Journal of Financial Economics 110 (2013) 18–36

Contents lists available at ScienceDirect

Journal of Financial Economics

journal homepage: www.elsevier.com/locate/jfec

Does the director labor market offer ex post settling-up for CEOs? The case of acquisitions ☆

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ARTICLE INFO

Article history:
Received 11 June 2012
Received in revised form
16 January 2013
Accepted 8 February 2013
Available online 4 May 2013

JEL classification:
G34
G30

Keywords:
Mergers
Director labor market
CEO incentives
Career concerns
Board of directors

ABSTRACT

We examine the rewards for experience and ability in the director labor market. We show that large acquisitions are associated with significantly higher numbers of subsequent board seats for the acquiring CEO, target CEO, and the directors. We also find that, in the case of acquisitions, experience is more important than ability. Both value-destroying and value-increasing acquisitions have significant and positive effects on a CEO's future prospects in the director labor market. In addition to increasing our understanding of the director labor market, these results suggest that the ex post settling-up incentives thought to exist in the director labor market are weak for acquisitions.

1. Introduction

The director labor market plays an important role in a chief executive officer's incentives by rewarding ability and managerial actions that are consistent with shareholder interests. For example, better firm performance and the rejection of antitakeover provisions are both associated with additional subsequent board seats (Brickley, Linck, and Coles, 1999; Ferris, Jagannathan, and Pritchard, 2003; Coles and Hoi, 2003), cutting dividends, resigning during financial distress, and being on the target board in a hostile takeover are all associated with fewer directorships (Kaplan and Reishus, 1990; Gilson, 1990; Shivdasani, 1993). Given that most chief executive officers (CEOs) pursue directorships following retirement, CEO agency and horizon issues are hypothesized to be at least partially mitigated by the link between current CEO decisions and future opportunities in the director labor market (Fama, 1980; Brickley, Linck, and Coles, 1999).

The director labor market rewards ability but should also value experience. In this paper we hypothesize that if experience is valuable enough, then it can counter the normal settling-up in the director labor market for CEOs who make poor decisions. Specifically, we focus on the relation between CEO acquisition decisions and the CEO's subsequent board seat opportunities. Large acquisitions provide a natural way to investigate the effect that a CEO's decisions have on subsequent career opportunities for

☆ We thank Utpal Battacharya, Jeff Coles, Jess Cornaggia, Sandy Klasa, Chen Lin, James Linck (referee), Grant McQueen, Todd Mitton, Michael Pinegar, Cong Wang, and participants at the American Finance Association 2013 meetings and at seminars at Australian National University, Brigham Young University, Chinese University of Hong Kong, Indiana University, the University of Arizona, the University of California at San Diego, and the University of New South Wales for helpful comments.

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http://dx.doi.org/10.1016/j.jfineco.2013.04.013

three reasons. First, large acquisitions are championed by the CEO. They clearly represent the CEO's wishes and require his efforts to occur. Second, acquisitions are publicly announced and have easily observable performance measures at the time of announcement. Unlike overall firm performance, which might or might not be entirely attributable to the current CEO, an acquisition announcement return is a direct market reaction to a discrete CEO decision. And third, large acquisitions are major investment decisions that often cause acquiring shareholders to lose money. If the director labor market offers an ex post settling-up for decisions that reduce shareholder wealth, then a value-decreasing acquisition should lead to relatively fewer subsequent board seats.

Our primary research question asks what the director labor market values: acquisition performance or experience? A better understanding of the characteristics demanded in the director labor market is fundamentally important to corporate governance. Beyond that, papers such as Brickley, Linck, and Coles (1999) establish that future directorship opportunities are a critical component to the overall set of incentives facing a CEO. If experience matters more than performance for these future opportunities, then the characterization of the director labor market as providing an ex post settling-up for past decisions is incomplete. This outcome would be an empirical example of a major corporate decision in which the returns to the CEO's human capital from the decision are uncorrelated with the financial returns to shareholders. Consistent with Holmström (1999), in this scenario CEO career concerns need not mitigate agency issues and, in fact, can exacerbate them.[1] On the other hand, if acquisition performance matters more, then this is consistent with the idea that the director labor market offers an ex post settling-up and implicit incentives associated with future directorships work to mitigate potential CEO agency issues associated with acquisitions.

Nominating committees clearly care about acquisition experience. Announcements of new directors joining boards, as well as online director biographical information, often mention the individual's past acquisition experience as a qualifying characteristic. For example, in 2007, when nominating a new director, NYSE company RPM International's press release noted: “Dave Daberko was nominated for election to the RPM board for his vast knowledge of capital markets, acquisition skills and experience in running a large complex organization.” Inconsistent with the idea of an ex post settling-up for performance, the acquisition skills noted in the announcement stem from ten acquisitions that Daberko oversaw as CEO and chairman in which nine of the ten were associated with negative announcement returns. In fact, the total cumulative abnormal announcement return for these ten acquisitions was -29%.[2]

We use data covering CEOs, directorships, and acquisition histories from 1996 to 2009 to answer our research question. We find that being CEO during an acquisition is associated with additional future directorships not only while the individual is CEO but also after he steps down as CEO. Further, the effect holds whether the acquisitions are value creating or not. The relation between acquisitions and future directorship opportunities is increasing in the number of acquisitions and the cumulative dollars spent on acquisitions but is not sensitive to the wealth created or destroyed via the acquisition. We find similar, corroborating evidence for directors serving on the board during an acquisition and for target CEOs and their future board seats. We find some evidence that acquisitions that are viewed positively in the years after the acquisition lead to more board seats, but the effect is smaller than, and incremental to, the effect from purely having done an acquisition. Further, no analogous penalty exists for acquisitions that are viewed negatively in the long run.

In a multivariate model estimated using firms in the S&P 1500, we find that CEOs with acquisition experience are 12.7% more likely to have one or more outside board seats after retirement than CEOs without acquisition experience. By comparison a two standard deviation increase in the firm's buy-and-hold abnormal returns over the last two years of the CEO's tenure is associated with only a 5.4% increase in the predicted probability. These results illustrate that the marginal effect of having acquisition experience on the probability of additional future board seats is at least as important as the marginal effect of large improvements in firm performance already shown in the literature, such as Brickley, Linck, and Coles (1999). Naturally, if the acquisition is destructive enough to substantially reduce firm performance, then the positive experience effect is mitigated. However, our results show that the reduction in performance would have to be more than a standard deviation swing to offset the effect of the acquisition itself.

Overall, the evidence demonstrates that acquisition experience is valuable enough in the director labor market that whether the acquisition creates value or not is relatively unimportant. Our paper is the first to show the relation between CEO acquisition decisions and future board seats. Aside from providing evidence on what qualities are valued in the director labor market, the results have implications for the incentives of CEOs. The director labor market does not provide ex post settling-up for poor acquisition decisions, so compensation design and termination threat must provide all the incentives.

To corroborate the results based on acquiring CEOs and to provide robustness tests, we also address our research question from the standpoint of the target CEO and shareholders. In the acquiring CEO tests we use announcement returns as our proxy for the wealth effects to shareholders. To show that our results also hold using other measures of wealth effects, we focus instead on the

[1] Holmström's (1999) paper was originally printed in 1982 in an unpublished volume and then published in 1999.

[2] The cumulative abnormal return (CAR) estimate was calculated as the sum of the individual CAR(−1,1) announcement returns for the ten completed merger deals listed in the Thomson One Securities Data Company (SDC) data set of form AM, M, or AA with transaction values

(*footnote continued*)
of at least $1 million during the years that Dave Daberko was CEO of National City Corporation (1995–2007). The abnormal announcement returns were calculated for each deal using a market model.

takeover premium offered to target shareholders. If the director labor market rewards CEO ability and actions taken on the shareholders' behalf, then target CEOs who are successful in negotiating relatively high takeover premiums for their shareholders should gain more future board seats than CEOs who negotiate low takeover premiums. Alternatively, if only acquisition experience matters in the director labor market, then target CEOs should increase their future board seats regardless of the takeover premium they accept for their shareholders.

We find that target CEOs are much more likely to gain additional board seats after the acquisition than CEOs without acquisition experience and that this result is not sensitive to negative wealth effects of the acquisition to the target shareholders. These results corroborate the acquiring CEO results: Acquisition experience is valuable in the director labor market, and there appears to be no ex post settling-up for CEOs and directors who make poor acquisition decisions for their shareholders. We consider and reject two types of alternative explanations for the findings.

First, an unobserved omitted variable could explain both the acquisition and future board seats. For example, CEOs who are better at working with boards could be the same CEOs who are able to convince their boards to make acquisitions. Relatedly, acquisitive CEOs could be more charismatic, better at communication, of higher ability, more tolerant of risk, etc. We use three approaches to address this possibility. First, we control for the CEO's prior board seats and firm performance in all specifications. If acquisition experience is a proxy for a time-invariant personal characteristic relevant to board seats, or valuable for firm performance, the CEO's prior board seats and the firm's recent performance would pick it up. Second, and notably, we show that acquisition experience does not affect a CEO's chance of remaining on his own board where the CEO's specific acquisition experience is redundant with that of the board and other executives at the firm. This result is hard to reconcile with the proposition that acquisition experience proxies for another board-related personal quality valued in the director labor market. Third, we investigate how acquisitions affect both acquiring and target CEOs' success in the director labor market. Given that we find that both acquiring and target CEOs are advantaged in the director labor market, this suggests that any potential omitted variable would have to explain both the decision to make an acquisition and the decision to be acquired.

The second alternative explanation for our results centers on the possibility that inter-industry experience, or reputation, gained via the acquisition process instead of the acquisition itself leads to subsequent board seats. For example, diversifying acquisitions could give CEOs experience in more industries and, thus, qualify them for additional boards. Relatedly, acquisitions generate press coverage that raises the profile of the CEO, which then could lead to additional future board seats. We control for both of these alternatives and find that diversifying acquisitions and press coverage do not explain the observed relation between acquisitions and future board seats. Further, we find that boards that add a director with acquisition experience are then more likely to make an acquisition in the near future.

The paper proceeds as follows. We first review the literature and develop our two hypotheses in Section 2. We then describe the data in Section 3. After presenting the results in Section 4, we explore alternative explanations and conclude in Sections 5 and 6, respectively.

2. Literature review and hypothesis development

Two main strands of literature relate to our work: studies that look at incentives and ex post settling-up for CEOs in the director labor market, and studies that characterize the director labor market in general. Fama (1980) argues that even if a CEO's compensation contract does not provide sufficient incentives to deter shirking and agency problems, the possibility of settling-up in the labor market (lower future wages) can do so. Brickley, Linck, and Coles (1999) test this hypothesis and find that a CEO's future board seats are positively related to the performance of his firm while he was CEO. Other papers establish that the director labor market rewards ability and managerial actions that are consistent with shareholder interests. For example, fewer board seats are forthcoming for executives of dividend-reducing companies (Kaplan and Reishus, 1990), directors of bankrupt companies (Gilson, 1990), directors who reject a takeover offer after poor performance (Harford, 2003), and directors who do not opt-out of state antitakeover laws (Coles and Hoi, 2003). Booth and Deli (1996) establish that CEOs of firms with growth opportunities hold fewer outside directorships.

