

# **Takeover bids and target directors' incentives: the impact of a bid on directors' wealth and board seats**

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## **Abstract**

I investigate the nature of the incentives that lead outside directors to serve stockholders' interests. Specifically, I document the effect of a takeover bid on target directors, both in terms of its immediate financial impact and its effect on the number of future board seats held by those target directors. Directors are rarely retained following a completed offer. All target directors hold fewer directorships in the future than a control group, suggesting that the target board seat is difficult to replace. For outside directors, the direct financial impact of a completed merger is predominately negative. This documents a cost to outside directors should they fail as monitors, forcing the external control market to act for them. Future seats are related to pre-bid performance. Among outside directors of poorly performing firms, those who rebuff an offer face partial settling-up in the directorial labor market, while those who complete the merger do not.

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## 1. Introduction

When Bank of America merged into Nationsbank, 18 Bank of America directors who were eliminated in the merger received a surprise \$300,000 payment with a letter thanking them “for the contributions [they] have made to building this great company.” Explaining the highly unusual bonus, a Bank of America official stated that “the purpose also was to thank people who had, after all, voted themselves out of a job by approving the merger” (*Wall Street Journal*, Feb. 10, 1999, B1).

Shareholders depend on the board of directors to represent their interests. While we expect outside directors to align themselves with shareholders, we know little about the incentives driving director diligence in monitoring or the incentives facing these directors as they make major decisions. Walkling and Long (1984) provide some evidence on how the financial impact of the merger on the board affects its response to a bid, and Mikkelsen and Partch (1989) show that there is a relation between managerial ownership and completion of a merger. One case in which the board’s role is extremely important and its incentives particularly unclear is the case of a takeover bid. The board is charged with receiving and acting on the offer and with ensuring that the interests of shareholders supercede those of the managers. However, the target directors may have personal incentives that conflict with their role as shareholder representatives. If the merger is completed, a director may lose his or her directorship and, through its exposure, future potential directorships.

Thus, the prospect of losing a directorship in a takeover could help motivate directors to be diligent in their role as monitors. However, should a takeover bid actually occur, that same reality potentially causes their incentives to deviate from those of the shareholders they represent. While it is difficult to contract on the handling of a takeover bid and the horizon problem inherent with the end of a firm as a separate entity, settling-up in the directorial labor market can provide proper incentives.

This study has two goals. The first goal is to gain a better understanding of what motivates directors to be diligent in their monitoring role. This is accomplished by documenting how receiving a takeover bid affects a director's wealth and future board seats. The second goal is to examine the ex post settling-up hypothesis in the context of the directorial labor market by asking whether takeover bids and the response of target directors to the bids affect those directors' future directorships. As a result, this study provides some insight into the complex incentives facing the board of directors when considering a merger proposal and directing the target's response.

I start with a sample of 1,091 directors from boards of *Fortune 1000* firms receiving takeover bids between 1988 and 1991. The sample directors are compared to cohorts from nontargeted firms, matched on age and number of *Fortune 1000* directorships. I compute the direct financial impact of the merger on both inside and outside directors. Further, the study tracks these directors' abnormal change in directorships in *Fortune 1000* firms and relates them to director characteristics, target firm performance, and measures of how the offer was handled by the directors.

The evidence presented here shows that all directors, and outside directors in particular, are unlikely to be retained on the new board following a successful merger. The target board seat appears to be difficult to replace, because compared to their nontargeted peers, directors in my sample can expect to hold approximately one fewer *Fortune 1000* directorship two years following a completed merger. The direct financial impact of the merger for outside directors is predominantly negative. Their token holdings of target equity do not provide enough of a gain to offset the lost stream of income from the board seat. Thus, there is no financial windfall to offset the penalty of the loss of the board seat.

While the specifications used here only partially explain the number of future board seats held by an individual, there is some evidence of a form of ex post settling-up in the directorial labor market and the positive incentives created by such settling-up.

These incentives potentially counter the perverse incentive created by the fact that target directors know that, should they accept the offer, they will lose one lucrative and difficult to replace board seat. In particular, if directors of a poorly performing firm successfully block an offer, the outside directors can expect fewer future other directorships, on average. However, directors of poorly performing firms who engineer a completed merger transaction for their shareholders do not face fewer other directorships in the future. A two standard-deviation reduction in pre-bid industry-adjusted operating performance reduces an outside director's future directorships by 0.47 if the takeover bid is terminated. If it is completed, the effect changes to an *increase* of 0.34 directorships. While the directors market does provide some partially offsetting incentives, the net incentive, however, is to block the merger because the net impact, including the loss of the target board seat, is still negative.

The results have implications for the understanding of incentives facing boards. Extant empirical research has built the case that independent boards are more likely than insider-dominated boards to act in shareholders' interests. The underlying assumption is that outside directors will align themselves with shareholders rather than management. However, these outside directors often have few direct incentives to tie them to shareholders. Except in the case of directors who are also blockholders, directors usually have very low ownership stakes and their compensation is primarily in the form of an annual cash retainer.<sup>1</sup> The findings here demonstrate that outside directors face a loss of directorships should the merger be completed. Thus, there exists a penalty of potentially losing a board seat should an external control event occur. This penalty motivates outside members to be diligent in exercising their internal control authority. However, this very penalty also leaves them with incentives counter to those of shareholders should an

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<sup>1</sup> Conference Board surveys of director compensation taken during my sample period report that in 1987, only 4% of firms paid their directors either partially or completely in stock and only 9% offered option grants. By 1991, these numbers had grown to 8% and 26%, respectively. Of those with option grant programs, only half made grants in any given year.

external control event actually occur. With the knowledge that these individuals will likely lose at least one lucrative board seat if the merger is completed, it is no longer clear why they should be expected to align themselves with target shareholders during a takeover offer. In fact, top executives, with their golden parachutes, may in many cases have incentives that are more closely aligned with shareholders' than other directors do.

Section 2 starts with a motivating background discussion and development of the hypotheses examined here. Section 3 describes the data and presents the univariate analysis of the impact of the merger bid on target directors' retention on the surviving board and their future board seats following the merger. I also calculate the direct financial impact of the merger on both the inside and outside directors of the target firms. Section 4 continues with an examination of the factors influencing whether a target board member is retained following a takeover bid. Finally, evidence on the settling-up hypothesis is examined in a regression setting. Section 5 provides a discussion of the implications of the results and section 6 concludes.

## **2. Motivation and hypothesis development**

Jensen and Meckling (1976) focuses researchers on the agency conflict created by the separation of ownership and control in a public corporation. One event where managers' interests often diverge severely from those of shareholders is in a merger or takeover. Work by Byrd and Hickman (1992) on bidders and by Cotter, Shivdasani, and Zenner (1997) on targets suggests that boards dominated by outsiders increase value for their shareholders during an acquisition attempt. Brickley, Coles, and Terry (1994) show that the market reaction to poison pill adoptions is positive for outsider-dominated boards and negative otherwise. Their finding provides additional evidence that investors expect outside directors to choose and exercise defensive mechanisms in shareholders' interests.

Further, Rosenstein and Wyatt (1990) report the general finding that the stock price reaction to the addition of an outside director to a board is positive.

While these studies test the hypothesis that investors expect independent boards to align themselves with shareholders, we know little about the incentives facing these directors as they make their decisions. Their contracted compensation is primarily in the form of a cash retainer, which would cease in the event of a successful takeover.<sup>2</sup> Brickley, Coles, and Linck (1999) document that directorships can be very valuable. They report that average annual pay for each directorship is approximately \$45,000, and further note that directors can also maintain lucrative consulting arrangements with their companies that, in their sample, ranged from \$20,000 per year to \$83,333 per month. At least as important for most directors are the nonfinancial rewards, such as influence, networking, and involvement (for retired executives) that would be lost along with the seat. These rewards, while hard to quantify, can have substantial value.

Previous studies have shown that outside directors are expected to act in shareholders' interests in control contests despite the fact that the explicit incentives from their utility would lead them to do otherwise. Consequently, it is important to examine other avenues of incentive alignment. Fama (1980) and Gibbons and Murphy (1992) model the incentives provided by executives' career concerns. Fama suggests a form of ex post settling-up for managers that can be applied to directors as well. In Fama's model, the actions of managers affect their value in the labor market. If managers are terminated for poor performance, then they are unlikely to be hired by another firm, or if they are, it will be in a reduced capacity at a reduced salary.

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<sup>2</sup> Only two firms in my sample recognize this perverse incentive. They have golden parachute plans in place for directors who are not retained following a change in control.

## *2.1. The market for directors*

There are at least three main factors plausibly at work in the market for directors. First, it can be viewed as a national market in which directors with experience and a reputation for maximizing shareholder value are sought after and receive the most directorships. Second, it could be the case that CEOs control the selection of directors and are looking for passive directors with a reputation for loyalty to management. Finally, personal networking may be an important factor, so that directorships are partly determined by who knows whom. Certainly, all three of these forces characterize the market for directors. For example, reputation is likely to be important, but networking probably plays a large role in clearing the market. Evidence in the studies cited above suggests that performance-related reputation plays some measurable role in the number of directorships an individual holds. It is important to note that I do not assume any particular mechanism for the market for directors, but instead leave whether performance-related reputational effects impose any settling-up as an empirical question. If the market is primarily driven by CEOs looking for lackey-directors or by personal characteristics and networking, then the tests will fail to find support for the settling-up hypothesis. This would be interesting in itself, because unless I have failed to identify and measure performance-related reputational effects, it would imply that such reputation is not an important factor in the allocation of the role of outside monitors in U.S. corporations.

