significantly more likely to serve on the board post-merger. Interestingly, employee directors of the target that serve either as the Chairman or the CEO are also significantly more likely to serve on the post-merger board while this is not the case for employee directors of the bidder who have the same titles. In conjunction with evidence that bidder employees reaching an age associated with retirement significantly reduces the likelihood of retention, these results suggest that succession plans involving target employee directors replacing retiring bidder employee directors are occurring within the data set.

With respect to hypothesis 2, that pre-merger directors with other board service experience are more likely to be retained by the post-merger board, the evidence rejects this conclusion only in the case of target outside directors. Retention of a director appears to increase significantly with service as an outside director on more than two boards. Interestingly, the evidence suggests that serving as an outside director on one or two boards is inadequate to ensure retention after a merger for all directors of the bidder or the target. Interestingly, retention of new outside directors of the bidding firm, who are likely to serve on less than three boards, is highly likely. Frequent retention of new outside directors of the bidder suggests that contracting or transaction costs associated with recruiting and retaining new directors are quite high and that some efforts are made to ensure that the investment in new directors is allowed to flourish.

Keys and Li (2005) find that future appointments of outside target directors *to an outside board*, subsequent to a merger, are influenced positively by director tenure and an other board service measure. Table 3 does not match these results when examining target director retention *by merging firms*. This result may purely be attributable to the difference between the subsequent appointment to an outside firm after a merger of director who is not retained post-merger and the retention on the post-merger board. It is also possible that the variables of other board service and director tenure proxy for CEO experience.

Looking at Table 3 the evidence is consistent Harford (2003) with respect to target firm CEO retention. Ownership and blockholding (in Harford) also appear to suggest consistency in results. Harford's evidence indicates that target pre-bid performance measured by industry adjusted ROA over the prior four years is significant. However, Table 3 measuring target pre-bid performance in terms of increases in the market value of equity (over a six-week period, eight-weeks prior to the merger announcement) is not significant.

Harford's only significant and positive term in examining retention of outside target directors is the intercept. On Table 3, CEO experience and the percentage of outside directors of the bidder are both significant and positive with respect to target outsiders. Finding that CEO experience is significant supports the Fich (2005) argument that CEO experience is perceived and is likely to be desirable amongst those given the responsibility to evaluate the performance of a CEO. The percentage of outside directors finding seems consistent with Hermalin &

Weisbach (1988) findings regarding the role of this variable with respect to outside director appointment.

Davidson, Sakr, and Ning (2004) find evidence that the percentage of target employee directors on the board of the combined firm is sensitive to the relative size of the firms and to the percentage of target insiders on the board of the target firm. Interestingly, evidence regarding target employee director retention on Table 3 does not find these variables, in the form of bidder to target size and target outsider percentage, to be significant. However, relative size of the firms engaging in a merger is positively significant in determining the percentage of outside target directors serving on the post-merger board according to Davidson, Sakr, and Ning (2004) and this result is consistent with Table 3 (allowing for a sign reversal owing to an inverted variable definition).

Becher and Campbell (2005) find evidence that target director retention amongst banks is significantly influenced by the target merger premium, the ownership of the individual director, the relative size of the firms, and the director's age (in the case of outside directors only). With respect to employee directors, Table 3 evidence is only consistent with respect to the ownership of the individual director but since Becher and Campbell segregate CEO and Table 3 does not, it is possible that this is the source of the inconsistency. Perhaps more inconsistent is that Becher and Campbell find a significantly negative intercept associated with target CEOs while Table 3 has a positive coefficient for target firm CEOs. While the difference, which suggests non-retention in one case and retention in the other, may be attributable to differences between banks and a cross-section of large firms including industrials, financials, and utilities, such a conclusion in the absence of further evidence cannot be drawn.

With respect to target outside directors, Becher and Campbell's findings are consistent with Table 3 for target premium and for relative size (the sign is reversed as the measure is inverted). However, Becher and Campbell find director age and ownership are significant while Table 3 does not support these findings. It is possible that the difference in results is due to the additional measures of director experience or due to differences in the data sets (banks versus a cross-section of large firms including industrials, financials, and utilities).

B.1. Post-Merger Performance & Director Retention - Outsiders

Table 4 has two panels. Panels A and B present the influence of outside director retention and departure on firm performance. Panel A presents bidding firm directors and Panel B presents target firm directors.

Looking at bidding outside director characteristics on Table 4 Panel A, director departure positively influences firm profitability performance when outside directors with international experience depart. This result suggests that the departing of bidding directors with international experience may indicate a resolution to an existing profitability problem.

No clear evidence of bidding outside directors departing based on dissent appears within the results. This finding implies that directors who dissent with the bidder's choice to merge exit the bidding firm either before or after the merger occurs. In cases where the time between target selection and merger completion is lengthy, it is likely that dissenting directors exit well prior to the announcement of a merger or acquisition.