Ferris, Jagannathan, and Pritchard (2003) are primarily interested in studying directors with multiple board seats but, in so doing, find evidence of reputational effects in the director labor market. Specifically, prior firm performance is a strong determinant of number of seats held, as is the size of the firm of which the director was or is CEO. In a related study that draws different inferences about the value of busy board members, Fich and Shivdasani (2006) confirm that firm performance and firm size are important determinants of the number of board seats held by directors.

Masulis and Mobbs (2011) use the director labor market as a form of certification to distinguish between higher and lower quality inside directors. They show that inside directors with external board seats are better monitors, produce better performance, make better acquisition decisions, and misstate earnings less often. Their paper provides evidence that higher quality directors are rewarded in the director labor market.

It is well established in the literature that CEOs have direct incentives to undertake acquisitions. For example, a long literature on CEO pay shows that firm size is one of the most robust explanatory variables of pay level [see Murphy (1999) for a review]. Harford and Li (2007) demonstrate that even when the stock price reaction to the acquisition is negative, increases in CEO pay following the acquisition leave the CEO monetarily better-off on average. Grinstein and Hribar (2004) show that acquisition-related bonuses are often not sensitive to acquisition performance. We study how long-run incentives from the director labor market interact with the short-run incentives already identified.

To address our research question, we motivate two competing hypotheses for how a CEO's acquisition decisions

relate to future directorship opportunities. Under the Gain Experience hypothesis, acquiring CEOs (and directors) gain experience via acquisitions that is valuable in the director labor market independent of the acquisition performance. Under the Reveal Ability hypothesis, the performance of the CEO's (and directors') acquisition decisions reveal to the market information about the CEO's (and directors') ability. If the director labor market disciplines past decisions, then value-decreasing acquisitions will lead to relatively fewer subsequent board seats for acquiring CEOs and directors. If the director labor market values the acquisition experience, then acquisitions, regardless of value, will lead to additional board seat opportunities.

To corroborate the results based on acquiring CEOs, we also motivate these hypotheses from the target CEO's and shareholders' standpoint. In these tests, we focus on the takeover premium the target CEO negotiates and accepts on behalf of the target shareholders. Target CEOs who successfully negotiate relatively high premiums demonstrate high ability and act in a manner that maximizes their shareholders' wealth.[3] CEOs who accept low premiums demonstrate low ability or in some cases, as discussed in Hartzell, Ofek, and Yermack (2004), the willingness to accept side deals that enrich themselves at the cost of their shareholders. Under the Gain Experience hypothesis, target CEOs gain experience through the acquisitions that is valuable in the director labor market independent of the takeover premium. Under the Reveal Ability hypothesis, the takeover premium reveals to the market information about the target CEO's ability and commitment to shareholders' interests. If the director labor market disciplines past decisions, then low premiums will lead to relatively fewer subsequent board seats. The hypotheses generate several testable empirical predictions. For the Gain Experience hypothesis, they are as follows:

- CEOs that make acquisitions are more likely to gain additional future board seats than CEOs without acquisition experience. Hence, acquiring CEOs are associated with relatively higher numbers of board seats both before and after retirement.
- CEOs at firms that are acquired also gain acquisition experience. Hence, target CEOs are associated with relatively higher numbers of boards seats after the acquisition.
- Both value-increasing and value-destroying acquisitions lead to higher numbers of board seats for the acquiring CEO.
- Both high and low relative takeover premiums are associated with higher numbers of board seats for the target CEO.
- Directors who sit on boards that make acquisitions are more likely to gain additional board seats than directors without acquisition experience.

[3] We use a measure of relative or excess takeover premium in these tests instead of absolute premium. Hence, a high relative takeover premium is one that is higher than the expected premium after controlling for the firm, industry, and time characteristics described in detail in Section 4.

The Gain Experience hypothesis does not make a clear prediction about whether a CEO who makes an acquisition is more likely to remain on his own board after retirement. This is because the experience from the acquisition is duplicated by the remaining board members who were on the board at the time as well as the other top-level executives at the firm. For the Reveal Ability hypothesis, the testable empirical predictions are as follows.

- Acquiring CEOs who make value-destroying acquisitions are associated with relatively fewer board seats both before and after retirement.
- Acquiring CEOs who make value-destroying acquisitions are less likely to be on their own board after retirement.
- CEOs of target firms that accept relatively low takeover premiums are associated with fewer board seats after the acquisition than CEOs who successfully negotiate high takeover premiums.
- Directors who sit on boards that make value-destroying acquisitions are less likely to gain additional board seats than directors who do not make acquisitions or directors who make value-increasing acquisitions.

3. Data

3.1. CEO and director data

We create a panel data set of CEOs and directors from 1996 to 2009 using information from ExecuComp and Investor Responsibility Research Center (IRRC)/Riskmetrics. The IRRC legacy directors database covers the S&P 1500 each year from 1996 to 2006. The Riskmetrics directors data set covers directors for the S&P 1500 for years 2007 to 2009. Depending on the firm, ExecuComp starts its coverage for most firms from 1992 to 1994 and provides the information we need for CEOs. Using all three data sets, we create a panel of S&P 1500 firms from 1996 to 2009 identifying both the CEO and directors at these firms. The sample starts in 1996, when the main coverage of directors is available in the IRRC/Riskmetrics data. The sample used in the empirical tests ends in 2007 because we track directorships for two years after an acquisition is made to test whether acquisitions are related to future board seats. Thus, the sample period in the empirical tests is from 1996 to 2007.

Some of the variables of interest require information from the past. For example, the merger experience variables and the lagged performance control variables in 1996 require information about the various CEOs' and directors' acquisition choices from before 1996. The same type of situation applies to many other firms added to the Riskmetrics and ExecuComp data sets subsequent to 1996. For all of these firms we need information about the acquisition decisions of the CEOs and directors at these firms in the years before the firm is added to the data set. The IRRC/Riskmetrics sample provides information about which year a director started as a director at a firm even if the start year precedes the year the firm is first covered in the IRRC/Riskmetrics data. Similarly, ExecuComp provides information about when a CEO became CEO at a firm even

if the start date precedes the year when the firm was first covered in the ExecuComp data set. Using this information, we can associate these CEOs and directors with their respective firms even in the years prior to the firm being covered in the respective data sets. This backfilling allows us to trace CEO and director positions through 1991 to measure prior acquisition activity and firm performance. Consequently, we can base the empirical tests on data from 1996 to 2007 while controlling for CEO and director acquisition experience as far back as 1991. In the robustness Section 5.1, we confirm the robustness of our results to any backfilling biases.

Using this approach, we create a CEO and director data set with 24,434 CEO-firm-year and 221,894 director-firm-year observations. After imposing all data requirements for the control variables in our empirical tests using data from the Center for Research in Security Prices (CRSP), Compustat, ExecuComp, and IRRC/Riskmetrics, we end up with 16,318 CEO-firm-years and 195,048 director-firm-years. As discussed in detail in the online Appendix,[4] the lost observations are due to two reasons. (1) The intersection of firm-years for the backfilled ExecuComp-based and Riskmetrics-based data sets results in lost observations because many of the firms in the ExecuComp sample are not part of the S&P 1500 in those years and, hence, are not in Riskmetrics. (2) Miscellaneous data are missing from CRSP and Compustat. The specific control variables are described in Appendix A and detailed information about how the control variables affect the final sample is provided in the online Appendix.

3.2. Acquisition data

Using information from Thomson Reuters Securities Data Company (SDC), we identify acquisitions done by the firms in the CEO-director panel described above. We purposely focus on large acquisitions to ensure that the CEO was actively involved with the decision. Hence, we use both a relative and an absolute size filter requiring both that the relative size of the target to the acquirer be at least 5% and that the SDC transaction value be at least $50 million (in 2009 dollars). To create the SDC sample, we include deals with US acquirers with either US or non-US targets in which the acquirer goes from having none, or a minority holding, to full control of the target via the acquisition.[5]

Table 1 summarizes the main data set: the number of firms, the number of CEOs in their last year as CEO, and the number of acquisitions in the sample each year. For detailed variable definitions and construction, see Appendix A. The number of large acquisitions in our sample follows the familiar pattern of peaking in the late 1990s. The average CEO turnover rate in our sample from 1996 to 2007 is 15%, which is higher than in some earlier studies because we include both internal and takeover-related CEO turnover. This turnover rate corresponds closely to the 15.8% CEO turnover rate reported in Kaplan and Minton (2011), who also include takeover-related turnover in their sample of large firms from 1992 to 2007. If a CEO is in place prior to 1996, we look back during his tenure to identify whether he oversaw any large acquisitions. There are 626 large acquisitions done by CEOs in the sample in the years 1991 to 1995.

Table 1
Time series of acquisitions and terminal CEO years.

The table reports each year the number of firms, terminal CEO years, and large acquisitions in the sample. The sample is based on the intersection of the combined IRRC legacy directors and Riskmetrics directors databases with ExecuComp and Compustat. Acquisition information is from SDC and focuses exclusively on large acquisitions as described in Section 3.

Year	Number of firms	Number of terminal CEO years	CEO last years as a percentage of firms	Number of acquisitions	Percentage of firms with acquisitions
1996	909	109	12.0	179	19.7
1997	1,217	191	15.7	261	21.4
1998	1,351	227	16.8	292	21.6
1999	1,382	249	18.0	249	18.0
2000	1,427	240	16.8	261	18.3
2001	1,469	170	11.6	190	12.9
2002	1,533	181	11.8	139	9.1
2003	1,413	182	12.9	157	11.1
2004	1,408	211	15.0	200	14.2
2005	1,417	213	15.0	184	13.0
2006	1,391	266	19.1	174	12.5
2007	1,401	210	15.0	160	11.4

Table 2 provides descriptive statistics for the CEO terminal years and for the variables used in the empirical tests. Our variables are motivated by the prior research cited in Section 2 and allow us to control for other factors affecting an individual's board seats at a given time. Consequently, we include a count of past directorships, tenure, age, ownership and whether the individual is chairman of his own board. We also include characteristics of the CEO's firm and board such as buy-and-hold abnormal returns (BHARs), changes in the industry-adjusted return-on-assets (ROA), firm size, board size, and insider ownership. We also capture whether the acquisition was diversifying and count the news articles generated by an acquisition announcement to control for the potential effect of a noteworthy acquisition simply raising the profile of a CEO. Finally, because the Sarbanes-Oxley Act of 2002 (SOX) led to a change in the composition of boards (Linck, Netter, and Yang, 2008), we include an indicator variable for years following SOX. All of our specifications include industry and year fixed effects to control for industry- and year-specific differences in the acquisition and director labor market.

In the specifications, the main variables of interest include measures of acquisition experience and whether those acquisitions were value creating. We begin with a simple indicator variable in year t for whether the CEO has made a large acquisition as CEO in any year since 1991 up to and including year t. Analogously, when we study directors, the acquisition indicator variable is for whether the director has been associated with a large acquisition at any firm while being director since 1991 up to and including in year t. Our second acquisition experience measure is a count of the

[4] http://jfe.rochester.edu/Harford_Schonlau.pdf.

[5] We include completed SDC deals of form AA, AM, and M in the sample.

Table 2
Descriptive statistics.