## *2.2. Hypotheses*

This study tests two hypotheses based on its two goals. The first goal is to understand what motivates diligence by outside directors. The first hypothesis, which I will call the *penalty hypothesis*, claims that the effect of a completed merger on a target

director is negative. The implication of support for this hypothesis is that the costs borne by outside directors should the external control market need to act for them drive them to vigilantly monitor managers.

Fama and Jensen (1983) emphasize the role of the board of directors in monitoring managers and representing the interests of shareholders and discuss the difficulty involved in providing proper incentives for the board. They hypothesize that directors have incentives to develop reputations as experts in decision control and use their directorships to signal their value as decision experts. Further, Fama and Jensen posit that an outside takeover attempt indicates the breakdown of the internal control mechanism and that directors will see a “substantial devaluation of human capital” as a result (p. 315).

There is some indirect evidence that fear of human capital devaluation is a factor in board effectiveness. First, Weisbach (1988) establishes that boards dominated by outsiders are more likely to take disciplinary actions against a CEO. Second, Mikkelsen and Partch (1997) find that CEOs are more likely to be dismissed for poor performance during the active takeover market of the 1980s than during the relatively inactive period in the early 1990s.<sup>3</sup> Notably, the vast majority of these dismissals are not the result of a takeover bid. They conclude that an active takeover market increases the vigilance of the board in monitoring managers. Boards operating in a more active takeover environment know that not only is the unconditional probability of a takeover attempt greater than otherwise, but also it is likely that the probability of a takeover attempt conditional on poor performance is even greater. In order for this increased threat of a takeover attempt to affect the board’s vigilance, there must be some penalty paid by directors in the event of a control contest.

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<sup>3</sup> However, Huson, Parrino and Starks (2001) provide contradictory evidence.

Recently, Brown and Maloney (1999) document higher outside director turnover in boards of companies they classify as poorly performing. Their classification is based on Mitchell and Lehn's (1990) definition of bad bidders; that is, firms which make value-decreasing bids and eventually become targets themselves. They show that prior to the value-decreasing bid, there is significantly greater turnover on the sample firms' boards than on boards of control samples. Mitchell and Lehn suggest that it is often easier for outside directors to exit poorly performing firms than to try to effect change. If there is a direct or reputational penalty to staying with a poorly performing firm up to the point where the external control market acts and it receives a takeover bid, then this behavior is rational.

The second hypothesis examined in this study is related to Fama's (1980) *ex post settling-up hypothesis* for managers. While the first hypothesis deals with the consequences to directors of receiving and completing a takeover bid, the second deals with the consequences of thwarting a bid. If the first hypothesis is not rejected, then conditional on receiving a bid, directors have an incentive to keep the target independent. The settling-up hypothesis for directors states that the directorial labor market reacts to such anti-shareholder actions by reducing target directors' other directorships in the future, penalizing them for putting their own welfare above that of target shareholders.

Extant research provides some support for the supposition that an individual's success in the directorial labor market is tied to reputational capital affected by the performance of firms at which he or she serves as a director or executive. Kaplan and Reishus (1990), Gilson (1990), and Brickley et al. (1999), show that firm performance affects directorships. Kaplan and Reishus (1990) demonstrate that the executives of firms that cut their dividends are less likely to receive additional directorships than are other executives. Gilson (1990) establishes that the directors who resign following bankruptcy of a firm hold fewer directorships in the future than do other directors.

Brickley et al. (1999) show that a CEO's performance in the final years of service directly affects the CEO's number of post-retirement directorships. Thus, the implication of previous work is that for executives, there is a relation between own-firm performance and their success in the directorial labor market. For other directors, an extreme event, such as bankruptcy, has an impact on their future directorships.

### *2.3. Development of predictions*

In this paper, I calculate the abnormal change in the number of board seats a target director holds following a takeover event. The two hypotheses outlined in the previous section generate predictions related to this abnormal change in board seats. The penalty hypothesis states that takeovers are costly for directors and after a completed takeover directors will lose their target board seats and not be able to replace them. The second hypothesis is the settling-up hypothesis. It predicts that even following a cancelled takeover bid, the directorial labor market will impose some degree of settling-up on target directors, reducing their holdings of other directorships. The prediction of the settling-up hypothesis is that directors of a firm that receives a takeover offer, successful or not, will hold fewer future directorships than otherwise.

The settling-up hypothesis can be refined further. Not all takeover attempts are driven by poor management of the target's resources. Therefore, it is likely that the degree to which a takeover offer reflects poorly on the target directors is affected by the pre-bid performance of the target firm. Consequently, I also test whether pre-bid performance affects any settling-up in the directorial labor market.

A stronger form of the settling-up hypothesis is related to actions taken by directors conditional on their firm becoming a target. Rather than viewing the existence

of the offer as a signal about the directors, one can observe their actions in response to the offer. Thus, the strongest form of the settling-up hypothesis predicts that directors will be judged based on the degree of their resistance, whether they successfully complete the merger, and whether the firm's shares are auctioned.

In summary, the various forms of the settling-up hypothesis produce a series of predictions. In its simplest form, it predicts that directors who reject a takeover bid will hold fewer board seats in the future than will their untargeted peers. When modified to account for performance, it predicts that only directors of poorly performing targets will hold fewer seats in the future. Finally, when modified to account for performance and the outcome of the takeover event, the settling-up hypothesis predicts that the negative impact on future seats will be mitigated if the directors engineer a completed offer for their shareholders. Ancillary predictions are that, at the margin, hostile resistance that staves off an offer will result in fewer, while having an auction for the target's shares will result in more, future board seats.

#### *2.4. Caveats and alternatives*

There are several factors that confound the predictions of the settling-up hypothesis. The first is that involvement in a control contest could be a valuable experience that is sought after in the directorial labor market. Thus, directors of targeted firms would be predicted to have more directorships than otherwise, and even more if their experience included a contested or resisted offer. I will refer to this as the *experience hypothesis*.

It is also possible that entrenched CEOs with control over the nomination of directors value intransigence toward bidders. Hermalin and Weisbach (1998) provide a model of bargaining between the board and the CEO over control of the nomination

process. If there are enough of these CEOs, then directors who thwart bids should have more future directorships.

### 3. Data

I start by identifying a sample of takeover targets from 1988 to 1991. The initial sample is drawn from the sample used in Schwert (2000).<sup>4</sup> This is a sample of all NYSE/AMEX listed firms that received an offer for their shares. I narrow this sample to companies that were in the *Fortune 1000* when targeted because directors of such firms are more likely to be holding, or have the potential to hold, additional directorships. Further, these individuals are likely to be more comparable than a sample drawn from all public boards. I have a final sample of 1,091 directors from 91 firms targeted from 1988 to 1991. Information about the directors of a target is obtained from the target's proxy statement current at the time of the offer. Using *Compact Disclosure*, I construct a database of all directors of *Fortune 1000* firms from 1991 to 1994. Consistent with Kaplan and Reishus (1990), I base my tests on *Fortune 1000* directorships because they are likely to be more valuable and comparable than a sample of all directorships. From this database, I can track the 1,091 target directors' experiences in the directorial labor market.

I classify directors as inside, gray, or outside in a manner consistent with Cotter, Shivdasani, and Zenner (1997). Their method is similar to that used in other director research (see, for example, Byrd and Hickman, 1992). Employees, former employees, or their family members are classified as inside directors. Individuals with actual or potential business ties to the firm are classified as gray. This includes all bankers, lawyers, consultants, and executives of affiliated companies.<sup>5</sup> Finally, all others,

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<sup>4</sup> The data set is available on Schwert's website: <http://schwert.ssb.rochester.edu>

<sup>5</sup> Byrd and Hickman (1992) classify these as outsiders if they do not have a *current* business relationship with the firm.

including retired executives of other firms, academics, private investors, executives of unaffiliated firms, and others, are classified as outside directors.

Table 1 contains some summary statistics for the sample firms and directors. While 29% of inside directors hold other *Fortune 1000* directorships, 44% of gray and 58% of outside directors do. Each of these frequencies is significantly different from the other two. The table also presents statistics on a sample restricted to only those directors who hold additional directorships. For inside directors who hold additional directorships, the mean number of additional directorships is 2.2, significantly smaller than the numbers for gray and outside directors: 2.8 and 2.9. I also present the number of additional *Fortune 1000* directorships held by target directors. For directors who hold additional *Fortune 1000* directorships, the mean numbers held are 1.6 for insiders, 1.9 for gray, and 2.2 for outsiders, each of which is significantly different from the other two. While 5% of inside directors are also blockholders, only 1% of gray and outside directors are. Blockholders are identified from the target proxy statements as holders of at least 5% of the firm's voting equity.

Given the proportion of sample directors holding additional directorships, the directors, particularly outside directors, clearly have a vested interest in their value in the directorial labor market. While 29% of inside directors report additional outside directorships, the proportion of inside directors with an interest in their value in the directorial labor market is most likely higher. Insiders that do not have additional directorships tend to be younger, lower-ranked executives who have not yet achieved positions warranting appointment to the boards of other firms. However, as they advance through their careers, directorships will become increasingly important to them. This future stream of expected directorships will still affect their incentives at the time of the offer.

The second panel of Table 1 contains summary statistics for the takeover events. Twenty-six percent of the bids can be characterized as “hostile.” An offer is characterized as hostile if stories in either the *Wall Street Journal* or *Dow Jones News Retrieval* characterized the offer as hostile. This corresponds to the “Host(WSJ)” variable described in Schwert (2000). Offers become hostile if the target board resists the offer, so this variable can alternatively be interpreted as an indicator of board resistance. An auction, defined as multiple bidders for the target, occurred in 40% of the control contests. Overall, two-thirds of the targets were taken over.