Interestingly target CEO power (duality) and all cash payment do appear to negatively influence profitability when outside bidding directors depart. CEO power may have less to do with dissent and more to do with operational problems at the bidding firm which may have led to the merger in order to bring in new management from the target. While cash payment may reflect issues with the investment opportunity set available to the bidding firm.

Looking at target outside director characteristics on Table 4 Panel B, director departure negatively influences firm profitability performance when outside directors with international experience depart. This result suggests that the departing of target directors with international experience may indicate an expanding profitability problem. Growth opportunities are negatively influence by the departure of target outside directors with significant ownership, and are new to the board, while positively influenced by limited other board service experience. These results suggest that outside target director shareholdings positively influence firm growth, possibly due to participatory incentives and incentive alignment. In addition, the results suggest that experienced outside target directors with limited other board experience are perceived to be less influential in developing firm growth opportunities while new board members are likely chosen to address current concerns at the target firm and thus their departure is seen as a potential abandoning of those current concerns.

Looking at target outside director characteristics on Table 5 Panel B again, director retention negatively influences firm profitability performance when outside directors served on a target firm with a block-holder. This result suggests that the credibility or monitoring ability of the outside director may be attributed to the presence of block-holders and hence the beginnings of a profitability problem. Growth opportunities are influenced negatively by the retention of target outside directors with less than a year of service to the target board prior to the merger. This result suggests that outside target directors with limited experience are unlikely to influence positively firm growth. In addition, outside target director age and service in the presence of a block-holder positively influence growth opportunities, which suggest that experience in general and with block-holder present in particular are favorable signs regarding growth.

B.2. Post-Merger Performance & Director Retention - Insiders

Table 5 has two panels. Panels A and B present the influence of inside director retention and departure on firm performance. Panel A presents bidding firm directors and Panel B presents target firm directors.

Looking at bidding employee director characteristics on Table 5 Panel A, director departure negatively influences firm profitability performance when target directors who served on a firm with a block-holder depart. This result may indicate that service experience as an employee director in the presence of a block-holder increases director effectiveness on profitability issues. Growth opportunities are positively influence by the departure of bidding employee directors with significant ownership and international experience. These results suggest that director shareholdings can adversely influence firm growth, possibly due to risk aversion, and that international experience may be most desirable when firms are struggling with growth. An alternative explanation may be that board serving employees with extensive ownership are likely to be senior officers and their departures are perceived as a commitment by the board to aggressively pursue new growth opportunities.

Looking at bidding employee director characteristics on Table 5 Panel A, director retention negatively influences firm profitability performance when directors with international experience are retained. This result may indicate that international experience amongst employee directors is desirable when a board's objective is to improve declining profitability through internationalizing operations. Growth opportunities are positively influence by the retention of bidding employee directors with limited other board service, which suggests that director service experience is a source of ideas for firm growth.

Looking at target employee director characteristics on Table 5 Panel B, director departure negatively influences firm profitability performance when the target director served as the firm's Chairman. This result may indicate that a split leadership structure increases profitability and that eliminating the target firm Chairman decreases effectiveness on profitability issues. Growth opportunities are positively influenced by the departure of target employee directors with limited other board service, while negatively influenced by the departure of target employee directors with extensive other board service. In addition, growth opportunities are negatively influenced by the departure of target CEOs and the departure of directors who served on a target with a block-holder present. These results suggest that extensive director experience with the firm or through serving other firms can favorably influence firm growth, especially when experienced with the monitoring influence of a large block-holder.

Looking at target employee director characteristics on Table 5 Panel B, director retention negatively influences firm profitability performance when directors with long director tenure or with less than a year of tenure are retained. This result may indicate that new or seasoned experience amongst directors is desirable when a board's objective is to improve declining profitability.

C. Post-Merger Performance & Target, Bidder, and Transaction Characteristics

Higher target premiums on Tables 4 and 5 significantly increase the value assigned to growth opportunities when bidding directors are retained and when target outsiders depart. Interestingly, growth opportunities significantly increase whether a target employee director departs or remains as target premiums increase. These results are consistent with the construct that the target premium paid influences or represents the level of corporate control the bidder attains post-merger.

Return on assets generally increases significantly with a higher target premium, except in the context of analyzing target employee directors, where the value is significant and negative. This result implies profit opportunities are accurately communicated in the target premium as a premium for growth and profitability is paid by bidders for the target. However, evidence seems to suggest that target premium is a significant variable that is independent of retention (or departure) when examining the change in ROA. The profitability result is consistent with the idea that less profitable bidders seek more profitable targets for acquisitions.[19]

Hostile transactions appear to increase return on assets significantly when the removal of bidding directors occurs and appear to decrease return on assets significantly when outside target director are retained. Generally, this suggests that hostile transactions require the dismantling of governance structures at the target but also some transition within the bidder to produce profitability.