Panel A provides descriptive statistics for the main control variables used in subsequent tables for years 1996–2007. The statistics are calculated using the 2,449 terminal CEO years in the sample. ΔInd Adj ROA is the change in the industry-adjusted ROA from year *t*−1 to year *t*. Firm Size is calculated as the sum of long-term and current interest-bearing debt and the market value of equity in millions of dollars. CEO tenure and CEO age are both measured in years. BHAR is the annualized buy-and-hold abnormal return for years *t*−1 and *t* and is calculated relative to the CRSP value-weighted portfolio. Board size is the number of directors on the board. % Insider is the percentage of the board composed of inside directors. % Owned represents the percent of shares outstanding owned by the CEO. Chair is an indicator variable for the CEO also being chairman of the board. Directorships is the number of boards the CEO sits on in year *t*−1. Press is the number of Factiva news articles within three months of the large acquisition announcement date that mention the CEO's name, the firm's name, and any word related to acquisitions within the same paragraph. Acquisition is an indicator for the CEO having made at least one large acquisition during his tenure as CEO. Dollars is the sum of dollars spent in large acquisitions by the CEO in 2009 dollars. SumCARs is the sum of the announcement returns for all large acquisitions previously done by the CEO. Acq (−) is an indicator variable for SumCAR $<=0$, and Acq (+) is an indicator variable for SumCAR >0. In Panel A, the descriptive statistics are calculated on the variables prior to applying the transformations for skewness discussed in Appendix A.

Panel B presents correlations between the main variables used in the study. Blame and Praise are measures of the tone of the news coverage of the acquisition in the subsequent two years following the acquisition. Diversifying is an indicator variable for the CEO having made at least one diversifying large acquisition in which the target firm's industry differed from the CEO's firm's industry. Number of acquisitions is a count of large acquisitions previously done by the CEO. Dollars is the sum of SDC transactions value (in 2009 dollars) for all large acquisitions done previously by the CEO. Recent acquisition is an indicator variable for a large acquisition within the last two years. BHAR Post-Merger is the buy-and-hold abnormal return calculated relative to the CRSP value-weighted index starting one week after the SDC effective date and extending forward two years. ΔInd Adj ROA Post-Merger is the change in industry-adjusted ROA from *t*−1 to *t*+2 relative to the merger. BHAR Post-Merger and ΔInd Adj ROA Post-Merger are both scaled by the relative size of the target to the acquirer. For the correlations, and in subsequent tables, Firm size, Number of Acquisitions, Dollars, Blame, and Praise are transformed for skewness as described in Appendix A. These correlations are calculated conditional on an acquisition occurring. The correlations reported for Blame and Praise are conditional on there being news coverage of the acquisition in the two-year period following the acquisition.

Panel A: Summary statistics for the main variables

	Obs	SD	5th percentile	50th percentile	Mean	95th percentile
ΔInd Adj ROA	2,449	0.10	−0.15	0.09	0.07	0.18
Firm size (millions of dollars)	2,449	37,111.34	207.04	1,938.71	10,556.12	42,836.05
CEO tenure	2,449	7.01	1.00	6.00	8.30	22.00
CEO age	2,449	7.95	44.00	58.00	57.58	70.00
BHAR	2,449	0.33	−0.61	−0.08	−0.08	0.47
Board size	2,449	2.79	6.00	9.00	9.47	14.00
% Insider	2,449	0.11	0.08	0.17	0.20	0.43
% Owned	2,449	2.38	0.00	0.00	0.47	2.10
Directorships	2,449	1.04	0.00	1.00	1.52	4.00
Chair	2,449	0.47	0.00	1.00	0.67	1.00
Press	2,449	52.14	0.00	0.00	8.86	33.00
Acquisition	2,449	0.49	0.00	0.00	0.39	1.00
Dollars (millions of dollars)	2,449	9,762.65	0.00	0.00	1,663.96	6,380.07
Number of Acquisitions	2,449	1.64	0.00	0.00	0.88	4.00
SumCARs	2,449	0.08	−0.11	0.00	0.00	0.12
Acq(−)	2,449	0.39	0.00	0.00	0.19	1.00
Acq(+)	2,449	0.40	0.00	0.00	0.20	1.00

Panel B:Correlations

		1	2	3	4	5	6	7	8	9	10	11	12
1	SumCARs	1											
2	Acq(−)	−0.71	1										
3	Acq(+)	0.71	−1.00	1									
4	BHAR Post-Merger	0.01	−0.04	0.04	1								
5	ΔInd Adj ROA Post-Merger	0.09	−0.06	0.06	0.22	1							
6	Praise	0.02	0.04	−0.04	0.25	−0.26	1						
7	Blame	0.21	0.01	−0.01	−0.02	−0.01	−0.04	1					
8	Press	0.02	0.03	−0.03	−0.06	−0.02	0.07	0.03	1				
9	Diversifying	0.06	−0.04	0.04	−0.05	−0.04	0.08	0.44	0.10	1			
10	Number of acquisitions	0.13	−0.05	0.05	−0.07	0.00	0.29	0.00	0.50	0.24	1		
11	Dollars	−0.10	0.14	−0.14	−0.06	−0.08	0.00	−0.01	0.56	0.05	0.46	1	
12	Recent acquisition	−0.01	0.01	−0.01	−0.03	0.03	−0.03	0.11	0.07	0.07	0.09	0.02	1

number of large acquisitions as of year *t* previously made by the CEO while CEO in any year since 1991. To address the right skew, this variable is transformed as ln(1+count) and then standardized such that a unit increase is associated with a standard deviation increase in the underlying variable. Again, this variable is analogously defined for directors associated with such acquisitions. Finally, we use a dollar measure of acquisition experience: the sum of SDC transaction values (in 2009 dollars) as of year *t* for all large acquisitions previously done by the CEO while CEO in any year since 1991 up to and including in year *t*. To address the right skew, this variable is transformed as ln(1+summed dollars) and then standardized such that a unit increase is associated with a standard deviation increase in the underlying variable (defined analogously for directors).

Panel A of Table 2 characterizes the CEO and firm in the last year of his employment. While the firm's operating performance is improving, its mean and median BHAR are negative. Upon leaving, CEOs are about 58 years old and have been in their position for 8.3 years on average (median of six years). They hold 1.5 board seats on average (median of one) and are typically the chairman of their own board.

Panel A also presents summary statistics for our acquisition measures, which include our three measures defined above. The average CEO has not made a large acquisition, but 39% have done so. The 95th percentile of the count of large acquisitions is four. In addition, to distinguish between the Gain Experience and Reveal Ability hypotheses in our empirical tests, we calculate the total cumulative abnormal returns (SumCARs) from the announcements of prior large acquisitions. With the majority of CEOs not making large acquisitions, the average of this variable is zero, but it exhibits substantial variation with the 5th percentile being −11% and the 95th being +12%. We also split the acquisition indicator variable into separate indicator variables for whether the prior acquisitions created [Acq (+), 20% of the sample] or destroyed [Acq (−), 19% of the sample] acquirer wealth in total. We classify deals as creating value if the announcement returns are greater than zero and as destroying value if the announcement returns are less than or equal to zero.

While the announcement CARs are focused evaluations of whether the acquisition was a good decision, they are short-run measures. Long-run performance measures of the combined acquirer-target firm have a low signal-to-noise ratio in terms of capturing the specific value implications of the acquisition over time. So, we incorporate an alternative assessment of the acquisition in our specifications. Specifically, we search Factiva for all news articles that mention the acquisition during the two years following its completion. We then use Diction software to perform textual analysis on all the articles, evaluating the discussion of the acquisition against Diction's Praise and Blame tone libraries. Due to skewness in the Diction-based numerical measures of these tones in the articles for each deal, we transform them using ln(1+Diction-based number). Appendix B contains a complete description of this process. In all of the specifications, we standardize the Blame and Praise variables such that a 1 unit increase is associated with a one standard deviation increase in the underlying measure of each article's tone. Firm-years in the sample in which the CEO has not made an acquisition, or for which no post-acquisition articles are available, are assigned a value of zero. Eighty-three percent of the deals in our sample have at least one post-deal news article and 75% (69%) have two (three) or more articles.

Panel B of Table 2 presents a correlation table for the acquisition-related variables. The correlations are computed conditional on an acquisition occurring. The number of acquisitions, dollars spent on acquisitions, and press generated by acquisitions are all positively correlated.

4. Results

4.1. CEOs and directorships

Table 3 summarizes the number of CEOs with directorships before and following retirement. These numbers are presented in the table for the full sample and for the sample of CEOs with and without large acquisition experience. Panel A presents the fraction of CEOs with at least one directorship one year before stepping down as CEO as well as the fraction with a directorship two years after stepping down. Counting all directorships, including their own board, 92% of CEOs have at least one directorship in the year prior to stepping down. Two years after stepping down, only 50% still have any public company seat, split between 47% of CEOs without large acquisition experience and 55% for CEOs with large acquisition experience. The difference is even more stark counting only outside directorships. Even before stepping down, CEOs with large acquisition experience are already more likely to have an outside seat, and this difference widens after stepping down.

Panels B and C provide corroborating information about directorships. CEOs with acquisition experience are more likely to hold multiple outside directorships and are more likely to increase their seats two years after stepping down. The results in this table establish that large acquisitions are correlated with higher numbers of outside board seats. Acquiring CEOs have more outside board seats even before retirement and add to them after retirement.

4.2. The relation between acquisitions and future directorships for acquiring CEOs

Table 4 continues the analysis in a multivariate setting. We estimate ordered logit models to explain the number of outside board seats held by current and former CEOs. Consistent with Brickley, Linck, and Coles (1999) we use an ordered logit model in this setting to account for the ordinal nature of the dependent variable without requiring that the model implicitly assume that the difference between zero board seats and one board seat is the same, for example, as the difference between three and four board seats.[6] In untabulated robustness tests, we confirm

[6] For the ordered logit models in Tables 4, 6, and 7, the dependent variable ranges from zero to four board seats. Individuals with more than four board seats are coded as having four. Our results also hold using four groups as done in Brickley, Linck, and Coles (1999) or using higher

Table 3
CEO board positions before and after retirement.

In this table, year t is the CEO's last year as CEO at the firm. The first two rows of Panel A show the number of CEOs in the sample who held at least one directorship in years $t-1$ and $t+2$, respectively. The next two rows in Panel A show the number of CEOs who held at least one outside board seat in years $t-1$ and $t+2$. The percentages are according to the group membership with sample groups broken down by the full, non-acquiring, and acquiring samples of CEOs. CEOs are classified as acquiring CEOs if they made a large acquisition while CEO. Panel B shows the total number of outside directorships the retired CEOs have in year $t+2$. Panel C shows the number of CEOs in each group who either decrease, have no net change, or increase their total number of outside directorships between years $t-1$ and $t+2$.

	Full sample		Non acquirers		Acquirers	
	Number	Percent	Number	Percent	Number	Percent
Panel A: Directorships across time						
Directorships ($t-1$)	2,257	92.2	1,336	89.7	921	95.9
Directorships ($t+2$)	1,223	49.9	696	46.7	527	54.9
Outside Directorships ($t-1$)	1,099	44.9	631	42.4	468	48.8
Outside Directorships ($t+2$)	963	39.3	542	36.4	421	43.9
Panel B: Number of outside directorships ($t+2$)						
0	1,486	60.7	947	63.6	539	56.1
1	400	16.3	241	16.2	159	16.6
2	307	12.5	170	11.4	137	14.3
3	148	6.0	78	5.2	70	7.3
4+	108	4.4	53	3.6	55	5.7
Panel C: Net change in outside directorships ($t-1$) to ($t+2$)						
Decrease	464	18.9	282	18.9	182	18.9
No change	1,468	59.9	921	61.9	547	56.9
Increase	517	21.1	286	19.2	231	24.1
Total	2,449		1,489		960	

that our results also hold using a negative binomial model. Our variables of interest capture the CEOs' acquisition experience, but we also control for other factors that influence the number of board seats an individual holds. Consistent with the prior literature, we find that firm size, firm performance, and past directorships are positively related to the number of future board seats. We report the coefficients as odds ratios, so coefficients less than one indicate a negative relation between that variable and future board seats.