## **4. Empirical Tests**

### *4.1. Summary information on target board retention*

Table 2 presents summary statistics for characteristics of the target board, surviving board, and retention of pre-bid directors. Statistics are presented at an aggregate level and also split according to whether the bid was terminated or completed. The first panel of the table, describing target boards prior to the bid, indicates that there is little difference between boards of targets in terminated bids and those in completed bids. The median size of the board for the entire sample is 12, which is the same as the median board size reported by Yermack (1996) for a large sample of U.S. corporations. Twenty-six percent of the target board members are insiders, 20% are gray, and 54% are outsiders. While the outside fraction is exactly what Yermack reports, the inside and gray fractions are slightly lower and higher.

The first step in testing the penalty hypothesis is to document how often target board members are retained by the bidder after the bid. The bottom panel of Table 2 presents statistics on the retention of the target board following the outcome of the bid. The data are drawn from the first proxy statement for the combined board or from the first proxy statement for the target following final termination of the bid. The bidder

enlarges its board in 44% of the completed mergers, so the post-bid board is somewhat bigger in completed mergers. Overall, 36% of the board members are retained, but this average masks two very different retention rates for target boards following terminated and completed bids. Following terminated bids, 85% of the pre-bid board members remain on the surviving board while only 13% remain following completed mergers. The turnover of 15% of the seats in unsuccessful contests could be due to changes made in response to the bid, regular retirements, or regular turnover of directors. Turnover in response to the bid is what I am studying and turnover due to the latter two reasons should add noise, but not bias to my tests. The entire target slate survives intact in 30% of the terminated bids versus zero cases following completed mergers. In a study of management changes following terminated bids, Denis and Serrano (1996) report a similar result of no changes in ownership or board structure in 42% of their cases.

The fraction of insiders retained on the board in a completed merger is 19% and higher than the 10% retention rates for gray and outside directors. This difference possibly represents either continuation of target management or firm-specific knowledge held by insiders that is valuable to the new board. Consistent with this, the CEO's retention rate (not tabulated) is much higher: 27%. In fact, the CEO is the only survivor from the target board in 7% of the consummated bids and when only the cases where at least one member of the target board is retained are counted, the CEO is the only survivor 20% of the time (not tabulated).

The results presented in Table 2 make it clear that directors, particularly outside directors, should expect to lose their board seat should the takeover be completed. On the other hand, should the takeover be terminated, they enjoy very high retention rates on the still-independent target. The loss of the target board seat is of little consequence if it is easily replaced. In the next section, I examine whether after two years the target directors still hold one seat less than their peers.

#### 4.2. Abnormal changes in board seats: univariate results

The next test for the penalty hypothesis comes from examining the number of *Fortune 1000* directorships held by a given director after the control events. I measure the directorships two years after the year of the control event. This allows the labor market time to work, avoids any measurement error in the transition year immediately following the event, and accounts for the fact that many firms have staggered elections, leaving directors in my sample with an average of about 1.5 years before they are up for re-nomination. In Table 3 target directors are stratified by whether the director held additional directorships on other *Fortune 1000* companies at the time of the bid. I will refer to directors whose only *Fortune 1000* directorship was on the target board as single-seat directors. Those with multiple *Fortune 1000* directorships will be called multiple-seat directors. The examination of the single-seat directors will be important because these less-experienced directors provide the cleanest test of the hypotheses. The impact of the takeover event on their career paths will not be muddled or diluted by the effects of other boards on which they serve. Also, to the extent that the experience hypothesis is true, the effect of the event on the overall level of experience of single-seat directors is likely to be much larger than for multiple-seat directors. For parsimony of presentation and discussion, I will present and discuss only the results for inside and outside directors, dropping the smallest group, gray directors.

To control for a possible downward trend in the number of directorships held by any individual over time, I construct a control group of all *Fortune 1000* directors (excluding those in my sample) in 1991. Using 1991 as the "event" year for the control group, I match the sample directors to control director cohorts with the same age and number of *Fortune 1000* directorships at the time of the event. In the 32 cases where there was not at least one non-target director for an exact match, the closest match was

selected. For each matching cohort, I calculate the median change in the number of *Fortune 1000* directorships held after two years, in 1993. The difference between the sample director's change in directorships and his or her matching cohort's change is used in the remainder of the paper. This abnormal change in directorships provides a comparison to otherwise similar directors who were not on a target board.

Table 3 presents two sets of numbers: the first set includes the takeover event's impact on the target board seat and the second set focuses solely on the event's impact on other board seats. As the first set of numbers shows, the overall impact of a takeover bid on target directors is negative, whether the merger is completed or rejected. The effect is clearly and statistically significantly worse if the merger is completed. Following a completed merger, the "all directors, raw change" row shows that both inside and outside directors will hold, on average, up to one less directorship than their peer cohort. This is driven by the low rate of retention for target board members following completed deals (documented in Table 2). It appears that the target seat, once lost through merger, is not easily replaced.

The second set of numbers presents the abnormal change in directorships, not including the target seat. In contrast to the numbers that include the target seat, many of the inside directors' numbers are insignificantly different from zero. The effect for all outside directors as a group is zero as well, but this is the result of two opposite effects. For single-seat directors, particularly outside directors, the effect of the event on other directorships is uniformly positive, regardless of the outcome. They can expect to add, on average, 0.3 additional directorships relative to their single-seat peers. Outside directors who have multiple *Fortune 1000* board seats experience an equal and opposite effect, holding abnormally fewer other board seats regardless of the outcome.

One interpretation of the different net effects for the two groups of directors is that it provides support for both the settling-up and experience hypotheses. Receiving and acting on a takeover bid has two effects for directors: a positive one from the experience that it gives the director and a negative one from the signal about the ability of the board to manage the firm's resources. For inexperienced directors, the marginal impact of the experience effect outweighs the negative signal about their value as decision control experts. However, further untabulated tests indicate that it is more likely that the result occurs because single-seat directors who lose their only seat work very hard to get a new one. First, I examine the change in seats following a completed merger controlling for whether the single-seat director was retained following the merger. There is no increase in other seats for those who are retained. Instead, the entire increase comes from those who are dropped from the board. There is no reason the experience effect should work only for those dropped from the board. Second, I examine single-seat directors who are managers of the target. The only time they receive a new outside seat is when they lose their association with the target firm (after the merger they are dropped from the board *and* lose their job). Again, the evidence supports the explanation that single-seat directors who lose their only seat through merger work extra hard to obtain a new one.

#### *4.3. Direct financial impact of the merger*

It is clear that, on average, the majority of directors, and in particular almost all outside directors, face the permanent loss of a board seat if the merger should go through. To complete the picture of the impact of a merger on the target directors, I measure the direct financial impact of the merger. It is possible that the direct financial impact of a completed takeover is enough to alter directors' incentives or to cause them to retire

following the takeover. I estimate the direct financial impact of the takeover as follows:

$$\text{Financial Impact} = (\text{Premium} * \text{Shares with Financial Interest}) + (\text{Premium} * \text{Shares Underlying Options}) + \text{Golden Parachute} - \text{PV}(\text{Lost Cash Compensation}). \quad (1)$$

Shares with financial interest are shares held by the director, members of his or her immediate family, or trusts benefiting them. Cash compensation can include cash salary and bonus for employees and retainer and meeting fees for outside directors.<sup>6</sup> The loss of cash compensation is calculated as an annuity with a discount rate of 10% and the number of years equal to years until expected retirement age (age 65 for insiders and age 70 for outside directors). For outside directors, the annuity is also calculated using the number of years until his or her board term expires. The first of these annuities is likely to be closer to, but to overestimate, the actual loss. The second one, using only the current term, is almost certain to underestimate the loss. However, as a conservative measure, it is useful for the purposes of demonstrating that outside directors do not receive a large net financial gain to offset any directorial labor market penalties. The golden parachute and loss of current cash compensation are set to zero if the director was retained following the completed takeover.

Table 4 presents some summary statistics for the financial impact variable and its components. The left side of the table shows the compensation components and the financial impact they produce in a merger. The right side summarizes the actual and expected impacts for the events. As the right side of Panel A shows, the median actual financial impact of the event is zero, with at least 35% of the directors experiencing a negative impact. Most of the directors negatively affected by the event are outside directors. The impact of the event on inside directors is predictably large because of their

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<sup>6</sup> I have collected the regular meeting fees, but I do not have committee membership or committee retainers and meeting fees. Excluding these produces a conservative measure of lost future income for outside directors. Thus, the results in Table 4 would be even more negative if these fees were included.

larger shareholdings and large golden parachutes should they be terminated (54% of the managers lose their jobs). However, the last four rows of Panel A document that the direct financial impact of the event on outside directors is small. The median total impact is very close to zero and the median impact from their generally very small equity holdings is only \$16,500 (second column).

While Panel A presents statistics based on all events, including terminated events that produced no direct financial impact on some directors, Panel B splits the events according to outcome. The financial impact for terminated events is presented as if the merger had gone through (the average actual financial impact is zero for terminated mergers).<sup>7</sup> Thus the value that the director could have had from an approved deal can be compared to the value of the deals that were approved. This calculation will provide some insight into whether the expected financial impact for deals that were blocked was significantly different from those that were completed. For inside directors, the median financial impact of the approved mergers (\$543,636) is substantially and significantly greater than the potential impact of mergers that were not approved (-\$25,163). This difference is driven by larger equity-based gains as the salary and golden parachutes of inside directors did not differ across outcomes. This is consistent with Hartzell, Ofek, and Yermack (2000) who, in a study of completed mergers, find evidence that CEOs sometimes sacrifice shareholder gains for personal gains. Finally, and notably, the median impact on an outside director from completed deals is negative, falling somewhere between zero and -\$65,443. The gains from outside directors' usually token holdings of shares are insufficient to overcome the loss of cash compensation from the lost target board seat.