All stock payments appear to improve significantly return on assets regardless of which director is retained while all cash payments appear to generate mixed and significant reactions in terms of return on assets. Some of the accounting for all stock versus all cash transactions doubtlessly plays a role in this result. However, there may also be a difference in managerial behavior regarding a need for an immediate impact on return on assets when equity rather than cash is the mode of payment. Interestingly, growth opportunities appear to react in a significant and positive way to all cash but not to all stock payments. Perhaps, a perception of credibility or conviction is associated with cash payments, more so than equity payments, or such deals are more associated with purchasing of higher, rather than comparable, growth opportunities.

Target CEO service as Chairman of the board generally appears to be associated with a decline in return on assets post merger and an increase in growth opportunities. Such a finding suggests that splitting of the CEO and Chairman responsibilities is a response to poor performance and hence fast growing and profitable (well performing) companies do not split the CEO and Chairman responsibilities.

Target outsider percentage appears to influence positively post-merger profitability and to influence negatively growth opportunities. These results suggest that pre-bid growth opportunities are generally not associated with a high percentage of outsiders on the target board but that profitability generally is associated with a high percentage of outsiders on the target board. Said differently, the monitoring and the decision making process of a board appears to take different forms based on the level of profitability and the rate of growth of the target firm.

High pre-bid target performance is associated with a negative impact on profitability when target outside directors depart and a negative impact on growth opportunities when target

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[19] Just as a reminder, the change in ROA for targets is measured as the target ROA pre-merger less the combined firm ROA post-merger. While the change in ROA for bidders is measured as the target ROA pre-merger less the combined firm ROA post-merger.

employees depart. While it is possible to interpret this result as a mistake by the board of directors in not retaining the target directors of high pre-bid performing firms, it is more likely that these firms are acquired for their high levels of profitability and desirable growth opportunities by firms with lower levels of profitability and less desirable growth opportunities.

Industry variables indicate that retention of directors associated with a close match (4-digits) is associated with declining growth opportunities while the departures of directors in a close match are associated with increasing growth opportunities. Interestingly, the opposite is true when considering a relatively close match (2-digits). These result suggest that retaining talent in the same industry implies that the merger was in part to acquire talent in order to improve the performance of the bidder. Whereas, retaining talent in a related industry implies that the bidder acknowledges limits in their capacities to manage that related industry.

Relative size appears significant only in the context of retained bidding outsiders and departing target outsiders. In both cases, relative size influences growth opportunities.

Firm size as measured by pre-bid assets and pre-bid book both positively influence retention of outsiders. This finding suggests that experienced outside directors with service experience on the boards of large firms are a desirable commodity. In addition, this finding explains a little more about the weak relative size finding associated with outside directors.

6. Conclusions

In this study evidence of sensitive consideration to post-merge board construction is found. According to the results presented here, the probability of target outside director retention is higher amongst those directors that have CEO experience than not, which is not surprising given the results of Fich's (2001) work. Amongst bidding outsiders, however, other board service on more than one or two other boards increases the probability of retention and this is found for target insiders as well. Amongst inside directors, bidders with the dual role of Chairman and CEO have high probabilities of retention and targets who serve as CEO, Chairman, or both also have a high probability of retention.

This study also finds evidence that suggests that post-merge board construction influences profitability and growth opportunities. Interestingly, the characteristics of outside bidding directors appear to be of limited influence while the characteristics of outside target directors and the employees of both the target and the bidder influence profitability and growth.

Departed target employees appear to be associated with significant decreases in growth opportunities suggesting that either low growth bidders acquired high growth firms or removal of target employees may hurt post-merger performance.

No evidence of bidding outside directors departing based on dissent appears within the results. This finding implies that directors who dissent with the bidder's choice to merge exit the bidding firm either before or after the merger occurs. In cases where the time between target selection and merger completion is lengthy, it is likely that dissenting directors exit well prior to the announcement of a merger or acquisition.

Table 1 – Summary of Literature & Contribution – Which Directors Serve on Post-Merger Board