Panel A in Table 4 reports the results for all CEO years based on the full CEO-year panel. The dependent variable in year t for each observation in this panel is the number of outside directorships held by the CEO in year $t+2$. We refer to board seats held by the CEO at other firms as outside directorships. Given that the same CEOs appear in the data across multiple years, we cluster the errors by CEO. The first row of results shows that having overseen a large acquisition significantly increases the number of board seats held by a CEO even after controlling for a host of performance and CEO characteristics, as well as for how many board seats the CEO held prior to making the acquisition.[7]

The positive relation between outside board seats and acquisition experience continues to hold whether we use the number of large acquisitions or the dollar value of acquisitions. This suggests that not only are the results robust to other proxies for acquisition experience, but also that the relation between experience and directorships is increasing in the number of acquisitions completed and the amount of dollars spent. In Column 2, we control separately for whether the CEO oversaw an acquisition in the current or prior two years versus anytime in his tenure prior to that. Both coefficients are significant in Column 2. Because the median CEO is only in the job for six years, even non recent acquisitions are not too distant.

The coefficients in Table 4 on total cumulative abnormal returns (SumCARs) and the Acq (+) and Acq (−) indicators help distinguish between the Gain Experience and Reveal Ability hypotheses. SumCARs does not significantly explain the number of future board seats. The odds ratios for Acq (−) and Acq (+) are both greater than one and significant, indicating that both good and bad acquisitions are rewarded in the directorship market.[8] This result is inconsistent with the Reveal Ability hypothesis. Comparing the coefficients, we cannot reject the null that the coefficients on Acq (−) and Acq (+) are equal.

Our first ex post assessment of the quality of the acquisitions is captured in the Praise and Blame variables. The odds ratio for Praise is consistently greater than one, but economically small. Notably, the odds ratio for Blame is very close to one and insignificant. Thus, there is a small positive effect for making acquisitions that are assessed positively ex post, but no penalty for making acquisitions

(*footnote continued*)
numbers of categories. Due to space constraints, we do not tabulate the ordered logit cutpoints.

[7] Board size and firm size are highly correlated (>0.5) so they are not put in the same model together. The results are not sensitive to whether board size or firm size is used as a control variable.

[8] To ensure that the observed relation between wealth-destroying deals as categorized by negative announcement returns and future board seats is not being driven by the deals with near zero announcement returns, in robustness tests we split the Acq (−) variable into two indicators based on whether the deal's announcement return is in the bottom or top half of all negative announcement returns. We find that even the coefficient for the bottom half of negative announce returns is still greater than one and significant in explaining future board seats.

Table 4
CEO board seats and acquisitions.

Panel A reports odds ratios from ordered logit models with the dependent variable in year *t* being the number of outside board seats held by the CEO in year *t*+2. In the first six columns, the full panel of CEO-years is used. In Columns 7–9, only the CEO terminal years are included in the sample. Acquisition is an indicator variable in year *t* for the CEO having made a large acquisition in any year up to and including year *t*. Recent acquisition and Old acquisition are indicator variables, respectively, for whether a large acquisition was made by the CEO in the last two years or in any year prior to *t*−2. Number of acquisitions is a count variable of the number of large acquisitions made by the CEO in any year up to and including year *t*. Dollars is the sum of the SDC transactions values (in 2009 dollars) for all large acquisitions made by the CEO in any year up to and including year *t*. As described in Appendix A, both the Number of acquisitions and Dollars are transformed for skewness. SumCARs is the sum of the announcement returns for all large acquisitions done previously by the CEO. Acq (−) and Acq (+) are indicator variables for whether the SumCARs are less than or greater than zero. Blame and Praise are measures of the tone of the news coverage of the acquisition in the subsequent two years. The Blame and Praise variables are standardized such that a 1 unit increase is associated with a 1 standard deviation increase in the underlying measure of each article's tone. ΔInd Adj ROA Post-Merger is the change in industry-adjusted ROA from *t*−1 to *t*+2 relative to the merger. BHAR Post-Merger is the buy-and-hold abnormal return calculated relative to the CRSP value-weighted index starting one week after the SDC effective date and extending forward two years. BHAR Post-Merger and Δ Ind Adj ROA Post-Merger are both scaled by the relative size of the target to the acquirer. Target is an indicator variable if the CEO's terminal year corresponds with his firm being acquired. See Appendix A for a description of all the control variables. Significance at the 0.1, 0.05, and 0.01 level is shown with *, **, and ***, respectively. Errors are clustered by CEO. *p*-values are shown in parenthesis. Panel B reports predicted probabilities for the average CEO based on the odds ratios in Column 7. In Panel B, CEOs with a small (large) change in industry-adjusted ROA correspond to CEOs with a prior change in industry-adjusted ROA 1 standard deviation below (above) the mean change. CEOs with low (high) BHARs correspond with CEOs with prior BHARs 1 standard deviation below (above) the mean BHAR.

Panel A: CEO board seats as a function of acquisition experience and performance

	All CEO years						Last year's only		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Acquisition	1.538***					1.578***	1.715***		1.714***
	(<0.001)					(<0.001)	(0.001)		(0.009)
Recent acquisition		1.180**							
		(0.047)							
Old acquisition		1.313***							
		(0.003)							
Number of acquisitions			1.199***						
			(0.002)						
Dollars				1.223***					
				(0.001)					
SumCARs	1.022	1.022	1.019	1.030		1.018	1.013		0.979
	(0.487)	(0.478)	(0.536)	(0.343)		(0.576)	(0.778)		(0.719)
Acq(+)					1.619***			1.630***	
					(<0.001)			(0.008)	
Acq(−)					1.439***			1.799***	
					(0.003)			(0.002)	
Praise	1.044*	1.041*	1.033	1.041*	1.045**	1.043*	1.085**	1.084**	1.070
	(0.053)	(0.071)	(0.152)	(0.073)	(0.045)	(0.064)	(0.044)	(0.048)	(0.162)
Blame	1.006	1.007	1.010	1.005	1.007	1.010	0.979	0.979	0.984
	(0.839)	(0.829)	(0.746)	(0.859)	(0.829)	(0.757)	(0.481)	(0.464)	(0.662)
ΔInd Adj ROA Post-Merger						1.025			1.029
						(0.463)			(0.617)
BHAR Post-Merger						0.978			0.981
						(0.506)			(0.760)
Target							1.354***	1.353***	1.802
							(0.009)	(0.009)	(0.284)
Future BHARs						1.130***			1.288***
						(<0.001)			(0.002)
Future ΔInd Adj ROA						1.056*			0.951
						(0.052)			(0.481)
Press	0.898***	0.930*	0.905**	0.884**	0.900**	0.896**	0.903*	0.901*	0.895
	(0.010)	(0.077)	(0.025)	(0.013)	(0.011)	(0.014)	(0.098)	(0.092)	(0.134)
Diversifying	1.032	1.077	1.045	1.066	1.035	1.030	0.971	0.982	1.012
	(0.745)	(0.449)	(0.663)	(0.509)	(0.721)	(0.777)	(0.852)	(0.904)	(0.951)
Past directorships	6.901***	6.858***	6.872***	6.876***	6.898***	7.541***	4.773***	4.770***	5.565***
	(<0.001)	(<0.001)	(<0.001)	(<0.001)	(<0.001)	(<0.001)	(<0.001)	(<0.001)	(<0.001)
Prior Δ Ind Adj ROA	1.064**	1.058**	1.060**	1.063**	1.064**	1.028	1.130*	1.129*	1.127
	(0.032)	(0.048)	(0.042)	(0.032)	(0.031)	(0.375)	(0.095)	(0.095)	(0.239)
Prior BHARs	1.094***	1.099***	1.096***	1.096***	1.093***	1.053*	1.147**	1.147**	1.072
	(0.001)	(<0.001)	(0.001)	(0.001)	(0.001)	(0.070)	(0.028)	(0.028)	(0.389)
Firm size	1.188***	1.186***	1.187***	1.172***	1.188***	1.182***	1.273***	1.273***	1.275***
	(<0.001)	(<0.001)	(<0.001)	(<0.001)	(<0.001)	(<0.001)	(<0.001)	(<0.001)	(<0.001)
Tenure	0.979***	0.978***	0.977***	0.979***	0.979***	0.978***	0.984**	0.984**	0.984
	(<0.001)	(<0.001)	(<0.001)	(<0.001)	(<0.001)	(<0.001)	(0.043)	(0.046)	(0.107)
Age	0.998	0.998	0.998	0.998	0.998	0.998	0.997	0.997	0.999
	(0.599)	(0.557)	(0.643)	(0.559)	(0.595)	(0.667)	(0.614)	(0.627)	(0.896)
% Insider	0.210***	0.209***	0.209***	0.213***	0.209***	0.234***	0.393*	0.402*	0.674
	(<0.001)	(<0.001)	(<0.001)	(<0.001)	(<0.001)	(<0.001)	(0.051)	(0.058)	(0.512)

Table 4 (*continued*)

Panel A: CEO board seats as a function of acquisition experience and performance

	All CEO years						Last year's only		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
% Ownership	0.999	0.999	0.999	0.999	0.999	1.001	0.975	0.976	0.972
	(0.953)	(0.921)	(0.925)	(0.947)	(0.943)	(0.866)	(0.336)	(0.356)	(0.380)
Chairman	1.097	1.095	1.097	1.096	1.097*	1.124*	1.041	1.039	1.233
	(0.100)	(0.108)	(0.101)	(0.103)	(0.100)	(0.052)	(0.718)	(0.734)	(0.158)
SOX	0.638***	0.639***	0.649***	0.648***	0.638***	0.697***	0.632*	0.630*	0.913
	(<0.001)	(<0.001)	(<0.001)	(<0.001)	(<0.001)	(<0.001)	(0.058)	(0.056)	(0.777)
Year controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Number of observations	16,318	16,318	16,318	16,318	16,318	14,441	2,449	2,449	1,595
Pseudo R^2	0.294	0.293	0.293	0.293	0.294	0.307	0.259	0.259	0.287

Panel B: Predicted probabilities of zero, one, two, three, or four or more outside board seats two years after retirement

	Number of outside board seats in year t+2				
	0	1	2	3	4+
Comparing predicted probabilities of different numbers of board seats as a function of acquisition experience:					
CEOs without large acquisition experience	0.663	0.218	0.093	0.020	0.006
CEOs with large acquisition experience	0.535	0.277	0.144	0.033	0.010
Difference in probability	–0.127	0.059	0.051	0.013	0.004
p-value for Wald test of H_0: probabilities are equal	<0.001	<0.001	<0.001	<0.001	<0.001
Comparing predicted probabilities of different numbers of board seats as a function of changes in ROA:					
CEOs with a small change in prior industry adjusted ROA	0.641	0.229	0.101	0.022	0.007
CEOs with a large change in prior industry adjusted ROA	0.584	0.256	0.123	0.027	0.009
Difference in probability	–0.057	0.027	0.022	0.006	0.002
p-Value for Wald test of H_0: probabilities are equal	0.094	0.093	0.097	0.103	0.111
Comparing predicted probabilities of different numbers of board seats as a function of stock performance:					
CEOs with low prior BHARs	0.635	0.232	0.104	0.022	0.007
CEOs with high prior BHARs	0.580	0.258	0.125	0.028	0.009
Difference in probability	–0.054	0.026	0.021	0.005	0.002
p-value for Wald test of H_0: probabilities are equal	0.029	0.028	0.031	0.035	0.039

that are assessed negatively. As such, some evidence exists of an option-like payoff in the sense that CEOs are not penalized and are, in fact, rewarded for making bad acquisitions but would be slightly better off still if they make good acquisitions.