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<sup>7</sup> In calculating the expected (if merged instead of terminated) cash impact portion of this variable, the average retention rates from Table 2 were used. Thus, outside directors could have expected to keep their board seat (and salary) in 10% of the cases and inside directors could have expected to be retained in 19% of the cases, unless they are CEOs, in which case the retention rate is 27%.

#### 4.4. Analysis

Tables 2, 3, and 4 provide some evidence pertaining to the first goal of this paper: the effect of a takeover bid on target directors. The univariate results show that if a firm is targeted for a takeover or merger, its directors pay a penalty. Overall, a board member loses and does not replace about one *Fortune 1000* directorship following the end of the contest. This contributes to and compounds the net negative financial impact that the median director suffers from a completed merger. The evidence overwhelmingly supports the penalty hypothesis. The results indicate the disturbing possibility that target directors know that, should the merger be completed, they will have fewer directorships than if it is blocked, with no offsetting financial gain.

One could imagine an alternative interpretation of the data presented in Table 3. Assume that the mergers that are the most likely to be completed, with or without the board's consent, are the ones in which the target performs particularly badly prior to receiving the bid. Then, it is this bad performance that leads to fewer future directorships for the target board, rather than the merger itself. This interpretation supports the contention in Fama and Jensen (1983) that successful takeovers can be negative signals about target management and directors. The univariate statistics presented in Table 3 do not address this hypothesis. However, later tests will include industry-adjusted return on assets prior to the bid to address this issue as well as test the form of the settling-up hypothesis modified to account for target performance. Additionally, the strongest form of the settling-up hypothesis predicts that directors' actions during the offer will affect the number of future directorships that they have. The tests in the next section continue the analysis with the inclusion of variables for the characteristics of the directors, actions taken during the takeover contests, and pre-bid performance.

#### *4.5. Factors affecting the retention of target firm board seats*

This section identifies some factors that have the potential to affect whether a target director remains on the board, either of the new merged firm or the still-independent target, following the offer. I then estimate probit specifications to assess the impact of these factors on the likelihood of retention. Following the analysis of retention on the surviving board, the change in the number of nontarget directorships is again analyzed, but in regressions designed to test whether the degree of settling-up varies with actions taken during the offer and the pre-bid performance of the target firm.

##### *4.5.1. Explaining director retention using director and event characteristics*

I estimate a probit for each type of director to assess the ability of director characteristics and aspects of the way the offer evolved to predict whether a particular director will remain on the surviving board. The explanatory variables are separated into three categories: director characteristics, event characteristics, and performance. The director characteristics include: age<sup>8</sup>, years-as-a-director, and dummy variables for whether the director's term is up, whether he or she is a blockholder, and for the inside specification, whether he or she is the CEO. These are primarily control variables and will not test the settling-up hypothesis. Performance is measured as pre-bid operating performance relative to the target's industry. The cash flow return on assets [(Operating Income Before Depreciation - Taxes - Changes in Working Capital) divided by beginning of period assets] is averaged over the four years prior to the bid and then adjusted by subtracting the corresponding average for all firms in the target's two-digit SIC industry.

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<sup>8</sup> Despite the fact that the sample directors are matched to control cohorts based on age and number of directorships, age could still matter. For example, an older, well-known director could recover quickly so that two years after the event, he or she looks similar to his or her peers while a younger director could recover more slowly.

This method is similar to that used in Brickley, Coles and Linck (1999), facilitating comparison between the effect of own firm performance on retiring executives documented there and own firm performance on inside and outside directors following a merger event documented here. The event characteristics include dummy variables for whether the target was taken private or acquired by a foreign firm, and for whether the event ended in a merger or termination of the bid. The private or foreign acquiror variable is included to capture any mechanically negative effects on retention of such a takeover. Boards of firms that remain private will be impossible to observe and I was unable to obtain board information for some of the foreign acquirors. Based on similar cases where I could observe the foreign board, in these unobservable cases, the retention variable was coded as zero.

Two other event variables: whether the contest was classified as hostile and whether multiple bidders emerged (an auction), as well as the pre-bid industry-adjusted operating performance of the target, are interacted with a dummy variable for terminated events in order to allow the effects of these characteristics to vary depending on the outcome of the bid. Table 5 contains definitions and predictions for the event characteristic variables and pre-bid performance. These variables are intended to test for settling-up through retention and future other directorships by identifying the marginal effect of measures of how the bid was handled and of the pre-bid performance of the target.

#### *4.5.2. Probit results*

Table 6 presents the results of the probits that estimate the probability of retention on the surviving board, computed separately for inside and outside directors. Insiders are less likely to be retained following a hostile deal, probably a result of animosity generated with the bidder. If the target is taken private or acquired by a foreign company,

both inside and outside directors are less likely to be retained. The successful merger variable shows that both types of directors are less likely to be retained if the bid is consummated. This demonstrates that the earlier univariate findings of Table 3 are robust to personal and event characteristic controls. Pre-bid performance has no effect on whether an outside director is retained. However, insiders are more likely to be retained following good performance than bad. This is consistent with the performance-based form of the settling-up hypothesis for target managers and with previous studies on managerial career paths following takeovers (see, e.g., Martin and McConnell, 1991, and Agrawal and Walkling, 1994). This suggests that although Table 2 shows very low average retention rates, inside directors of firms with good performance have a stronger chance of being retained on the board following a merger.

Turning to the personal characteristics, age is ineffective in explaining whether an individual is retained on the surviving board. Insiders who are also blockholders are significantly more likely to be retained. This is sensible in that they are unlikely to be unseated in the event of a terminated offer and their cooperation is likely to be necessary to complete a proposed deal. CEOs are more likely to be retained, a reflection of the fact that the target CEO is the only director retained after a number of successful mergers.

Overall, the models do an incomplete job of explaining the retention decision. Additional factors not included here may account for some of the variation in retention. Kini, Kracaw, and Mian (1995) show that following a takeover, the new board tends to be constructed in a more balanced manner than the target board (e.g., insider-dominated target boards are replaced by boards with more outside seats). In exploring the composition of a cross-section of boards, Hermalin and Weisbach (1988) find that expertise in particular business lines is a determinant of board membership. This may help explain retention of target board members in diversifying acquisitions.

Aside from providing evidence on the retention decision, the exercise carried out in this section serves as a useful first stage in determining how director and event characteristics affect the change in the number of other *Fortune 1000* directorships held by target directors after a bid. Remaining on the surviving board could have a positive effect on other directorships due to the certification provided by election to the board of the merged firm. Alternatively, it could reduce the director's availability or desire for other directorships. To capture these effects, retention will be included as a regressor to explain the change in other *Fortune 1000* seats held by a target director following a takeover bid. However, retention is endogenous in that it is at least partially a function of the other regressors. In the regressions that follow, the specifications will include only the part of retention that cannot be explained by the other regressors. This reduced-form also alters the interpretation of the other coefficients. Since the other regressors partially determine retention, their total effect on future directorships in a regression that includes the raw retention variable would be their own coefficients plus their indirect effect through the coefficient on retention. Including only unexplained retention avoids this and allows the other coefficients to measure their total impact on the number of other directorships held.

#### *4.6. Changes in other board seats: cross-sectional analysis*

This section contains the results and analysis of regressions using the change in other (nontarget) *Fortune 1000* directorships as the dependent variable. The regressions are estimated separately for inside and outside directors. Further, for each director affiliation, two separate groups are analyzed. The first specification analyzes the abnormal change in other *Fortune 1000* directorships for single-seat directors. The second estimates the abnormal percentage change in other *Fortune 1000* directorships for multiple-seat directors.

The specifications contain the same director and event characteristics as the probits in the previous section did. Most of the predicted signs remain the same. Due to possible animosity by the bidder, hostility was predicted to have a negative effect on retention even if the bid resulted in a merger. However, hostility (or resistance) that still results in a successful merger could represent hard-bargaining. Therefore, hostility that results in a merger could have a positive effect on other future directorships held by target directors.

Previous research such as Martin and McConnell (1991) and Agrawal and Walkling (1994) examines turnover of target executives following takeovers. If the takeover forces managers out of the labor market, then any loss of directorships may be attributable to their unemployment, rather than being a separate effect related to the merger. To control for this and to measure any impact the managerial labor market has on the directorial labor market, I include a manager employment variable in the inside director specifications. Using *Standard & Poor's Register of Corporations, Directors and Executives*, I determine whether each target officer is still employed two years following the merger. The variable takes a value of one if he or she is employed and is zero otherwise.

Finally, as discussed above, unexplained retention is included as an explanatory variable. This variable is the error from the appropriate probit specification for probability of retention. If retention is a positive signal to the directorial labor market, its coefficient will be positive. If retention decreases the director's time or desire to seek other board seats, the coefficient will be negative. Further, the endogeneity of retention requires a note of caution for interpreting the coefficients in Table 7. The predictions given in previous sections and summarized in the column in Table 7 labeled predicted sign are predictions for the structural coefficients. What we observe in Table 7 are the reduced-form coefficients that combine any settling-up effects on future board seats with

the effects of retention on future board seats. If losing a board seat (no retention) causes the director to work harder to seek-out new seats, there could be a negative relation between retention and future seats. This can muddle inferences as each coefficient captures its own direct effect on future seats as well as its indirect effect (through its effect on retention). Where necessary, I will discuss the effect on inferences of examining the reduced-form coefficient.