Author(s)	Harford (2003)	DS & N (2004)	B & C (2005)	*This Paper*
Population	Target Directors	Target Directors	Target Directors	*Bidder & Target Directors*
Timeframe & Dataset	Takeovers: 1988-1991, Directorships: 1991-94; 91 *Fortune 1000* targeted firms; 860 directors in Table 6	1996-1998; 96 Industrial or Service firm mergers; *Merger Stat Transactions*	1990-1999; 146 Bank mergers; Assets ≥ $1 Billion	*1997-2002; 131 mergers involving a firm on all four Forbes 500 lists*
Average Target Size		TMV = $839 Million	A = $11.2 Billion	*A=$24.2B, MVE=$9.0B*
Average Bidder Size		TMV = $11.4 Billion	A = $37.7 Billion	*A=$47.0B, MVE=$25.4B*
Target Insider Retention Average	**19.1%***** (53 of 277)	**19.58%***** (47 of 240)	**11.40%***** (52 of 456)	*33.53% (114 of 340)*
Target Outsider Retention Average	**9.9%***** (58 of 583)	**10.88%***** (47 of 432)	**11.23%***** (186 of 1656)	*29.17% (332 of 1138)*
Bidder Insider Retention Average		**96.77%***** (240 of 248)	**95.49%***** (487 of 510)	*82.08% (284 of 346)*
Bidder Outsider Retention Average		83.43% (453 of 543)	**93.49%***** (1839of 1967)	*83.40% (1052 of 1261)*
Hypotheses	Completed mergers reduce retention and board service opportunities and terminated mergers reduce board service and opportunities for board service. Decent prior performance mitigates this effect.	Retention will depend on negotiation strength measured by relative size and performance (small size, high percentage of outsiders, and large shareholdings among directors).	Retention will depend on target premium and will depend on share ownership.	*CEO experience and other board service increase the likelihood of post-merger retention among inside and outside directors of both target and bidder firms. Post-merger departure and retention of director influences performance.*
Results	Retention among outside directors: positive intercept, negative if taken private, merged with a foreign firm, or merged. Retention among insiders: blockholder, CEO, and performance are positives, while hostile takeovers, taken private, merged with a foreign firm, or merged are negative.	Similarity in firm size influences post-merger retention of target firm directors. High percentage of target insiders also influences post-merger retention among target insider directors.	Higher target premiums reduce the likelihood of retention. High individual share ownership increases the likelihood of retention. Relative size and director age are also significant.	***Retention:*** 1. CEO experience is significant for target outsiders only. 2. Only other board service (>2) is significant for bidder outsiders and target insiders. ***Performance Signs:*** 1. Positive: Departing *target insiders* with other board experience (1 – 2 boards). 2. Positive: Departing *target outsiders* with other board experience (1 – 2 boards). 3. Negative: Departing *bidder insiders* with *any* other board experience. 4. Negative: Departing *target insiders* with other board experience (>2).

Harford (2003), Davidson, Sakr, & Ning (2004), and Becher & Campbell (2005) are the three closest pieces of literature to this work. Summarized below are the populations studied, the events and the factors central to their examination, the timeframe, and the data set details. The last column summarizes this paper in those same terms. *** Retention Average is significantly different at the 1% level between prior samples and this paper. Table 2A shows the results of a more detailed industry based comparison.

Table 2 – Transaction Details of Mergers by Industry

Firm & Transaction Details	All Firms	Financials	Utilities	Industrials
Number of Mergers (N)	131 (100.0%)	45 (34.4%)	15 (11.5%)	71 (54.2%)
Bidder				
Market Value of Equity (in Billions)	25.37	30.13	6.16[a]	26.04
	(37.64)	(44.71)	(2.60)	(35.65)
Total Assets (in Billions)	47.00	109.66[a]	11.35	15.26
	(96.00)	(144.46)	(4.32)	(17.04)
Pre-Bid Performance	7.83%	11.10%	3.21%	6.65%
	(17.63%)	(14.46%)	(10.48%)	(20.15%)
CEO is Chairman	109 (83.2%)	37 (82.2%)	13 (86.7%)	59 (83.1%)
Block-holder (Yes)	84 (64.1%)	23 (51.1%)[a]	8 (53.3%)	53 (74.7%)
Outside Directors	77.72%	79.52%	83.39%	74.33%
	(14.59%)	(12.57%)	(7.61%)	(18.58%)
Target				
Market Value of Equity (in Billions)	**8.98*** **	**8.87*** **	**3.96** **	**9.97*** **
	(13.39)	(11.88)	(2.49)	(15.31)
Total Assets (in Billions)	**24.19** **	***54.54*[a] ** **	8.94	**8.39** **
	(50.56)	(77.46)	(6.58)	(10.22)
Pre-Bid Performance	6.54%	7.55%	4.74%	6.20%
	(19.12%)	(14.37%)	(11.27%)	(22.70%)
CEO is Chairman	104 (79.4%)	39 (88.7%)	12 (80.00%)	53 (74.7%)
Block-holder (Yes)	94 (71.8%)	***26*** (57.8%)[a]	9 (60.00%)	59 (83.10%)
Outside Directors	76.09%	77.18%	79.26%	73.70%
	(12.43%)	(12.18%)	(8.64%)	(15.79%)
Transaction				
Premium	43.79%	38.97%	35.78%	47.86%
	(42.72%)	(37.02%)	(28.51%)	(48.11%)
Relative Size of Equity	9.46	17.99	2.74	5.40
	(29.63)	(48.42)	(3.96)	(8.98)
Relative Size of Assets	6.69	13.14	2.24	3.59
	(19.22)	(31.63)	(2.72)	(4.46)

This table presents market value of equity, total assets, stock performance, and governance details for both the bidder and the target firms. In addition, this table presents the transaction premium and the relative size of firms merging. The last three columns present data classified by industry. Industrials refer to firms that are not financials or utilities. Figures in parentheses are standard deviations with the exception of the row presenting the number of mergers, in which case these are proportions. Total assets measures pre-merger assets. Pre-bid performance measures the cumulative stock return between t-120 days to t-40 days, where t is the merger announcement date. Relative size of equity and relative size of assets divides the value for the bidder by the value for the target. The market value of equity reported is the average value over the period t-70 days to t-40 days, where t is the merger announcement date. The period t-70 days to t-40 days, represents an average over six weeks, eight weeks prior to the announcement.