While the use of press articles allows us to focus on ex post evaluation of the merger itself, we also include measures of the actual post-performance of the firm. The first five columns already control for firm performance over the two years prior to year t. Because performance in the upcoming intervening years before year t+2 should matter as well, for robustness we include future measures of performance in Column 6. We would like to be able to isolate the effect of the merger on firm performance, but this is impossible. We attempt to do so by calculating the change in industry-adjusted ROA from before to two years after the merger and weighting it by the relative size of the merger, under the assumption that larger mergers should contribute more to the overall change in firm performance. We do the same with the post-merger BHAR. For example, if a CEO undertook an acquisition in 2000 and we measure his directorships in 2007, year t would be 2005 (two years before the directorships are measured). In this example, our control variables already include the BHARs from 2004 and 2005, and in Column 6 from 2006 and 2007 as well. Similarly, we already control for the change in industry-adjusted ROA from 2004 to 2005 and now from 2004 to 2007. Our variables of interest are the performance changes centered around the acquisition. We calculate the BHAR after the merger and the change in industry-adjusted ROA after the merger. In this example, these would be the BHARs in 2001 and 2002 and the change in industry-adjusted ROA from 1999 to 2002, both weighted by the relative size of the acquisition.

Thus, in our final specification, we account for all performance in the four years leading up to our measurement of directorships in year t+2 and we single out the performance changes around the merger. When these two periods overlap, such as if in the example above the merger had been in 2005 instead, the merger-related variables act as interactions, telling us whether the performance in the two years immediately prior to directorship measurement is incrementally more important if it follows a merger. The results in the table do not change our inferences from the main specifications. While overall firm performance matters, post-merger performance is not incrementally important. The economic effect of doing an acquisition is large, but if that acquisition is so value

destructive (in a way not anticipated at the announcement), then the experience effect on directorships can be offset through the firm performance effect. This happens, however, only in the tail of the distribution of performance. Overall, the results suggest that acquisition experience dominates ability in the director labor market and that the Gain Experience hypothesis better characterizes the relation between a CEO's acquisition decisions and his future success in the director labor market.

The last three columns in Table 4 repeat the analysis for CEOs focusing exclusively on their terminal years, such that the dependent variable is the number of board seats held two years after retirement. We focus on the terminal years to account for the possibility that the CEOs have more time and freedom to pursue outside directorships after retirement. In these columns we control for whether the CEO's terminal year corresponds with his firm being a target in an acquisition. Again, we report odds ratios and find that target acquisition experience is also positively and significantly related to the CEO's post-retirement board seats. The overall results using just the CEO's last years are consistent with, and are stronger than, the results based on all CEO years. Thus, acquisition experience is even more important in the director labor market for executives who have left their jobs.[9]

The magnitudes of the ordered logit odds ratios are not easy to interpret, so we use the model in Column 7 of Table 4 to calculate the predicted probabilities for the average CEO having zero, one, two, three, or four or more outside board seats. These predicted probabilities are reported in Panel B of Table 4 for both acquiring and non-acquiring CEOs. Based on the predicted probabilities, CEOs with acquisition experience are 12.7% less likely to have no outside board seats and 5.9% more likely to have one outside board seat than CEOs without large acquisition experience. Looking across the rows, acquiring CEOs are consistently more likely than non-acquiring CEOs to have board seats at any level of seats greater than zero. Comparing the magnitude of the change in predicted probability (5.9%) with the underlying probability for the average CEO having, for example, one outside board seat after retirement (21.8%) reveals that acquisition experience is associated with approximately a 27% relative increase in probability. The relative increase in predicted probability is even more dramatic for higher numbers of outside board seats. For example, even after controlling for acquisition performance and all the other controls shown in Table 4, acquisition experience is associated with more than a 57% relative increase in the predicted probability of the CEO having two or more outside board seats two years after retirement. By comparison, a change in BHARs from 1 standard deviation below to 1 standard deviation above the mean over the last two years of the average CEO's tenure is associated with a 5.4% reduction in the predicted probability of a CEO having no outside board seats after retirement. These results illustrate that the marginal effect of having large acquisition experience on additional future board seats is at least as strong as the marginal effect of a large change in overall firm performance already shown in the literature.

[9] We estimate two additional specifications tabulated in the online Appendix. First, we compare the effect of the CAR for the first acquisition, in which experience could be most gained, with the effect for subsequent acquisitions, in which ability could matter the most. We find that neither CAR loads in the regression. We further check to see whether the market cares more about whether total value was created instead of just whether it was created for acquirer shareholders. Again, we find that future directorships are not affected by total value creation.

4.3. The relation between acquisitions and CEOs remaining on their own boards

In Table 5, we examine the relation between acquisition events and the CEO's seat on his own board. Because many on the board and within the organization would have shared the CEO's experience from the same large acquisition(s), the value of his specific acquisition experience to his own board should be small. Consistent with that prediction, we find that having undertaken a prior acquisition does not increase the chance that a CEO will remain on his own board following retirement. The only acquisition-related variable that matters is the sum of the CARs from prior acquisitions. Within his own firm, the CEO's ability matters more than his (shared) experience. The difference between an acquisition's effect on a CEO for his own board versus other boards strengthens the case for the Gain Experience hypothesis by providing evidence against alternative explanations based on attributes of CEOs or firms that make acquisitions (see Section 5).

4.4. The relation between acquisitions and future board seats for directors

If acquisition experience is valuable in the director labor market for CEOs, then the same type of experience should be valuable for the directors as well. In Table 6, we estimate ordered logit models for all director-years to explain the number of seats held by a director two years in the future. Again, our variables of interest capture whether the director has been on the board of a company undertaking a large merger anytime up to and including the current year. The results show that a director's board seats in year $t+2$ are consistently positively related to measures of acquisition activity prior to and including year t. While the odds ratio for the sum of prior acquisition CARs is greater than one and significant, the odds ratios for the indicator variables Acq (−) and Acq (+) are both greater than one and significant, again indicating that experience matters more than ability.

In Column 6, we test whether the effect of acquisition experience on future board seats is greater for directors when they would have been expected to have been more involved in the acquisition decision. Directors with more power are more likely to be involved in decision making and in advising because they would be more vocal and the CEO would be more likely to heed their advice. Following Hermalin and Weisbach's (1998) model of board bargaining power, we identify acquisitions done when the majority of the board has a longer tenure than the CEO (meaning, among other things, that the directors were appointed to the board by someone else). We find that the effect of being a director during an acquisition is greater when the directors were likely to be more involved.

Finally, we include the merger-specific BHAR and change in industry-adjusted ROA variables, calculated

Table 5
Whether the CEO is on his own board two years after retirement.

The table reports odds ratios for logit models in which the dependent variable is set to one if the CEO is on his own board two years after stepping down as CEO. Acquisition is an indicator variable for the CEO having made a large acquisition in any year up to and including his terminal year as CEO. Recent acquisition and Old acquisition are indicator variables for whether a large acquisition was made by the CEO in the last two years of his tenure or in any year prior to $t-2$. Number of acquisitions is a count variable for the number of large acquisitions made by the CEO in any year as CEO. Dollars is the sum of the SDC transactions values (in 2009 dollars) for all large acquisitions made by the CEO. SumCARs is the sum of the announcement returns for all large acquisition done by the CEO. Acq (−) and Acq (+) are indicator variables for whether SumCARs are less than or greater than zero. Blame and Praise are measures of the tone of the news coverage of the acquisition in the subsequent two years, standardized such that a 1 unit increase corresponds to a 1 standard deviation increase in the underlying measure. ΔInd Adj ROA Post-Merger is the change in industry adjusted ROA from $t-1$ to $t+2$ relative to the merger. BHAR Post-Merger is the buy-and-hold abnormal return calculated relative to the CRSP value-weighted index starting one week after the SDC effective date and extending forward two years. BHAR Post-Merger and ΔInd Adj ROA Post-Merger are both scaled by the relative size of the target to the acquirer. As described in Appendix A, both the number of acquisitions and dollars are transformed for skewness. See Appendix A for a description of all the control variables. Significance at the 0.1, 0.05, and 0.01 levels is shown with *, **, and ***, respectively. p-values are shown in parenthesis

	(1)	(2)	(3)	(4)	(5)	(6)
Acquisition	0.995					0.930
	(0.981)					(0.736)
Recent acquisition		1.029				
		(0.866)				
Old acquisition		1.205				
		(0.294)				
Number of acquisitions			1.183*			
			(0.088)			
Dollars				0.960		
				(0.695)		
SumCARs	1.101*	1.099*	1.092*	1.099*		1.108*
	(0.074)	(0.077)	(0.091)	(0.081)		(0.086)
Acq(−)					0.800	
					(0.307)	
Acq(+)					1.172	
					(0.463)	
Praise	1.024	1.018	1.013	1.026	1.028	0.988
	(0.602)	(0.704)	(0.780)	(0.576)	(0.541)	(0.799)
Blame	1.010	1.012	1.013	1.011	1.010	1.045
	(0.813)	(0.796)	(0.768)	(0.813)	(0.809)	(0.424)
BHAR Post-Merger						1.073
						(0.318)
ΔInd Adj ROA Post-Merger						0.931
						(0.274)
Future BHARs						1.179*
						(0.051)
Future ΔInd Adj ROA						0.941
						(0.457)
Press	0.981	0.949	0.895	1.002	0.992	0.969
	(0.780)	(0.450)	(0.155)	(0.979)	(0.910)	(0.672)
Diversifying	1.249	1.183	1.100	1.280	1.254	1.196
	(0.208)	(0.338)	(0.588)	(0.159)	(0.201)	(0.345)
Past directorships	1.128**	1.128**	1.135**	1.127**	1.125**	1.125*
	(0.019)	(0.019)	(0.015)	(0.020)	(0.022)	(0.053)
Prior ΔInd Adj ROA	1.103	1.103	1.109	1.103	1.107	1.100
	(0.241)	(0.242)	(0.218)	(0.241)	(0.221)	(0.360)
Prior BHARs	1.458***	1.461***	1.454***	1.458***	1.449***	1.572***
	(<0.001)	(<0.001)	(<0.001)	(<0.001)	(<0.001)	(<0.001)
Firm size	1.009	1.009	1.010	1.011	1.008	0.919*
	(0.835)	(0.826)	(0.805)	(0.793)	(0.844)	(0.068)
Tenure	1.015*	1.014	1.013	1.015*	1.015*	1.020**
	(0.076)	(0.109)	(0.124)	(0.071)	(0.069)	(0.036)
Age	1.053***	1.053***	1.054***	1.053***	1.053***	1.033***
	(<0.001)	(<0.001)	(<0.001)	(<0.001)	(<0.001)	(0.002)
% Insider	17.293***	17.473***	17.230***	17.276***	16.821***	26.720***
	(<0.001)	(<0.001)	(<0.001)	(<0.001)	(<0.001)	(<0.001)
% Ownership	1.028	1.028	1.028	1.028	1.027	1.100**
	(0.173)	(0.170)	(0.170)	(0.175)	(0.178)	(0.017)
Chairman	1.823***	1.811***	1.809***	1.827***	1.810***	1.698***
	(<0.001)	(<0.001)	(<0.001)	(<0.001)	(<0.001)	(0.001)
SOX	0.781	0.762	0.777	0.780	0.783	0.622
	(0.440)	(0.397)	(0.431)	(0.440)	(0.448)	(0.224)
Year controls	Yes	Yes	Yes	Yes	Yes	Yes
Industry controls	Yes	Yes	Yes	Yes	Yes	Yes
Number of observations	2,449	2,449	2,449	2,449	2,449	1,594
Pseudo R^2	0.117	0.118	0.118	0.117	0.118	0.126

Table 6
Number of directorships held by directors two years after the current year.