#### *4.6.1 Results*

Columns 1 and 2 present the results for the insider regressions. For those with more than one board seat (column 2), there is some evidence of feedback from firm performance to directorial opportunities; the coefficient on performance is positive and significant. This is consistent with settling-up and with earlier research (e.g. Kaplan and Reishus, 1990, and Gilson, 1990) showing a link between performance and board seats. It also fits the argument about executive career concerns and horizons examined in Brickley, Coles, and Linck (1999). They show that firm performance in the four years prior to CEO retirement is positively related to the number of directorships he or she holds following retirement, attenuating horizon problems at the end of a career. The evidence here shows the general result that for managers active in the director market, firm performance is positively related to future directorships.

Columns 3 and 4 indicate that outside directors appear to face incentives from potential settling-up. For directors whose only seat is on the target (column 3), there is an external reward for consummating a merger following poor performance (negative coefficient on the uninteracted performance variable). Directors with multiple board seats (column 4) partially replace the lost seat from the target (positive coefficient on successful merger). However, I note that this particular reduced-form coefficient does not allow for clear inferences about the structural predictions of the settling-up

hypothesis. Directors of poorly performing firms are less likely to be retained, meaning that they are more likely to seek-out new board seats, especially if their only board seat was on the target. This produces an indirect negative relation between performance and future board seats, countering the predicted positive relation from settling-up. Thus, the negative coefficient could reflect a reward for completing the merger following bad performance, or extra effort by the displaced director to find a new seat. Regardless, it is important to note, however, that even if the directors market does provide some positive incentives, it is obvious from the univariate results of Table 3 that, including the target board seat, a completed merger's net effect on total board seats is still negative, meaning that the net incentive for a board member is to spurn the offer.

For all outside board members, regardless of the number of other seats held, the coefficients on the interaction between bid termination and operating performance are positive and significant. The evidence in the previous paragraph was consistent with a reward for directors who complete a merger following poor performance. The evidence from the interactive coefficient is complementary in that it demonstrates a penalty for failing to complete a merger following poor performance. The coefficient indicates that outside directors of poorly performing firms can expect fewer directorships in the future should they spurn the offer. Thus, while directors can avoid the loss of the target seat by spurning the merger, there is a penalty imposed by the rest of the directors market. The observed reduced-form coefficient is positive and the indirect retention effect is predicted to be negative (and was estimated to be zero in the probits of Table 6), this inference is unaffected by the reduced-form problem discussed above.

The last column of Table 7 presents an overall estimation for all inside and outside target directors. Likely due to combining all types of directors into one specification, the explanatory power of the model is weak. Nonetheless, the operating performance rows continue to provide some support for the settling-up hypothesis. The

overall pre-bid operating performance has a negative coefficient (as it does in two other regressions). Again, this particular coefficient suffers from muddled inferences due to the reduced-form issue. The primary inference comes from the second row, with the positive coefficient on the interaction between terminated bids and operating performance. This inference is unaffected by the reduced-form issue.

The results for the hostility and auction variables show that, in general, specifics of the takeover event have little impact on directors' future holdings of other seats. This is inconsistent with the strongest form of the ex post settling-up hypothesis, which predicted that such event characteristics would have reputational effects in the directorial market. For hostility, this is somewhat surprising. Either hostility is not a good indicator of whether the board is acting in shareholders' interests, or the strong form of the settling-up hypothesis lacks explanatory power. In untabulated tests, I find that bidders are more likely to raise their bid when targets react with hostility. However, hostility has no correlation with the whether the bid is completed, either in univariate or multivariate tests. Since hostility appears to produce higher premiums without observably making a completed merger less likely, it appears as if hostility is simply not a good indicator of whether the board is acting in shareholders' interests. This supports Schwert's (2000) conclusion that there is little substance to the hostility distinction in takeovers. Further, for the hostility variables, the indirect effect through retention (positive if hostility makes it more likely that a director will lose his or her seat and seek out another one) is in the same direction as the settling-up effect, so the finding of no relation cannot be due to offsetting effects in the reduced-form coefficient.

One notable result, not directly related to the hypotheses, is the significance of three of the coefficients on age. Despite the exact age matching used in constructing the control sample, age still matters. For example, the single-seat results show that, all else equal, an older director will recover from a takeover event better than a younger director.

The result is the opposite for outside directors with multiple board seats. The single seat director results make sense in that young directors with only one seat may not be well known in business and would be less likely to recover from the loss of their only seat. Older directors may be better known and/or retired executives whose expertise will be valuable. The multiple-seats age result is hard to explain.

#### *4.6.2. Alternative specification: group means*

Many of the independent variables in the Table 7 regressions are the same for all directors of a target firm. For example, the outside directors specifications include, as four separate observations, four outside directors from the same target firm. For these observations, all of the event-specific independent variables (hostility, auction, taken private or acquired by a foreign firm, successful merger, and pre-bid performance) will be the same. This lack of independence across observations has the potential to inflate the test statistics on those event-specific variables. I re-estimate the specifications using a group means regression to control for this lack of independence. The estimation is described in Kmenta (1971) and is carried-out to control for a similar problem in the Tufano and Sevick (1997) study of fee-setting and board structure in the mutual fund industry. Each variable for a particular event is averaged, creating 91 event-specific observations. Doing so results in no loss of efficiency with respect to pre-bid performance and the event characteristics listed above because they are identical for all directors involved in that event. However, some efficiency is lost by discarding variation in the personal characteristics of the directors (age, years as director, etc.). Thus, there is a tradeoff between reducing cross-observation dependence and loss of efficiency. The results of the grouped means estimation (not tabulated) confirm the robustness of the original findings. Of the event-specific and pre-bid performance coefficients that were significant in the original specifications, all remain significant. Specifically, this includes

the pre-bid performance variables that show that outside directors of poorly performing targets do have a partial penalty should they block the offer.

Finally, one could be concerned that the financial impact of a completed merger causes some directors to retire from the directorial labor market. Given the results presented in Table 4, overall, it is unlikely that the direct financial impact of the merger provided enough outside directors with a large enough inflow to affect their decision to remain active in the directorial labor market. I have re-estimated the regressions from Table 7 including the financial impact variable. Its coefficient is insignificantly different from zero in all specifications and the original inferences are unchanged.

#### 4.6.3. Analyzing resistance

Finally, I estimate a model to determine whether the expected impact of the merger on board members affects how they react to the bid. The models take each of the 91 events as an observation. For control variables, I follow Schwert's (2000) study of hostility. I include return-on-equity, one-year sales growth, the debt-to-equity and market-to-book ratios, market value of assets, and cash. I industry-adjust the control variables by subtracting the median value for the appropriate two-digit SIC code. For each target, I estimate models similar to those reported in Tables 6 and 7, not including any event variables that could plausibly be influenced by the target board (hostility and auction). For example, for the change in other board seats for multiple-seat directors, the equation is:

$$\text{Change in Other Seats}_{\text{multiple-seat director}} = a + b_1\text{Age} + b_2\text{YearsAsDirector} + b_3\text{Blockholder} + b_4\text{TermIsUp} + b_5\text{Private/ForeignBidder} + b_6\text{Ind-AdjustedROA} + e. \quad (2)$$

Similar models are estimated for retention. These models are estimated over only events ending in a merger and produce coefficient estimates that I use to create predicted

post-merger retention and future board seats for each target director. For example, I would use the estimated coefficients from Eq. (2) to produce predicted changes in other seats for each multiple-seat director on a particular target. These predictions are averaged over all multiple seat directors for that target to produce the average predicted change in future board seats for a multiple-seat director on that target should the merger be completed. The same is done for single-seat directors. The CEO is also broken-out separately, given the likelihood that he has the greatest influence on the target's reaction. This approach produces average predicted retention for the board, predicted retention for the CEO individually, predicted future board seats for multiple-seat directors (group average), single-seat directors (group average), and the CEO (individually). Finally, the average if-merged financial impact from Eq. (1), computed separately for inside and outside directors is included in the second specification. The results are presented in Table 8.

Two specifications are presented. The first does not include the expected financial impact of the merger on the target directors and the second does. Both specifications show that the more likely it is that the CEO will be retained following the merger, the less likely is the target to resist. The coefficient on predicted future seats for multiple-seat directors shows that the better these directors expect to fare following a completed merger, the less likely they are to resist the merger. The estimations also produce two anomalous results: the coefficients on overall predicted retention and predicted future seats for single-seat directors are positive. The results for the CEO and multiple-seat directors, the two groups most likely to have the greatest influence on the target's response, are sensible. However, one would expect that the coefficients for the rest of the board would also be negative, or zero. The second specification shows that the financial impact variables have no incremental explanatory power for the target's reaction to the bid.