[a] This number is significantly different at the 5% level (or lower) from the corresponding number for industrials.

** Significant at the 5% level, *** Significant at the 1% level.

Table 3 – Bidder and Target Director Characteristics

Director Characteristics	Bidder Insiders	Bidder Outsiders	Target Insiders	Target Outsiders
Total Number of Directors	346	1,261	340	1,138
Number of Directors Retained	**284 (82.1%)****	**1,052 (83.4%)****	114 (33.5%)	332 (29.2%)
Average Age (Years)	56.4	60.6	56.2	60.1
	(8.6)	(7.3)	(8.4)	(7.7)
Age > 61 Years	92 (26.6%)	623 (49.4%)	79 (23.2%)	532 (46.7%)
Director Tenure (Years)	8.4	8.1	9.6	7.7
	(8.0)	(6.9)	(8.1)	(6.6)
Ownership	1.60%	0.08%	1.76%	0.16%
	(7.41%)	(0.63%)	(4.46%)	(0.70%)
Other Board Service (≤ 2)	**250 (72.3%)****	**1096 (86.9%)****	197 (57.9%)	927 (81.5%)
Other Board Service (> 2)	**85 (24.6%)****	510 (40.4%)	45 (13.2%)	416 (36.6%)
CEO Experience	82 (23.7%)	**622 (49.3%)****	70 (20.6%)	495 (43.5%)
Int'l Experience	36 (10.4%)	**207 (16.4%)****	34 (10.0%)	141 (12.4%)
Gov't Experience	24 (6.9%)	201 (15.9%)	23 (6.8%)	167 (14.7%)
New Board Members	**33 (9.5%)****	118 (9.4%)	16 (4.7%)	92 (8.1%)
CEO Retention[a]				
CEO Only	**16 of 18 (88.9%)****		13 of 24 (54.2%)	
CEO & Chairman	**100 of 107 (93.5%)*****		57 of 105 (54.3%)	

This table presents the characteristics of directors classified by insider or outsider and by bidder or target. In addition, this table presents data regarding CEO retention. New board members are directors who were appointed in the most recent election of directors prior to the announcement of a merger. Asterisks indicate that the numbers are significantly different between the bidders and the targets.

[a] Total number of CEOs analyzed in this table does not sum to 131. Two target firms and one bidding firm did not have CEOs that served on the board of directors at the time of the merger. One bidding firm was omitted due to insufficient data on their target firm. Four bidding firms engage in more than one merger within the same period. These are Wachovia (2 mergers), First Union (2), Cendant (2), and Regions Financial (5). In addition, one bidding firm had a CEO who shared the title of CEO with the Chairman of the Board.

** Significant at the 5% level, *** Significant at the 1% level

Table 4 – Bidder and Target Director Retention in the Merger Data Set by Mergers, Directors, and Industry

Number of Mergers	All Firms	Financials	Utilities	Industrials
Total Mergers	131 (100%)	45 (34.4%)	15 (11.5%)	71 (54.2%)
Industry & Firm				
Two Digit SIC Match	101 (77.1%)	37 (82.2%)	**15 (100.0%)*** **	49 (69.0%)
Four Digit SIC Match	74 (56.5%)	25 (55.6%)	10 (66.7%)	39 (54.9%)
Targets				
Only Outsiders Retained	27 (20.6%)	7 (15.6%)	3 (20.0%)	17 (23.9%)
Only Employees Retained	26 (19.8%)	8 (17.8%)	1 (6.7%)	17 (23.9%)
No Directors Retained	22 (16.8%)	8 (17.8%)	2 (13.3%)	12 (16.9%)
Both Insiders & Outsiders Retained	56 (42.7%)	22 (48.9%)	9 (60.0%)	25 (35.2%)
Bidders				
All Remain	29 (22.1%)	8 (17.8%)	3 (20.0%)	18 (25.4%)
Only Employees Depart	12 (9.2%)	2 (4.4%)	0 (0.0%)	10 (14.1%)
Only Outsiders Depart	63 (48.1%)	26 (57.8%)	8 (53.3%)	29 (40.8%)
Both Insiders & Outsiders Depart	27 (20.6%)	9 (20.0%)	4 (26.7%)	14 (19.7%)
All Bidders *and* No Target Members Retained	7 (5.3%)	2 (4.4%)	1 (6.7%)	4 (5.6%)
Number of Directors	**All Firms**	**Financials**	**Utilities**	**Industrials**
Total Directors	3,085 (100.0%)	1,264 (100.0%)	250 (100.0%)	1,571 (100.0%)
Number Retained	1,782 (57.8%)	698 (55.2%)	154 (61.6%)	930 (59.2%)
Targets				
Total Insiders	340	135	23	182
Total Outsiders	1,138	474	99	565
Insiders Retained	114 (33.5%)	**41 (30.4%)*** **	8 (34.8%)	**65 (35.7%)*** **
Outsiders Retained	332 (29.2%)	**130 (27.4%)*** **	37 (37.4%)	**165 (29.2%)*** **
Bidders				
Total Insiders	346	129	24	193
Total Outsiders	1,261	526	104	631
Insiders Retained	**284 (82.1%)#**	**108 (83.7%)***#**	**19 (79.2%)#**	**157 (81.3%)***#**
Outsiders Retained	**1,052 (83.4%)#**	**419 (79.7%)***#**	**90 (86.5%)#**	**543 (86.1%)#**