This table reports odds ratios from ordered logit models in which the dependent variable in year t is the number of directorships held by the director in year t+2. Acquisition is an indicator variable in year t for the director having been director at a firm that made a large acquisition in any year up to and including year t. Recent acquisition and Old acquisition are indicator variables, respectively, for whether the director was at a firm that made a large acquisition in the last two years or in any year prior to t−2. Number of acquisitions is a count variable for the number of large acquisitions done at firms where the director was on the board. Dollars is the sum of the SDC transactions values (in 2009 dollars) for all large acquisitions done by the director. SumCARs is the sum of the announcement returns for all large acquisition done at firms where the director was part of the board. Acq (−) and Acq (+) are indicator variables for whether SumCARs is less than or greater than zero. Blame and Praise are measures of the tone of the news coverage of the acquisition in the subsequent two years, standardized such that a 1 unit increase corresponds to a 1 standard deviation increase in the underlying measure. Senior board is an indicator variable if the majority of directors were directors before the current CEO became CEO. ΔInd Adj ROA Post-Merger is the change in industry-adjusted ROA from t−1 to t+2 relative to the merger. BHAR Post-Merger is the buy-and-hold abnormal return calculated relative to the CRSP value-weighted index starting one week after the SDC effective date and extending forward two years. BHAR Post-Merger and ΔInd Adj ROA Post-Merger are both scaled by the relative size of the target to the acquirer. As described in Appendix A, both the number of acquisitions and dollars are transformed for skewness. See Appendix A for a description of all the control variables. Significance at the 0.1, 0.05, and 0.01 levels is shown with *, **, and ***, respectively. Errors are clustered by director. p-values are shown in parenthesis.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Acquisition	1.064***						1.031
	(0.001)						(0.121)
Recent acquisition		1.126***					
		(< 0.001)					
Old acquisition		0.989					
		(0.626)					
Number of acquisitions			1.030***				
			(0.010)				
Dollars				1.039***			
				(< 0.001)			
SumCARs	1.014	1.013	1.014*	1.016*		1.014	1.012
	(0.116)	(0.125)	(0.097)	(0.068)		(0.104)	(0.179)
Acq(−)					1.046**		
					(0.041)		
Acq(+)					1.081***		
					(< 0.001)		
Praise	1.012	1.011	1.010	1.011	1.013	1.012	1.008
	(0.189)	(0.254)	(0.286)	(0.254)	(0.184)	(0.204)	(0.384)
Blame	0.987	0.988	0.987	0.987	0.987	0.987	0.993
	(0.227)	(0.260)	(0.228)	(0.213)	(0.220)	(0.194)	(0.544)
BHAR Post-Merger							1.026***
							(0.002)
ΔInd Adj ROA Post-Merger							0.982**
							(0.045)
Non senior board						0.999	
						(0.965)	
Senior board						1.110***	
						(< 0.001)	
Future BHARs							1.152***
							(< 0.001)
Future ΔInd Adj ROA							0.976***
							(< 0.001)
Diversifying	0.994	0.978	0.995	0.990	0.994	0.992	1.010
	(0.817)	(0.363)	(0.851)	(0.675)	(0.816)	(0.751)	(0.686)
Past directorships	5.947***	5.931***	5.941***	5.932***	5.945***	5.933***	6.429***
	(< 0.001)	(< 0.001)	(< 0.001)	(< 0.001)	(< 0.001)	(< 0.001)	(< 0.001)
Prior ΔInd Adj ROA	1.043***	1.045***	1.043***	1.043***	1.043***	1.043***	1.049***
	(< 0.001)	(< 0.001)	(< 0.001)	(< 0.001)	(< 0.001)	(< 0.001)	(< 0.001)
Prior BHARs	1.209***	1.208***	1.209***	1.209***	1.209***	1.209***	1.151***
	(< 0.001)	(< 0.001)	(< 0.001)	(< 0.001)	(< 0.001)	(< 0.001)	(< 0.001)
Firm size	1.088***	1.088***	1.089***	1.086***	1.088***	1.088***	1.077***
	(< 0.001)	(< 0.001)	(< 0.001)	(< 0.001)	(< 0.001)	(< 0.001)	(< 0.001)
Tenure	1.003***	1.003***	1.003***	1.003***	1.003***	1.003***	0.999
	(< 0.001)	(< 0.001)	(< 0.001)	(< 0.001)	(< 0.001)	(< 0.001)	(0.466)
Age	0.977***	0.977***	0.977***	0.977***	0.977***	0.977***	0.975***
	(< 0.001)	(< 0.001)	(< 0.001)	(< 0.001)	(< 0.001)	(< 0.001)	(< 0.001)
SOX	0.964	0.975	0.964	0.963	0.964	0.960	1.004
	(0.149)	(0.331)	(0.152)	(0.143)	(0.153)	(0.115)	(0.891)
Year controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Number of observations	195,048	195,048	195,048	195,048	195,048	195,048	170,851
Pseudo R^2	0.247	0.247	0.247	0.247	0.247	0.247	0.261

as in Tables 4 and 5. We find some evidence, albeit economically small, that post-merger stock-price performance does matter for acquirer directors. However, the odds ratio for the accounting performance variable is slightly less than one. While it is reasonable to conclude that the director labor market focuses on stock performance, this result is puzzling nonetheless.

4.5. The relation between acquisitions and future directorships for target CEOs

In this section we more closely examine the relation between target CEO acquisition decisions and future board seats. Building on the motivation from Section 2, to distinguish between the Reveal Ability and Gain Experience hypotheses, we require a measure of takeover premium, and a consistent approach to categorize premiums as being relatively high or low. The categorization approach needs to account for differences in premiums across both time and industry as well as the possibility that some premiums might be higher if large value opportunities are associated with acquirers seeking to make improvements at poorly managed target firms. We measure the takeover premium as the ratio of the closing stock price at the target firm on the day after the acquisition announcement to the target firm's stock price 20 days earlier.

We then use two different methods for categorizing the premium. In the first method, we follow Hartzell, Ofek, and Yermack (2004) and use ordinary least squares to model the premium as a function of the relative size of the target to the acquirer, whether the deal is classified as unsolicited in SDC, and the excess return at the target firm over the CRSP value-weighted portfolio for the prior year ending 20 days before the acquisition announcement date. We then add explanatory variables to the model to control for year and industry effects, as well as the mean annual industry-adjusted ROA at the target firm calculated over the prior two years. By including both prior excess stock performance and industry-adjusted ROA measures, we control for whether the target firm is efficiently managed compared with its peers. We take the residual from this model as our measure of relative, or excess, takeover premium. We consider large positive residuals from this model to correspond with deals in which the target CEO successfully negotiated for relatively high premiums given industry norms, time trends, and the relative profitability of the target firm compared with its industry and the overall market.[10] Hence, deals with residuals greater than zero are classified as high premium deals and those with residuals less than zero are classified as having low premiums.[11] For the second method, we simply sort the acquisitions by industry and announcement date. If a given target's premium is greater than (less than) the mean premium within its industry for the previous ten deals, it is classified as having a high (low) premium.

In Columns 1–5 of Table 7, we focus on CEO terminal years and estimate ordered logit models for how the number of outside directorships two years after stepping down as CEO relate to measures of acquisition experience and value creation. In these specifications, we control for whether the CEO made an acquisition while CEO (Acquisition) and whether the CEO was CEO of a firm that was acquired (Target). In Columns 2 and 3, we split the target indicator variable into separate indicators for high [Excess Premium (+)] and low [Excess Premium (−)] relative takeover premiums using the two different classification approaches described above. Whether we use method one (Column 2) or method two (Column 3), in both cases the odds ratio for the indicator variable for low relative premiums is greater than one and insignificant in explaining future board seats. We compare the coefficients on Excess Premium (−) and Excess Premium (+) and find that, using either classification method, the coefficients are not statistically different. Target CEOs that negotiate relatively low premiums do not experience negative settling-up in the director labor market. In Column 4, we replace the excess premium indicator variables with the residual from the premium model described above and find again that the relative premium does not explain the target CEO's success in the director market.

In Columns 6 and 7, we limit the sample to just those terminal years associated with takeovers. In these specifications, all of the CEOs are stepping down as CEO because their firms are being acquired. Using this approach, we corroborate our earlier findings: Contrary to the predictions of the Reveal Ability hypothesis, differences in target shareholder wealth effects as captured by differences in relative takeover premiums are not important in the director labor market. Instead, the evidence from the analysis using either acquiring or target firms is generally consistent with the Gain Experience hypothesis.

5. Alternative explanations

The previous results are consistent with the hypothesis that past acquisition experience as opposed to past acquisition performance drives future outside board seat opportunities. In this section, we consider two alternative types of explanations for the results. First, we consider whether the acquisition experience measures are proxying for some other unobservable CEO or director quality that is valuable in the director labor market. For example, CEOs that make acquisitions could be better at working with boards, more charismatic, better at communication, of higher ability, or more tolerant of risk. However, these possibilities are unlikely to explain our results for several reasons.

First, we include the number of boards the CEOs and directors sit on in the previous year, as well as recent firm performance measures, in all the ordered logit models. If the unobservable characteristic is time invariant, or matters for firm performance, then it should have affected the number of boards the person was part of in the previous year or affected the firm's performance. Second, acquisition experience is not significant in explaining whether the CEO remains on his own board two years after retirement. If acquisitions proxy for

[10] Hartzell, Ofek, and Yermack's (2004) model of takeover premium also includes control variables for various measures of the target CEO privately benefiting from the deal. They show that premiums tend to be lower in deals in which the target CEO privately benefits in other ways. For our paper, we do not need to distinguish between low premiums caused by target CEO kickbacks and low premiums caused by inferior negotiating ability because both cases should lead to fewer future board seats if an ex post settling-up occurs in the director labor market. Hence, we do not control for private kickbacks to the CEO and allow the residual to account for both possible causes of low premiums.

[11] For the first method, we estimate the model of takeover premiums on all SDC targets identifiable in CRSP with form AM, M, or AA from 1996 to 2007 and not just those deals that pass the size filter discussed in Section 3. For the second method, we include all SDC targets identifiable in CRSP of SDC form AM, M, or AA from 1993 to 2007 to calculate the rolling mean premiums in each industry.

Table 7
Target CEOs and future board seats.