## 5. Discussion

The results presented here provide insights into the mechanisms motivating vigilance by directors and the incentives facing them when they are responding to a takeover bid. This study documents that only 10% of target outside directors are typically retained following a completed merger and that the lost seat is not typically replaced. Consequently, compared to other *Fortune 1000* directors of the same age and with the same number of directorships, they can expect to hold fewer board seats in the future, purely as a result of accepting the bid. Additionally, outside directors' tiny stock holdings provide little to compensate them for the loss of their cash compensation, influence, and connection from the target board seat. In fact, the direct financial impact of the merger is predominantly negative for outside directors. In order to counter these perverse incentives, it is plausible that some form of settling-up take place in the directorial labor market dependent on the actions of the directors during the offer or conditional on the performance of the target. The power of statistical tests to pick-up the effects of a takeover event on the future directorships of individuals is low. However, some cautious inferences can be drawn from the results. The results provide some support for previous findings of a link between performance and board seats for inside (manager) directors. However, there is no evidence of settling-up for insiders following terminated offers. For outside directors, the results are consistent with the notion that they are penalized for failing to close a deal following poor performance. This effect from other directorships is actually positive if the deal is completed. Nonetheless, the partial settling-up does not completely offset the loss of their target seat.

Previous research by Walkling and Long (1984) shows that the decision to resist the offer is directly related to the potential wealth loss of officers and directors (as a group) and the top executive (individually) should the offer be completed. The evidence here shows that while those directors can avoid a loss of current wealth by terminating a

bid, the directorial labor market will partially settle-up with them by reducing their future wealth from directorships. Poor pre-bid performance alone does not lead to extra penalties in the directorial labor market. Instead, if they force the termination of a bid, their penalty increases as the pre-bid performance of their firm declines. An important caveat is that I can only observe the outcome of both the future supply and demand of board seats, so this result is perhaps because directors of poorly performing firms that spurn offers refuse additional directorships in order to concentrate on the target firm. However, whether this cost is self-imposed or imposed by others, it is true that, on average, these directors will hold fewer other directorships should they spurn an offer. Another explanation is that the contest leaves the directors with such a bad experience, that they become disinterested in future directorships. However, this does not explain why 85% of them choose to continue working as a director at the target firm.

## **6. Conclusion**

Prior research (Weisbach, 1988, for example) shows that outside directors are critical to the internal control function of the board. The results presented here demonstrate that outside directors' incentive to act comes at least partly from the penalty they will pay should the external control market act for them, costing them their seat on the target board. However, the very penalty that drives outside directors' vigilance in internal control matters provides them with incentives counter to those of shareholders should a takeover bid occur. Partially offsetting these perverse incentives is the incentive given to complete a merger following poor performance. This evidence of feedback from the firm's performance to the directorial labor market complements the findings in Kaplan and Reishus (1990), Gilson (1990), and Brickley et al. (1999) of such a feedback channel in other situations. While Kaplan and Reishus (1990) and Brickley, et al. (1999) find a relation between own-firm performance and executives' holdings of other directorships, a relation is found here linking outside directors to the firm's performance

as well. Outsider-dominated boards are generally assumed to be the most closely aligned with shareholders' interests. While outside directors' compensation does little to align their incentives with those of shareholders, the potential for their actions to enhance their career paths as directors does more.

Recently, more firms have recognized the incentive problem created by low equity ownership by directors and have increased stock grants to directors. The combination of these large equity incentives and the traditional settling-up should serve to further align directors' incentives with those of their shareholders. Perry (2000) shows that equity-based compensation for independent boards increases the likelihood that a CEO will be fired for poor performance. More research is needed into the causes and effects of changes in direct pecuniary incentives for directors and their interaction with reputational incentives.

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Table 1  
Summary statistics for directors and takeover offers

Panel A contains summary statistics for the 1,091 directors studied in this paper. The data are drawn from the proxy statement current at the time of the offer. An individual is defined to be a blockholder if he or she controls 5% or more of the stock of the corporation. Statistics for Number of additional directorships and Number of additional *Fortune 1000* directorships are presented for the full sample and for only those directors with additional directorships.

Panel B contains summary statistics for the 91 takeover events of *Fortune 1000* firms occurring from 1988 to 1991. An offer is characterized as hostile if either the *Wall Street Journal* or *Dow Jones News Retrieval* stories characterized the offer as hostile. If more than one bidder emerged then the event is defined to have been an auction. The fraction of events fitting the intersection of the row and column characteristics is given.

Panel A

		All Directors	Inside	Gray	Outside
Age	Mean	59.89	57.02 <sup>g,o</sup>	61.20 <sup>t</sup>	60.77 <sup>t</sup>
	Med	60	57 <sup>g,o</sup>	61 <sup>i</sup>	61 <sup>i</sup>
<i>Fraction of Sample</i>		1.00	0.26	0.18	0.56
<i>Years as Director</i>	Mean	8.60	9.66 <sup>o</sup>	9.19 <sup>o</sup>	7.91 <sup>i,g</sup>
	Med	6	7	7 <sup>o</sup>	6 <sup>i,g</sup>
<i>Fraction that are Blockholders</i>		0.03	0.05 <sup>g,o</sup>	0.01 <sup>i</sup>	0.02 <sup>i</sup>
<i>Fraction with additional directorships</i>		0.71	0.46 <sup>g,o</sup>	0.73 <sup>i,o</sup>	0.83 <sup>i,g</sup>
<i>Fraction with additional Fortune 1000 Directorships</i>		0.48	0.29 <sup>g,o</sup>	0.44 <sup>i,o</sup>	0.58 <sup>i,g</sup>
<i>Number of Additional Directorships</i>					
<i>Full Sample</i>	Mean	1.94	1.01 <sup>g,o</sup>	1.97 <sup>i,g</sup>	2.36 <sup>i,g</sup>
	Med	2	0 <sup>g,o</sup>	2 <sup>i,o</sup>	2 <sup>i,g</sup>
<i>Only Directors with additional directorships</i>	Mean	2.74	2.24 <sup>g,o</sup>	2.75 <sup>i</sup>	2.86 <sup>i</sup>
	Med	2	2 <sup>g,o</sup>	2 <sup>i</sup>	3 <sup>i</sup>
<i>Number of Additional Fortune 1000 Directorships</i>					
<i>Full Sample</i>	Mean	0.975	0.45 <sup>g,o</sup>	0.83 <sup>i,o</sup>	1.26 <sup>i,g</sup>
	Med	0	0 <sup>g,o</sup>	0 <sup>i,o</sup>	1 <sup>i,g</sup>
<i>Only Directors with additional directorships</i>	Mean	2.03	1.56 <sup>g,o</sup>	1.89 <sup>i,o</sup>	2.17 <sup>i,g</sup>
	Med	2	1 <sup>g,o</sup>	2 <sup>i,o</sup>	2 <sup>i,g</sup>

<sup>1,g,o</sup> indicate that the mean is significantly different at the 10% level from the comparable mean for inside, gray, and outside directors, respectively.

<sup>i,g,o</sup> indicate that the mean is significantly different at the 5% level from the comparable mean for inside, gray, and outside directors, respectively.

For the median rows, the superscripts refer to significance levels for the Wilcoxon non-parametric test for differences in distributions.

Panel B

		Fraction of Events		
		Hostile	Auction	Bid ends in a Merger

All Events	0.26	0.40	0.67
Bid is characterized as hostile		0.12	0.18
Multiple Bidders emerge (Auction)			0.28

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Table 2  
Retention of the target board members

This table presents summary statistics for the characteristics of the target board and the fraction of the target board, and inside, gray, and outside directors separately, that remains on the surviving board. The surviving board is defined as the board of the still-independent target in the event of a terminated bid, or of the new, merged firm following the consummation of a successful bid. Data for post-outcome boards are taken from the first proxy statement following either final termination or completion of the bid.

		All Events	Terminated	Merged	p-val for difference
Target Board Size	Mean	11.99	11.90	12.03	0.856
	Median	12	11.5	12	0.822
Insiders	Mean	3.07	2.93	3.13	0.540
	Median	3	3	3	0.424
Fraction of board		0.26	0.26	0.27	0.811
Gray	Mean	2.26	2.37	2.21	0.638
	Median	2	2	2	0.743
Fraction of board		0.20	0.21	0.19	0.523
Outsiders	Mean	6.66	6.60	6.69	0.911
	Median	7	6.5	7	0.705
Fraction of board		0.54	0.53	0.55	0.758
Board Size post-outcome	Mean	13.89	12.27	15.10	0.067
	Median	12.50	11	13	0.116
Retention:					
Fraction of Board	Mean	0.36	0.85	0.13	0.001
	Median	0.11	0.90	0	0.001
Fraction of Insiders	Mean	0.41	0.87	0.19	0.001
	Median	0.33	1.00	0	0.001
Fraction of Grays	Mean	0.31	0.73	0.10	0.001
	Median	0.00	1.00	0	0.001
Fraction of Outsiders	Mean	0.36	0.87	0.10	0.001
	Median	0.00	1.00	0	0.001
Frequency of:					
CEO is the Only Survivor		0.04	0	0.07	0.045
Entire Board Survives		0.10	0.30	0	0.001
New Board is Enlarged		0.44	0.40	0.48	0.539

Table 3  
Univariate statistics for changes in directorships

Each target director's number of *Fortune 1000* directorships at the time of the takeover bid is compared with the number held 2 years later. The abnormal component of this change is calculated by subtracting the median 2-year change for a cohort of non-target directors matched on age and starting number of directorships. Two sets of numbers are presented. In the first 3 columns, the abnormal change, including the effect of the target seat, which is usually lost if the merger is completed, is presented. In the last 3 columns, the effect of the event on other, non-target, *Fortune 1000* board seats is isolated. Numbers in **bold** are significantly different from zero at the 10% level. Numbers in **bold italics** are significantly different from zero at the 5% level. The number of observations is in brackets.