This table presents post-merger retention in terms of total number of mergers and total number of directors. The last three columns present data classified by industry. Industrials refer to firms that are not financials or utilities. Percentages presented in parentheses refer to the total number of mergers or the total number of directors. In the top half of the table, significance compares financials or utilities to industrials. In the bottom half of the table, an asterisk (*) indicates that the percentage is significantly different from the corresponding percentage in the industrial data sets of Harford (2003) and Davidson, Sakr, & Ning (2004), and the financial data set of Becher & Campbell (2005). A pound sign (#) indicates that the percentage is significantly different from the corresponding percentage for target firms.
*** and # Significant at the 1% level

Table 5 – Determinants of Post-Merger Director Retention – Tests of Hypotheses 1 & 2

	Bidder Insiders	Bidder Outsiders	Target Insiders	Target Outsiders
Number of Directors	345	1,255	338	1,122
(Number of Directors Retained)	(283)	(1,046)	(114)	(331)
Transaction Characteristics				
Hostile	0.168	1.009	-27.397	-0.180
Auction (Multiple Bids)	1.310	0.072	-0.965	**0.564***
Target Premium	0.200	0.104	-0.559	**-1.159*****
All Stock Payment	-0.724	-0.247	-0.153	**0.494****
All Cash Payment	-0.284	-0.079	**-1.460***	-0.282
Director Characteristics				
Age (Years)	0.006	**-0.039***	-0.041	-0.033
Near Retirement (Age > 61 Years)	**-1.158****	-0.414	-0.332	-0.170
Tenure (Years)	-0.028	-0.009	0.021	0.004
Ownership (%)	20.536	-7.240	**7.983****	-15.983
Blockholder (Yes)	-0.065	0.183	-0.437	-0.330
Chairman	0.513		**2.376*****	
CEO	1.110		**2.622*****	
Chairman & CEO	**1.467*****		**1.748*****	
Other Board Service (≤ 2)	-0.303	0.344	0.535	0.296
Other Board Service (> 2)	**0.798***	**0.525*****	**0.893****	0.204
CEO Experience	-0.226	-0.118	-0.015	**0.326****
Int'l Experience	-0.062	-0.026	-0.574	-0.087
Gov't Experience	-0.281	-0.179	0.015	0.220
New Member of the Board	-0.761	**0.710****	0.400	0.003
Target Firm Characteristics				
Pre-Bid Performance	0.132	0.074	-1.157	-0.220
Relative Size (Bidder / Target)	0.051	**0.024***	-0.010	**-0.016****
Outside Directors (%)	-2.223	-0.254	1.156	0.238
CEO is Chairman	-0.758	0.003	0.518	-0.323
Bidder Firm Characteristics				
Outside Directors (%)	-1.062	**-1.639***	-1.571	**1.150****
CEO is Chairman	0.548	**0.924*****	-0.106	0.076
Financial Dummy	0.678	-0.225	-0.071	-0.370
Utility Dummy	-0.313	0.240	0.019	0.242
SIC Match (2 Digits)	**1.114***	0.324	-0.373	-0.061
SIC Match (4 Digits)	-0.530	-0.356	0.194	**0.345***
Constant	**3.690***	**4.605*****	1.143	0.042
Correct Predictions	0.852	0.833	0.77	0.73
Madala R^2	0.169	0.073	0.283	0.114

These results are of logistic regressions with a dependent variable indicating retention (1) on or departure (0) from a post-merger board. Observations are from 131 firms present on all four of the Forbes 500 lists in any year between 1997 and 2002 that complete a merger with a publicly listed firm. Transaction characteristics data comes from news reports and CRSP data. Director characteristics data comes from proxy statements. Target and bidder characteristics data comes from 10Qs and 10Ks and CRSP. Director characteristics reflect each individual director based on whether they are from the bidder or target. Blockholder is a dummy variable that represents whether a director has an ownership interest equal to or in excess of 5%. *, **, *** Significant at the 10%, 5%, and 1% level.