This table reports odds ratios from ordered logit models with the dependent variable being the number of outside board seats held by the CEO two years after stepping down as CEO. Columns 1–5 are estimated using the sample of all terminal CEO years. Columns 6 and 7 are estimated using only the subset of terminal CEO years when the CEO in question is stepping down as CEO because his firm is being acquired. Acquisition is an indicator variable for the CEO having previously made a large acquisition while CEO. Target is an indicator variable for the CEO's terminal year corresponding with the firm being acquired. SumCARs is the sum of the announcement returns for all large acquisitions previously done by the CEO. Excess Premium (+) and Excess Premium (−) are indicator variables for whether the relative takeover premium accepted by the target CEO is above or below the expected premium. The expected premium is defined using two methods: (1) In Column 2, a high (low) excess premium is one when the residual from a multivariate model of the takeover premium is above (below) zero. (2) In Column 3, a high (low) excess premium is one when the takeover premium is above (below) the mean takeover premium for the most recent ten deals in the industry. The takeover premium model used to generate the residual is an ordinary least squares model that regresses the takeover premium on industry and year controls, the mean annual industry-adjusted ROA over the last two years at the target firm, the excess return of the target firm over the prior year, a flag for whether the deal is unsolicited, and the relative size of the target to the acquiring firm. The residual from this model is used as a continuous variable (Excess Premium) in Column 4. ΔInd Adj ROA Post-Merger is the change in industry-adjusted ROA from $t-1$ to $t+2$ relative to the merger. BHAR Post-Merger is the buy-and-hold abnormal return calculated relative to the CRSP value-weighted index starting one week after the SDC effective date and extending forward two years. BHAR Post-Merger and ΔInd Adj ROA Post-Merger are both scaled by the relative size of the target to the acquirer. See Appendix A for a description of all the control variables. Significance at the 0.1, 0.05, and 0.01 level is shown with *, **, and ***, respectively. *p*-values are shown in parenthesis.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Acquisition	1.750***	1.747***	1.749***	1.746***	1.749***	2.083*	2.005*
	(0.001)	(0.001)	(0.001)	(0.001)	(0.006)	(0.051)	(0.064)
Target	1.346**				1.824		
	(0.010)				(0.272)		
Excess Premium(−)		1.262				1.324	
		(0.754)				(0.649)	
Excess Premium(+)		1.340**					
		(0.011)					
Excess Premium(−)			1.522				
			(0.660)				
Excess Premium(+)			1.336**				
			(0.011)				
Excess Premium				1.142			1.395
				(0.775)			(0.454)
SumCARs	1.012	1.011	1.011	1.013	0.978	1.101	1.095
	(0.801)	(0.817)	(0.818)	(0.789)	(0.704)	(0.400)	(0.421)
BHAR Post-Merger					0.986		
					(0.812)		
Δ Ind Adj ROA Post-Merger					1.022		
					(0.701)		
Future BHARs					1.283***		
					(0.002)		
Future ΔInd Adj ROA					0.955		
					(0.520)		
Press	0.912	0.912	0.912	0.907	0.900	0.881	0.885
	(0.136)	(0.132)	(0.132)	(0.112)	(0.154)	(0.442)	(0.459)
Diversifying	0.958	0.961	0.961	0.950	1.001	0.782	0.798
	(0.782)	(0.799)	(0.798)	(0.740)	(0.995)	(0.523)	(0.559)
Past directorships	4.782***	4.784***	4.784***	4.762***	5.574***	3.958***	3.969***
	(< 0.001)	(< 0.001)	(< 0.001)	(< 0.001)	(< 0.001)	(< 0.001)	(< 0.001)
Prior Δ Ind Adj ROA	1.123	1.122	1.122	1.121	1.116	1.265	1.264
	(0.105)	(0.107)	(0.107)	(0.108)	(0.268)	(0.181)	(0.183)
Prior BHARs	1.155**	1.154**	1.154**	1.177***	1.077	1.086	1.089
	(0.021)	(0.022)	(0.022)	(0.008)	(0.358)	(0.572)	(0.556)
Firm size	1.272***	1.272***	1.271***	1.261***	1.274***	1.445***	1.460***
	(< 0.001)	(< 0.001)	(< 0.001)	(< 0.001)	(< 0.001)	(< 0.001)	(< 0.001)
Tenure	0.984**	0.984**	0.984**	0.983**	0.984	0.988	0.988
	(0.048)	(0.047)	(0.047)	(0.038)	(0.114)	(0.497)	(0.505)
Age	0.996	0.996	0.996	0.993	0.999	0.996	0.996
	(0.593)	(0.595)	(0.600)	(0.319)	(0.861)	(0.773)	(0.772)
% Insider	0.392**	0.393*	0.393**	0.358**	0.678	0.084**	0.086**
	(0.049)	(0.050)	(0.050)	(0.031)	(0.515)	(0.037)	(0.039)
% Ownership	0.975	0.975	0.975	0.979	0.970	0.961	0.960
	(0.345)	(0.347)	(0.348)	(0.410)	(0.352)	(0.344)	(0.337)
Chairman	1.042	1.042	1.041	1.040	1.236	0.713	0.720
	(0.713)	(0.713)	(0.716)	(0.726)	(0.153)	(0.136)	(0.149)
SOX	0.626*	0.617**	0.617**	0.605**	0.908	0.358**	0.368*
	(0.052)	(0.044)	(0.044)	(0.038)	(0.765)	(0.047)	(0.056)
Year controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Number of observations	2,449	2,449	2,449	2,449	1,595	627	627
Pseudo R^2	0.258	0.258	0.258	0.257	0.287	0.276	0.276

Table 8
Probability of making an acquisition after hiring a director with prior acquisition experience.

In this table, the probability of a firm making a large acquisition in the next two years is modeled in a logit model as a function of whether the firm's board hires a new director in year t who has prior experience with acquisitions. Hire acquisition experience is an indicator variable in year t set to one if the newly hired director made a large acquisition as a CEO in the past. The other control variables are based on those discussed in Harford (1999) and, for the non-indicator variables, are averaged over years $t-3$ to $t-1$. Average abnormal returns is 100 × the average daily abnormal returns at the firm with market model parameters estimated each year using the prior year's information. Sales growth is measured each year as [sales(t)−sales($t-1$)]/sales($t-1$). Noncash working capital is [(current assets−current liabilities−cash and cash equivalents)/assets]. Leverage is the book value of debt divided by the market value of equity. Market-to-book is the market value of equity divided by the book value of equity. Price-to-earnings is the stock price per share divided by the earnings per share. Firm size is the ln(1+book assets). Cash deviation is the residual from a cash model based in Opler, Pinkowitz, Stulz, and Williamson (1999). In their model, the ln(cash/assets) is modeled each year at each firm as a function of the following variables: market-to-book, firm size, cash flow/assets, net working capital/assets, capital expenditure/assets, leverage, R&D/sales, dividends, and an industry-based measure of the standard deviation of cash flows at firms in that industry over the prior 20 years. Number of acquisitions in prior two years captures the number of large acquisitions done at the hiring firm over the last two years. The sample includes the same S&P 1500 firms used in prior tables and focuses on years 1996–2007. In Column 3, the sample is restricted to firm-years in which the firm has made zero large acquisitions in the prior two years. Significance at the 0.1, 0.05, and 0.01 level is shown with *, **, and ***, respectively. p-values are clustered by firm and shown in parenthesis.

	Coefficients reported as odds ratios		
	(1)	(2)	(3)
Hire acquisition experience		1.168**	1.210**
		(0.026)	(0.037)
Average abnormal returns	1.808*	1.793*	2.235**
	(0.069)	(0.067)	(0.013)
Sales growth	0.999	0.999	0.956
	(0.544)	(0.492)	(0.537)
Noncash working capital	0.705	0.711	0.606
	(0.244)	(0.256)	(0.162)
Leverage	0.921	0.923	0.808*
	(0.395)	(0.409)	(0.064)
Market-to-book	1.001***	1.001***	1.001***
	(<0.001)	(<0.001)	(<0.001)
Price-to-earnings	0.996***	0.996***	0.998
	(0.007)	(0.007)	(0.272)
Firm size	1.045*	1.044*	1.073**
	(0.066)	(0.073)	(0.012)
Cash deviation	1.014	1.016	0.982
	(0.517)	(0.480)	(0.478)
Number of acquisitions in prior two years	1.304***	1.296***	
	(<0.001)	(<0.001)	
Year controls	Yes	Yes	Yes
Industry controls	Yes	Yes	Yes
Number of observations	14,407	14,407	10,804
Pseudo R^2	0.051	0.051	0.051

some unobservable but valuable trait in the director labor market, then we would expect that acquisition experience would also be significant in explaining the probability of the CEO being on his own board. Third, the results in Tables 6 and 7 show that in addition to acquiring CEOs' experience, both the directors' and the target CEOs' acquisition experience are positively related to the number of future board seats. These results corroborate the acquiring CEO findings and support our conclusion that the acquisition measures are not proxying for some unobservable acquiring CEO characteristic.

A second alternative explanation for the results could center on the idea that acquisition experience itself is not valued in the director labor market but that the CEOs gain some other type of reputation or knowledge via the acquisition that then leads to additional board seats. For example, CEOs who make diversifying acquisitions could gain experience in more than one industry and, hence, could be qualified to work as a director in multiple industries. However, in our tests we include a control variable for whether the CEO or directors made a diversifying acquisition. We find no evidence that diversifying acquisitions help CEOs gain more board seats than non-diversifying acquisitions.

As further evidence that it is the acquisition experience that is valued, we estimate a logit model predicting whether a firm attempts an acquisition in the next two years. The results are presented in Table 8. The first column contains a baseline model based on the extant literature (see, e.g., Harford, 1999). In the second column, we include an indicator variable for firms that add a director with acquisition experience, as defined in this paper. The odds ratio for this variable is greater than one and significant, whether we control for the firm's own prior acquisitions or not. Firms that hire new directors with prior acquisition experience are more likely to go on to make an acquisition in the next two years than firms that do not.

Finally, large acquisitions generate press coverage. The CEOs who become well known via acquisitions could be the ones who do better in the director market in subsequent years. To control for this possibility, we create a variable for press coverage by counting the number of news articles using all available Factiva news sources within three months of the announcement date that mention the CEO's name, the firm's name, and any word related to acquisitions within a paragraph. We include this variable in the CEO-based tests and

find that it is not the press that explains the relation between acquisitions and future outside board seats. Our Praise and Blame press-based variables show that only positive press focused on the acquisition itself has any relation with future board seats, albeit an economically small one.

5.1. Further robustness

In an online Appendix table, we present additional robustness checks for our main results. In the robustness checks, we show that the effect of cumulative acquisition performance, captured by SumCARs, is not impacted by the interaction of performance and number of acquisitions using the full sample or using only the CEOs' last years. We also present tests that restrict the analysis to the post-SOX period for two reasons. First, given the changes to the director labor market after 2002, we want to verify that our results still hold post-SOX. Second, we can determine whether our conclusions are affected by any potential survival bias given the way we back filled the pre-1996 data in forming the sample. By estimating our ordered logit models using post-2002 data, we address both of these concerns. Our qualitative conclusions still hold for the post-SOX period whether using the full sample or using only the CEOs' last years.