	Abnormal Change, Including Target Seat			Abnormal Change, Other Seats Only		
	All Events	Terminated	Merged <sup>a</sup>	All Events	Terminated	Merged
<b>Inside</b>						
All Directors, Raw Change	<b>-0.626</b>	<b>-0.335</b>	<b>-0.761</b>	0.018	0.006	0.024
	[278]	[88]	[190]	[278]	[88]	[190]
Multiple Seats, % Change	<b>-0.260</b>	-0.083	<b>-0.369</b>	-0.069	-0.040	-0.087
	[81]	[31]	[50]	[81]	[31]	[50]
Multiple Seats, Raw Change	<b>-0.667</b>	-0.210	<b>-0.950</b>	-0.148	-0.081	-0.190
	[81]	[31]	[50]	[81]	[31]	[50]
Single Seat, Raw Change	<b>-0.609</b>	<b>-0.404</b>	<b>-0.693</b>	<b>0.086</b>	0.053	<b>0.100</b>
	[197]	[57]	[140]	[197]	[57]	[140]
<b>Outside</b>						
All Directors, Raw Change	<b>-0.731</b>	<b>-0.381</b>	<b>-0.902</b>	-0.047	-0.043	-0.049
	[605]	[198]	[407]	[605]	[198]	[407]
Multiple Seats, % Change	<b>-0.314</b>	<b>-0.170</b>	<b>-0.381</b>	<b>-0.076</b>	-0.087	<b>-0.071</b>
	[353]	[113]	[240]	[353]	[113]	[240]
Multiple Seats, Raw Change	<b>-0.983</b>	<b>-0.571</b>	<b>-1.177</b>	<b>-0.292</b>	<b>-0.288</b>	<b>-0.294</b>
	[353]	[113]	[240]	[353]	[113]	[240]
Single Seat, Raw Change	<b>-0.379</b>	<b>-0.129</b>	<b>-0.506</b>	<b>0.296</b>	<b>0.282</b>	<b>0.302</b>
	[252]	[85]	[167]	[252]	[85]	[167]

<sup>a</sup> For the columns including the effect of the target board seat, all of the numbers in the merged column are significantly different from their counterparts in the terminated column.

**Table 4**  
**The direct financial impact of the merger on the target directors**

Panel A presents summary statistics for all events, whether consummated or terminated. Shares with Financial Interest are only those shares held or underlying options held by the director, his or her immediate family or trusts benefiting them. Equity-based Impact is the part of the Financial Impact if Merged due to the director's stock and option holdings. For outside directors Salary is equal to any annual retainer plus per-meeting fees. The Salary Impact is calculated as an annuity with a discount rate of 10% and the number of years equal to years until expected retirement (65 for inside and 70 for outside directors) in the "Retire" column. For outside directors, the annuity is also calculated using the number of years until his or her board term expires ("Term Up" column). The Actual Financial Impact is defined as the dollar increase in the value of share and option holdings if the merger was completed, plus the value of the director's golden parachute if he or she was actually terminated minus the salary impact if he or she was terminated. The Financial Impact if Merged variable is similar to the Actual Financial Impact, but is calculated as if the merger went through even for those mergers that were terminated. Bold numbers indicate that the number for inside directors is significantly different from the corresponding number for outside directors.

Panel B compares the variables across terminated and merged events. Bold numbers indicate significant difference between the merged and terminated numbers *within* director type.

Panel A		% Shares w/ Finl Interest	Equity-based Impact	Salary		Salary Impact	Golden* Parachute	Actual Financial Impact		Financial Impact if Merged	
				Retire	Term-Up			Retire	Term Up	Retire	Term Up
Directors											
Ins and Out	mean	0.38	1,565,963	202,647	-822,141		1,309,190	712,354	752,472	1,273,311	1,329,769
	med	0.01	36,559	29,325	-39,050		1,132,888	0	0	-32,884	0
	% >0	95	92	100	0		18	29	37	38	50
	% <0	0	0	0	100		0	43	35	60	49
Inside	mean	<b>0.83</b>	<b>3,752,874</b>	<b>581,264</b>	<b>-2,517,308</b>		<b>1,368,643</b>	<b>1,954,835</b>		<b>3,130,394</b>	
	med	<b>0.11</b>	<b>929,913</b>	<b>511,110</b>	<b>-2,055,459</b>		<b>1,163,539</b>	<b>0</b>		<b>370,744</b>	
	% >0	96	94	100	0		54	46		67	
	% <0	0	0	0	99		0	26		30	
Outside	mean	<b>0.18</b>	<b>578,326</b>	<b>26,935</b>	<b>-134,401</b>	-38,232	<b>298,500</b>	<b>150,280</b>	208,546	<b>446,180</b>	527,784
	med	<b>0.00</b>	<b>16,500</b>	<b>24,000</b>	<b>-129,036</b>	-27,727	<b>115,000</b>	<b>-3,554</b>	0	<b>-65,936</b>	-4,853
	% >0	95	91	100	0	0	1	22	34	46	45
	% <0	0	0	0	100	100	0	50	39	51	54

\*Dollar values in the Golden Parachute column are based only on the subset of individuals covered by a golden parachute.

Table 4 continued

Panel B Directors, Events		% Shares w/ Finl Interest	Equity-based Impact	Salary	Salary Impact		Golden <sup>*</sup> Parachute	Financial Impact if Merged	
					Retire	Term-Up		Retire	Term-Up
Inside, Terminate	mean	0.77	51,031,557	645,977	-2,771,802		1,485,026	3,758,515	
	med	0.41	<b>582,741</b>	523,000	-2,113,723		1,017,522	<b>-25,163</b>	
	% >0	95	76	100	0		29	80	
	% <0	0	0	0	100		0	9	
Inside, Merge	mean	0.86	3,192,650	551,787	-2,402,720		1,338,470	2,872,355	
	med	0.11	<b>1,015,327</b>	482,850	-2,044,465		1,193,300	<b>543,636</b>	
	% >0	96	97	99	0		60	97	
	% <0	0	0	0	99		0	0	
Outside, Terminate	mean	0.10	1,056,924	26,086	-134,708	-36,674	200,000	941,447	1,026,605
	med	0.00	13,343	24,050	-133,897	-25,546	200,000	-69,666	<b>-11,191</b>
	% >0	95	86	100	0	0	2	22	36
	% <0	0	0	0	100	100	0	78	64
Outside, Merge	mean	0.22	366,007	27,339	-134,257	-38,961	357,600	224,829	304,854
	med	0.01	17,194	24,000	-128,038	-28,182	30,000	-65,443	<b>0</b>
	% >0	94	94	100	0	0	1	32	49
	% <0	0	0	0	100	100	0	67	50

\*Dollar values in the Golden Parachute column are based only on the subset of individuals covered by a golden parachute.

Table 5

## Variable definitions and predictions

The independent variables for Tables 6 and 7 are defined. Two predicted signs are given in the column labeled Pred. The top sign is for the effect on retention (Table 6) and the bottom sign is for the effect on future other board seats (Table 7).

Variable	Definition	Pred	Relation to Board Seat Retention & Future Board Seats
Hostility	1 if the offer is characterized as hostile by the WSJ or DJNR. 0 otherwise.	- and +	Should reduce likelihood of retention. However, resistance that still allows a completed deal could characterize hard bargaining in the interests of shareholders and increase other board seats.
Hostility, Terminated	1 if the offer is characterized as hostile, but the merger is terminated. 0 otherwise.	+ and -	Marginal effect of termination should counter reduced retention following completed offers. For other directorships, resistance that completely wards off a deal is unlikely to be in the best interests of shareholders (negative effect).
Auction	1 if multiple bidders emerged. 0 otherwise.	? and +	For retention, unclear. For other directorships, if the efforts of the target directors generated the auction, then this is a positive effect. There is also a positive effect from the experience of involvement in an auction.
Auction, Terminated	1 if multiple bidders emerged, and the target remained independent. 0 otherwise.	? and -/0	For retention, unclear. For other directorships, failing to consummate a bid following an auction is unlikely to be in the interests of shareholders, but the experience effect may offset it.
Taken Private/ Acquired by a Foreign Firm	1 if the target was taken private or acquired by a foreign firm and 0 otherwise.	- and -	Retention is less likely in these cases and there are also potential negative spillover effects from the lower profile of private or foreign board seats.
Successful Merger	1 if the merger was complete, 0 if it was terminated	- and +	For retention, the results so far show that a director is much less likely to remain on the surviving board following a completed merger. For future seats, successfully completing a merger is likely to be in shareholders' interests and should be rewarded.
Pre-bid operating performance	4-year average return on assets (%) prior to the event year, minus the median average ROA from the target's 2-digit industry	+ and -/+	Potentially positive effect on both retention and future seats from the good performance of the target. However, for other seats, negotiating a successful acquisition of the firm following poor performance may be rewarded with future seats (negative relation).
Pre-bid operating performance, Terminated	4-year average return on assets (%) prior to the event year, minus the median average ROA from the target's 2-digit industry for targets that remained independent. 0 otherwise.	+ and +	Failing to complete a merger following poor performance should have a more negative effect (positive coefficient) than doing so following good performance

Table 6  
Predicting who will remain on the surviving board

This table presents the results of probit models designed to estimate the probability that a director will remain on the surviving board, either of the new merged firm, or of the still-independent target, following a control contest. The model is estimated separately for inside and outside directors. Hostility and Hostility, Terminated take a value of one if the offer is characterized as hostile (see table 1) for all offers and for only terminated offers, respectively, and are zero otherwise. Similarly, the Auction and Auction, Terminated, take a value of one if there were multiple bidders regardless of the outcome, and for only offers that were terminated, respectively, and are zero otherwise. Taken private/acquired by a foreign firm and Successful merger are self-explanatory dummy variables. Pre-bid operating performance is the industry-adjusted average cash flow return on assets (in %) for the 4-years prior to the bid and is split for terminated and successful offers as with Hostility and Auction. Marginal effects are presented. t-statistics are in parentheses. The pseudo-R<sup>2</sup> is computed as  $1 - \frac{\text{Log Likelihood of the full Model}}{\text{Log Likelihood of a Model including only a constant}}$ .