Table 6 – Outside Director Selection & Post-Merger Performance – Hypothesis 3

	Outside Bidding Directors				Outsider Target Directors			
	Departed Members		Retained Members		Departed Members		Retained Members	
Dependent Variable=	ΔROA	ΔMarket/Book	ΔROA	ΔMarket/Book	ΔROA	ΔMarket/Book	ΔROA	ΔMarket/Book
N =	209	209	1,046	1,046	791	791	331	331
Transaction Characteristics								
Hostile	**0.080*** **	-2.906	-0.010	**-1.163** **	-0.005	**1.703** **	**-0.060*** **	2.162
Auction (Multiple Bids)	0.002	0.420	0.004	**-0.631*** **	0.002	**1.135** *	-0.002	**-1.845** **
Target Premium	**0.020** **	1.031	**0.025*** **	**3.299*** **	**0.029** **	**7.226*** **	**0.021** **	1.104
All Stock Payment	**0.022** **	0.643	**0.041*** **	0.145	**0.023*** **	**-1.196** *	**0.034*** **	0.317
All Cash Payment	**-0.063*** **	**8.205** **	-0.001	**1.612*** **	**-0.024** **	**2.730*** **	**-0.031** **	**6.321*** **
Director Characteristics								
Age (Years)	-0.001	0.100	-0.000	0.016	0.001	0.078	**0.001** *	**0.192** *
Near Retirement (Age > 61 Years)	0.009	-1.540	0.004	-0.452	-0.003	-0.070	-0.008	-1.909
Director Tenure (Years)	-0.000	-0.035	0.000	-0.015	0.000	-0.030	**0.001*** **	-0.065
Ownership (%)	-0.548	34.379	0.180	**-47.923** **	0.125	**-207.190*** **	-0.335	-47.531
Blockholder (Yes)	0.006	0.363	-0.002	-0.295	**-0.008** **	0.087	**-0.023*** **	**3.241** **
Other Board Service (≤ 2)	-0.001	-1.566	-0.007	-0.650	-0.003	**2.531*** **	-0.002	1.221
Other Board Service (> 2)	-0.004	-0.191	0.003	0.278	-0.005	0.771	-0.001	0.938
CEO Experience	0.002	-0.302	0.004	0.197	0.002	-0.114	-0.001	-0.910
Int'l Experience	**0.018** **	-0.765	0.001	0.205	**-0.016*** **	0.675	0.008	**1.507** *
Gov't Experience	-0.006	-1.021	**-0.007** *	-0.363	0.004	0.798	-0.004	-0.133
New Board Member	-0.007	-1.180	0.001	**1.058*** **	-0.008	**-3.335** **	0.006	**-2.896** **
Target Firm Characteristics								
Pre-Bid Performance	0.006	-2.885	-0.005	**-1.623** *	-0.021	0.098	**0.055** **	0.032
Relative Size (Bidder / Target)	0.000	**-0.030** *	**0.000** **	**-0.041*** **	0.000	**0.020*** **	0.000	0.004
Outside Directors (%)	0.072	-2.808	**0.042*** **	**-6.129*** **	-0.023	**-15.835*** **	**0.121*** **	**-21.474*** **
CEO is Chairman	**-0.025*** **	3.183	**-0.034*** **	**1.900** **	**-0.026*** **	**6.259*** **	-0.007	**5.745*** **
Bidder Firm Characteristics								
Outside Directors (%)	**0.057** **	3.589	-0.001	**2.396** **	**-0.022** **	**-4.138*** **	-0.014	2.875
CEO is Chairman	-0.009	**-1.125** **	**0.015*** **	-0.592	**0.024*** **	**-4.302*** **	**0.025*** **	-1.931
Financial Dummy	0.008	0.786	0.003	0.469	0.009	**3.016*** **	**-0.038*** **	**6.451*** **
Utility Dummy	0.002	0.805	0.009	**0.906** **	**0.027*** **	**2.915*** **	0.001	**3.348*** **
SIC Match (2 Digits)	-0.001	0.791	-0.000	**1.795** **	0.004	**-1.975** *	**-0.019** **	3.033
SIC Match (4 Digits)	-0.002	-0.847	0.004	**-1.131*** **	0.003	**3.589*** **	**0.026*** **	**-2.136*** **
Pre-Merger Bidder Assets	0.000	0.000	**0.000*** **	**0.000** *	0.000	0.000	**0.000*** **	**-0.000*** **
Pre-Merger Bidder Book	0.000	0.000	**0.000** **	**0.000*** **	0.000	**0.000*** **	**0.000** **	**0.001*** **
Constant	-0.074	-7.785	**-0.058*** **	-1.536	-0.034	1.384	**-0.184*** **	-6.980
Adjusted R^2	0.375	-0.043	0.241	0.098	0.177	0.271	0.255	0.200

This table shows the results of tests of BIDDING director departure and retention as an indicator of post-merger performance. The data set examines 131 large firms that consummate their merger plans. The dependent variable in the specification below is a measure of post-merger firm performance, change in ROA or change in Market to Book. The data set above is all outside directors from BIDDING firms segregated by post-merger departure and retention. *, **, *** Significant at the 10%, 5%, and 1% level.