As shown in the online Appendix, we control for the firm's performance over the entire tenure of the CEO, not just for the prior two years, and obtain the same qualitative conclusions. We also test whether our results still hold for value-destroying acquisitions in which the announcement return is not near zero. This robustness test applies to two concerns. First, for acquisitions in which the method of payment is stock, the announcement return might be slightly negative and yet not imply value destruction. Second, given that the announcement return is affected by what the market expected prior to the acquisition announcement, it might not be a perfect measure of wealth creation or destruction specific to the deal. To address this we estimate an ordered logit model with a wealth-creating flag and two wealth-destroying flags with one indicating the top half of negative announcement return deals and the other indicating the bottom half of negative announcement returns. The odds ratios for the wealth destroying flags are 1.43 and 1.46, respectively, and are both significant. These ratios are very similar to each other and to the one in Column 5 of Table 4. In general, as long as announcement returns are correlated with the actual wealth creation or destruction in the deals, our inferences are valid. Finally, we test whether CEOs are rewarded for withdrawing bad acquisitions and find some evidence that they are. Further, the odds ratios for failing to consummate acquisitions greeted with a positive CAR are consistent with a penalty but are insignificant, possibly due to low power.

We also conduct three untabulated tests. First, various papers have used both board size and firm size proxies when explaining board seats. We did not include both controls together because of their high correlation. We reestimate our specifications, including both. Our inferences remain unchanged. Second, while an ordered logit is a sensible approach to estimation of the number of board seats, we check whether our results are sensitive to the specific estimation method we use. We reestimate the specifications from Table 4 using a negative binomial and obtain similar results. Third, some of the control variables were winsorized at the 0.5% level to deal with extreme values. To ensure that our results are not dependent on this (small) winsorization, we reestimate some of the key specifications using non-winsorized data and obtain similar results.

6. Conclusions

The board of directors is a critical component of firm governance. Understanding the factors that are valued in the director labor market is important for understanding whether, and how, this labor market disciplines past decisions and, thus, affects CEOs' implicit incentives. In this paper, we provide evidence both on the functioning of the director labor market and on the degree to which it can provide incentives to CEOs through ex post settling-up.

Prior research has established that performance and ability matter in the director labor market, suggesting that ex post settling-up can mitigate some CEO agency conflicts. However, we show that experience also matters and, in the case of acquisitions, that the experience is valuable enough to outweigh ability considerations except in extreme cases. Specifically, we find that acquiring CEOs as well as directors who participate in large acquisitions are significantly more likely to obtain higher numbers of board seats in subsequent years regardless of whether the acquisition was value creating or value destroying for their shareholders. Similarly, target CEOs receive more directorships, even if they negotiate abnormally low premiums. We do not find evidence that the director labor market offers ex post settling-up for acquisitions that destroy value. Instead, we find evidence that acquisition experience is rewarded by additional future directorships. Hence, compensation design and termination threat must provide all the incentives to CEOs with regard to acquisitions.

Our paper also contributes to the growing literature on the advising function of boards (see, e.g., Adams and Ferreira, 2007; Coles, Daniel, and Naveen, 2008; Linck, Netter, and Yang, 2008). We provide robust evidence that these directors are sought not necessarily as good monitors, but for their advising role on acquisitions. Further, this advice is used relatively quickly by their new boards as they make acquisitions.

Appendix A

See Table A1.

Appendix B. Description of Praise and Blame Measures

The Praise and Blame measures are designed to capture an ex post assessment of the quality of the acquisition decision. To generate them, we do the following.

We create separate Factiva search strings for each deal in the sample and then search all news sources in Factiva deal by deal starting one week after the SDC effective date and extending forward in time for two years. The search strings identify all news coverage that mention the acquiring firm and either the target firm name or the dollar sum reported in SDC as the transaction value. An additional requirement in the search strings is that some form of a

Table A1
Descriptions of variables used in Tables 4–7.

Variable	Description
Acquisition	Indicator variable in year *t* that the CEO (director) has made a large acquisition at some point as CEO (as director) in any year since 1991 up to and including year *t*. An acquisition is classified as large if (1) the target size as measured by the SDC transaction value is at least 5% of the size of the market value of the acquirer as of the end of the prior calendar year and (2) the target is at least $50 million in 2009 dollars.
Acq (+), Acq (−)	Indicator variables in year *t* for whether the sum of the CEO's (director's) past large acquisition announcement returns is negative or positive. These indicators are set to zero in year *t* if the CEO (director) has not previously made a large acquisition.
Age	Age of CEO (director) in years.
Board size	Number of directors on the board.
BHAR Post-Merger	Annualized buy-and-hold abnormal return starting one week after the SDC effective date and extending forward for two years. It is measured relative to the CRSP value-weighted portfolio over the same period. This variable is set to zero if the CEO (or director) has made no previous large acquisition. It is winsorized at the 0.5% level and standardized such that a 1 unit increase corresponds with a standard deviation increase.
Chair	Indicator variable for the CEO being the chairman of the board.
ΔInd Adj ROA Post-Merger	This variable is the change from year *t*−1 to year *t*+2 in the firm's industry-adjusted ROA around the acquisition. ROA is calculated each year as operating income before depreciation divided by total assets. The industry adjustment is done each year by subtracting off the industry median ROA. This variable is set to zero if the CEO (or director) has made no previous large acquisition. It is winsorized at the 0.5% level and standardized such that a 1 unit increase corresponds with a standard deviation increase.
Diversifying	Indicator variable in year *t* that the CEO (director) made at least one large diversifying acquisition since 1991. An acquisition is categorized as diversifying if the target firm's industry is different than the acquirer's industry. Industries are classified according to Fama and French (1997).
Dollars	Cumulative sum of all the SDC transaction values for large acquisitions done by the CEO as CEO (or for the director as director) in any year since 1991 up to and including year *t*. Prior to summing, the dollars are first converted to 2009 dollars. Given the right skew in this variable, it is transformed as ln(1+total dollars) and then standardized such that a unit increase in the variable is associated with a standard deviation increase in the underlying.
Excess Premium (+), Excess Premium (−)	Indicator variables for whether the takeover premium accepted by the target CEO is above or below the expected premium. The expected premium is defined using two methods. (1) A high (low) premium is one when the residual from a multivariate model of the takeover premium is above (below) zero. (2) A high (low) premium is one when the takeover premium is above (below) the mean takeover premium for the most recent ten deals in the industry. The takeover premium model used to generate the residual is an ordinary least squares model that regresses the takeover premium on industry and year controls, the mean annual industry-adjusted ROA over the last two years at the target firm, the excess return of the target firm over the prior year, a flag for whether the deal is unsolicited, and the relative size of the target to the acquiring firm.
Excess Premium	The residual from the multivariate model described above.
Firm size	Natural log of the sum of the long-term and current portion of the firm's interest bearing debt and the market value of the firm's equity. This variable is measured as of the beginning of the year.
Industry controls	Fama and French 48 industry controls (Fama and French, 1997).
Future BHARs	Annualized buy-and-hold abnormal return starting July 1 each year and extending forward for two years. It is measured relative to the CRSP value-weighted portfolio over the same period. It is winsorized at the 0.5% level and standardized such that a 1 unit increase corresponds with a standard deviation increase.
Future ΔInd Adj ROA	This variable is the change from year *t*−1 to year *t*+2 in the firm's industry-adjusted ROA. ROA is calculated each year as operating income before depreciation divided by total assets. The industry adjustment is done each year by subtracting the industry median ROA. It is winsorized at the 0.5% level and standardized such that a 1 unit increase corresponds with a standard deviation increase.
Number of acquisitions	Cumulative count in year *t* of all large acquisitions done by the CEO as CEO (or by the director as director) since 1991 up to an including year *t*. Given the right skew in this variable it is transformed as ln(1+count) and then standardized such that a unit increase in the variable is associated with a standard deviation increase in the underlying.
Old acquisition	Indicator variable in year *t* for a large acquisition in any year since 1991 up to and including year *t*−3.
Past Directorships	Number of directorships held by the CEO (director) as of the year of their last large acquisition. If the CEO (director) has not made a large acquisition, then this variable is the number of directorships as of the previous year.
Percent Insider	Percent of the board of directors that are insiders. Insiders are identified using IRRC/Riskmetric flags for directors that are relatives, former employees, or that are classified directly as insiders.
Percent ownership	Percent of shares outstanding owned by the CEO.
Press	Number of Factiva news articles within the three months (using all sources) of the acquisition announcement date when the CEO's name, the firm's name, and a word related to acquisitions (acquisition, acquired, merger, merged, takeover, etc.) appear within the same paragraph. Due to the right skew in this variable, it is transformed as ln(1 +number of articles). This variable is set to zero before the transformation for CEOs who have not made a large acquisition.
Prior BHARs	Annualized buy-and-hold abnormal return starting in January of year *t*−1 and going through December of year *t*. It is measured relative to the CRSP value-weighted portfolio over the same period. It is winsorized at the 0.5% level.
Prior ΔInd Adj ROA	This variable is the change from year *t*−1 to year *t* in the firm's industry-adjusted ROA. ROA is calculated each year as operating income before depreciation divided by total assets. The industry adjustment is done each year by subtracting the industry median ROA. This variable is winsorized at the 0.5% level.
Recent acquisition	Indicator variable in year *t* for a large acquisition within the last two years.
SOX	Indicator variable for years after 2002.
SumCARs	In year *t*, this is the sum of the CAR(−1,+1) announcement returns for all large acquisitions done previously by the CEO while CEO (or by the director as director) in any year since 1991 up to year *t*. This variable is set to zero if the CEO

Table A1 (*continued*)

Variable	Description
	(or director) has made no previous large acquisition. The variable is standardized such that a unit increase is associated with a standard deviation increase in the underlying and winsorized at the 0.5% level.
Tenure	The number of years since the CEO first became CEO at the firm. For the directors, this is the number of year since the director first became a director at any firm in the sample.
Year controls	Year indicator variables.

merger-related word (acquire, acquired, acquisitions, merged, merge, merger, takeover, bought, buy, purchase, purchased, etc.) appears within 25 words of the acquirer name or the target name. The news searches are initiated one week after the effective date to avoid the inclusion of the host of articles that amount to statements that the deal was completed in the days immediately following the effective date. Eighty-three percent of deals in our sample had one or more articles, 75% had two or more, and 69% had three or more. All of these news stories are downloaded in files.

We create two versions of the downloaded news files. The first version includes the full text of each of the news articles. The second version includes for each article only the 50 words immediately before and 50 words immediately after the reference to the target firm. If the target firm is mentioned more than once, then 50 words around all references are included without duplication (i.e., if the target is mentioned several times in the same paragraph, then the 50 words surrounding each reference might overlap). In the empirical analysis, we use Blame and Praise variables constructed using both sets of articles and obtain qualitatively similar results. Given space constraints, we tabulated only the 50-word version. We use Diction software to perform textual analysis on all the articles. As described on the Diction software homepage, Diction is a "computer-aided text analysis program for determining the tone of a verbal message." Using built-in libraries, the software searches the text for instances of words that correspond to certain tones according to subject-specific libraries. For our application, we use the Business: Corporate Public Relations Blame and Praise libraries to evaluate the extent to which the news articles exhibit Blame and Praise tones. After processing each announcement, the Diction software provides a numerical summary of the tone of each article along the above-mentioned dimensions. Diction has been used in many peer-reviewed published articles and books. See http://www.dictionsoftware.com/published-studies/. Due to skewness in the Diction-based numerical measures, we transform them using ln(1+Diction-based number). To facilitate interpretation, we standardize this variable such that a 1 unit increase in Tables 4–7 is associated with a 1 standard deviation increase in the underlying Blame and Praise tone measures.

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