	<i>Pred.Sign</i>	<i>Inside</i>	<i>Outside</i>
<i>Intercept</i>		0.472 (1.524)	<b>0.519</b> <b>(2.388)</b>
<b>Performance</b>			
<i>Pre-Bid Operating Performance</i>	+	<b>0.009</b> <b>(1.715)</b>	-0.000 (-0.076)
<i>Pre-Bid Operating Performance, Terminated</i>	+	0.001 (0.107)	-0.006 (-0.869)
<b>Event Characteristics</b>			
<i>Hostility</i>	-	<b>-0.312</b> <b>(-2.470)</b>	-0.078 (-1.060)
<i>Hostility, Terminated</i>	+	0.246 (1.154)	-0.067 (-0.549)
<i>Auction</i>	?	-0.112 (-1.268)	-0.047 (-0.743)
<i>Auction, Terminated</i>	?	-0.158 (-0.854)	0.125 (1.061)
<i>Taken Private/Acquired by a Foreign Firm</i>	-	<b>-0.189</b> <b>(-2.002)</b>	<b>-0.305</b> <b>(-4.315)</b>
<i>Successful Merger</i>	-	<b>-0.808</b> <b>(-5.560)</b>	<b>-0.719</b> <b>(-8.680)</b>
<b>Personal Characteristics</b>			
<i>Age</i>		0.002 (0.362)	-0.006 (-0.165)
<i>Years as Director</i>		-0.004 (-0.840)	-0.002 (-0.520)
<i>Blockholder</i>	+	<b>0.324</b> <b>(1.880)</b>	-0.174 (-0.995)
<i>CEO</i>	+	<b>0.167</b> <b>(2.053)</b>	
<i>Term is up the following year</i>	-	0.014 (0.181)	-0.004 (-0.077)
<i>Pseudo-R<sup>2</sup></i>		0.389	0.452
<i>Number of Observations</i>		277	583

Table 7

Regression analysis of the change in other *Fortune 1000* directorships

The table presents estimates from regression analyses of the abnormal change in other (not including the target) *Fortune 1000* directorships for single-seat and multiple-seat directors. Abnormal change is the actual change minus the change for a cohort of nontarget directors matched on age and starting number of directorships. Most of the variables are defined in Table 5 and the legend to Table 6. Unexplained Retention is based on the results of the probit models in Table 6 and adjusts for the endogeneity of the retention decision. Those models attempt to explain whether a director remains on the surviving board, either of the new, merged firm, or of the still-independent target, following the contest. The Unexplained Retention variable is equal to the error from the probit in Table 6 predicting retention on the surviving board. In the inside director specifications, Remains Employed is a dummy variable set equal to one if the director is still listed as employed, either with the original or merged firm, or with a different firm, in the Register of Corporations, Directors, and Executives two years after the end of the takeover event. When a coefficient has a predicted sign from the settling-up hypothesis, it is given in the Pred. Sign column.

	Pred. Sign	Inside		Outside		All
		Single	Multiple	Single	Multiple	
<i>Intercept</i>		<b>-0.782</b> <b>(-2.508)</b>	-0.808 (-0.737)	<b>-0.590</b> <b>(-1.911)</b>	<b>0.645</b> <b>(1.786)</b>	-0.086 (-0.292)
<b>Performance</b>						
<i>Pre-Bid Operating Performance</i>	-/+	<b>-0.010</b> <b>(-1.853)</b>	<b>0.042</b> <b>(2.247)</b>	<b>-0.018</b> <b>(-3.080)</b>	-0.008 (-1.459)	<b>-0.012</b> <b>(-2.325)</b>
<i>Pre-Bid Operating Performance, Terminated</i>	+	0.011 (1.507)	-0.017 (-0.471)	<b>0.030</b> <b>(2.027)</b>	<b>0.028</b> <b>(2.679)</b>	<b>0.019</b> <b>(2.348)</b>
<b>Event Characteristics</b>						
<i>Hostile</i>	+	0.091 (0.741)	-0.318 (-1.173)	0.083 (0.643)	-0.139 (-1.433)	-0.154 (-1.542)
<i>Hostile, Terminated</i>	-	-0.088 (-0.402)	0.539 (1.101)	0.124 (0.607)	0.093 (0.483)	<b>0.310</b> <b>(1.753)</b>
<i>Auction</i>	+	-0.005 (-0.054)	-0.474 (-1.610)	<b>0.233</b> <b>(2.362)</b>	0.002 (0.017)	0.088 (0.984)
<i>Auction, Terminated</i>	-/0	0.207 (0.971)	0.453 (0.991)	-0.187 (-0.877)	0.129 (0.693)	-0.076 (-0.457)
<i>Taken Private/Acquired by a Foreign Firm</i>	-	-0.021 (-0.205)	0.056 (0.219)	0.051 (0.456)	-0.009 (-0.098)	-0.018 (-0.199)
<i>Successful Merger</i>	+	0.205 (1.492)	0.124 (0.418)	0.025 (0.201)	<b>0.210</b> <b>(1.715)</b>	0.137 (1.227)
<b>Personal Characteristics</b>						
<i>Age</i>		<b>0.012</b> <b>(2.061)</b>	0.007 (0.375)	<b>0.013</b> <b>(2.673)</b>	<b>-0.015</b> <b>(-2.423)</b>	-0.001 (-0.281)
<i>Years as Director</i>		-0.001 (-0.226)	-0.003 (-0.191)	-0.008 (-1.239)	0.003 (0.403)	0.001 (0.211)
<i>Unexplained Retention</i>		<b>-0.335</b> <b>(-3.092)</b>	0.197 (0.552)	0.035 (0.306)	-0.168 (-1.391)	-0.128 (-1.232)
<i>Blockholder</i>		<b>-0.296</b> <b>(-1.737)</b>	-0.611 (-0.655)	-0.060 (-0.253)	-0.163 (-0.504)	-0.092 (-0.444)
<i>CEO</i>		0.144 (1.389)	0.272 (1.254)			0.111 (0.907)
<i>Term is up the following year</i>		<b>0.146</b> <b>(1.678)</b>	0.143 (0.653)	0.064 (0.758)	0.029 (0.365)	0.067 (0.889)
<i>Remains Employed</i>		-0.027 (-0.299)	0.120 (0.480)			
<i>Number of Observations</i>		192	80	237	345	854
<i>Adjusted R<sup>2</sup></i>		0.091	0.000	0.052	0.018	0.003



Table 8

## Predicting Target Resistance

The dependent variable is equal to one if the event is characterized as hostile by the WSJ or DJ News Retrieval and zero otherwise. Marginal effects from probit estimation are presented. All Financial Variables are industry-adjusted by subtracting the median value from the appropriate two-digit SIC group. Year:1988-1989 is a dummy variable set equal to one if the bid occurred during those years. The Predicted Retention and Change in Other Seats are computed using coefficients estimated from regressions run only on completed mergers. The specifications for those regressions follow those in Tables 6 and 7, but do not include the auction or hostility variables, over which the board potentially has some influence. The Financial Impact variables are averages for the inside and outside directors of the Financial Impact if Merged computation shown in Table 4. t-statistics are in parentheses.

	Pred. Sign	(1)	(2)
Intercept		<b>-0.355</b> <b>(-1.736)</b>	-0.338 (-1.351)
<b>Financial Variables</b>			
Return on Equity		<b>-0.841</b> <b>(-2.300)</b>	<b>-0.911</b> <b>(-2.248)</b>
Sales Growth [Log (Sales <sub>t</sub> /Sales <sub>t-1</sub> )]		0.114 (0.265)	0.215 (0.436)
Debt-to-Equity (Book)		0.018 (0.471)	0.043 (0.714)
Market-to-Book Assets		<b>1.049</b> <b>(2.966)</b>	<b>1.073</b> <b>(2.923)</b>
Size (Market value of assets)		-0.000 (-0.608)	-0.000 (-0.816)
Cash		<b>-2.308</b> <b>(-2.650)</b>	<b>-2.167</b> <b>(-2.356)</b>
Year: 1988-1989		-0.154 (-1.118)	-0.224 (-1.350)
<b>Incentive Variables</b>			
Predicted Retention: CEO	-	<b>-1.314</b> <b>(-2.310)</b>	<b>-1.485</b> <b>(-2.292)</b>
Predicted ΔOther Seats: CEO	-	-0.121 (-0.836)	-0.104 (-0.628)
Predicted Retention: Other Directors	-	<b>2.112</b> <b>(1.929)</b>	<b>2.215</b> <b>(1.689)</b>
Predicted ΔOther Seats: Multiple-Seat Dirs	-	<b>-1.270</b> <b>(-2.503)</b>	<b>-1.447</b> <b>(-2.486)</b>
Predicted ΔOther Seats: Single-Seat Dirs	-	<b>1.062</b> <b>(2.266)</b>	<b>1.211</b> <b>(2.173)</b>
Predicted Financial Impact: Inside Dirs	-		0.000 (0.061)
Predicted Financial Impact: Outside Dirs	-		0.000 (0.377)
# Obs		91	91
Pseudo R <sup>2</sup>		0.536	0.550