Table 7 –Employee Director Selection & Post-Merger Performance – Hypothesis 3

	Bidding Employee Directors				Target Employee Directors			
	Departed Members		Retained Members		Departed Members		Retained Members	
Dependent Variable =	ΔROA	ΔMarket/Book	ΔROA	ΔMarket/Book	ΔROA	ΔMarket/Book	ΔROA	ΔMarket/Book
N =	201	201	1,017	1,017	784	784	332	332
Transaction Characteristics								
Hostile	**0.115*** **	**-2.409***	-0.009	-1.414	0.022	0.066	N/A	N/A
Auction (Multiple Bids)	-0.017	**4.486*** **	-0.013	**-1.531***	**0.023** **	**2.665*** **	-0.022	0.234
Target Premium	0.028	**-1.984** **	**0.021*** **	**3.056***	**-0.050*** **	**6.879*** **	**-0.060** **	**7.180*** **
All Stock Payment	**0.037** **	0.173	**0.028*** **	0.018	-0.021	0.088	-0.016	3.057
All Cash Payment	**0.065*** **	-0.174	0.015	-0.594	**0.034***	1.959*	0.044	**11.332*** **
Director Characteristics								
Age (Years)	0.000	-0.036	0.000	-0.057	-0.000	-0.091	0.001	0.224
Near Retirement (Age > 61 Years)	0.004	0.583	-0.008	1.639	0.000	-1.020	0.009	-0.197
Director Tenure (Years)	-0.000	0.012	0.000	0.019	0.000	-0.009	**-0.003** **	-0.015
Ownership (%)	**-0.545***	**92.543*** **	-0.058	**-8.093** **	0.028	12.013	0.091	-22.387
Blockholder (Yes)	**-0.035*** **	**-0.833***	0.003	0.319	-0.000	**-4.361*** **	0.014	4.049
Other Board Service (≤ 2)	-0.003	**-1.198** **	0.002	**2.397*** **	0.009	**1.904*** **	-0.001	-0.745
Other Board Service (> 2)	**-0.015***	**-1.351** **	0.001	-1.410	0.010	**-2.483*** **	-0.022	-2.725
CEO Experience	**0.014***	0.382	**0.013***	0.138	-0.004	0.672	-0.024	2.343
Int'l Experience	-0.008	**1.921*** **	**-0.020** **	-0.772	**0.019***	-0.273	0.025	1.192
Gov't Experience	0.015	**1.846** **	**-0.015***	0.246	0.005	-0.984	0.003	0.244
Firm CEO	**0.050*** **	0.451	-0.005	-1.257	0.014	**-4.676*** **	-0.037	-4.516
Firm Chairman	-0.018	0.877	0.006	-1.720	**-0.045** **	-0.619	0.011	**-8.065***
Firm CEO & Chairman	-0.021	**1.796*** **	0.002	0.415	-0.004	-1.097	**0.020***	1.341
New Member	**-0.027** **	**1.598** **	-0.004	-0.122	0.010	0.054	-0.080	4.636
Target Firm Characteristics								
Pre-Bid Performance	0.002	-1.233	-0.004	-1.979	-0.004	**-3.672*** **	0.032	-3.758
Relative Size (Bidder / Target)	0.000	0.031	0.000	-0.010	0.000	0.014	0.000	0.013
Outside Directors (%)	**-0.119*** **	**4.975***	0.001	-2.376	0.026	-4.688	**-0.100** **	**-23.211** **
CEO is Chairman	**0.032** **	-2.108	**-0.043*** **	**2.548***	0.013	-0.371	0.004	1.011
Bidder Firm Characteristics								
Outside Directors (%)	**0.044** **	2.468	-0.002	-0.227	**0.064** **	3.238	0.046	-4.576
CEO is Chairman	**-0.034*** **	**1.267***	**0.016***	-1.606	**-0.036** **	**-2.461** **	**-0.026** **	-2.097
Financial Dummy	0.012	0.446	**0.015** **	0.230	-0.005	**-1.764** **	0.013	2.621
Utility Dummy	**0.070*** **	-1.907	0.005	1.002	**-0.027** **	**1.763***	-0.018	5.097
SIC Match (2 Digits)	**-0.027*** **	**2.505*** **	-0.004	1.927	-0.025	**-3.872** **	0.024	3.905
SIC Match (4 Digits)	**0.027** **	-1.181	0.008	**-1.323** **	0.007	**3.087** **	**-0.032** **	-1.711
Pre-Merger Bidder Assets	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Pre-Merger Bidder Book	0.000	**-0.000*** **	0.000	**0.000***	0.000	0.000	0.000	**0.001***
Constant	-0.009	-2.873	-0.050	-0.381	0.024	**8.936** **	0.077	-1.791
Adjusted R^2	0.582	0.246	0.264	0.007	0.185	0.390	0.196	0.134

This table shows the results for tests of employee director departure and retention as an indicator of post-merger performance. The data set examines 131 large firms that consummate merger plans. The dependent variable in the specification is a measure of post-merger firm performance (either change in ROA or change in Market to Book). The data set above is all employee directors from bidding and target firms segregated by post-merger departure and retention. *, **, *** Significant at the 10%, 5%, and 1% level.

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