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Acquisition experience over performance: Directorship prestige following M&As☆

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ABSTRACT

Corporate governance research documents that outside directors are not penalised in the director labour market for engaging in value-destroying acquisitions (M&A) as they obtain additional directorships regardless of M&A performance. This result is puzzling as it suggests that the director labour market does not provide sufficient ex post settling-up incentives for outside directors to mitigate agency concerns in the M&A context. We further investigate this issue by examining the prestige of directorships received by independent directors after engaging in an M&A. Using US data, we find that acquiring firm directors are awarded more prestigious directorships, regardless of whether the acquisition resulted in value destruction or value creation. Overall, our findings reinforce the notion that, in the director labour market, acquisition experience holds more value than acquisition ability.

1. Introduction

Outside directors play a crucial role in monitoring and advising a firm's top management (Linck et al. 2008). Directors' incentives to monitor effectively is partially driven by their prospects of obtaining future directorship opportunities (Fama, 1980; Yermack, 2004; Srinivasan, 2005; Armstrong et al. 2018). A well-functioning director labour market is expected to provide sufficient ex post settling-up incentives to encourage directors to act in the best interests of shareholders by rewarding them for value enhancement and penalising them for value destruction. Prior research is generally consistent with this notion, as directors receive additional directorships for increasing firm performance (Yermack, 2004). Moreover, directors serving on boards of firms involved in negative events such as proxy contests, fraudulent activities, accounting restatements, dividend cuts, and bankruptcy are typically penalised through fewer subsequent directorship opportunities (Gilson, 1990; Kaplan and Reishus, 1990; Srinivasan, 2005; Fich and Shivdasani, 2007; Fos and Tsoutsoura, 2014).

In sharp contrast to prior evidence, Harford and Schonlau (2013) demonstrate that the director labour market does not provide ex post settling-up incentives for poor merger and acquisition (M&A) decisions. They report that directors are rewarded with additional directorships irrespective of whether an M&A is value-enhancing or value-destroying for the acquiring firm.[1] Moreover, Greene and Smith (2021) find that senior executives experience an increase in compensation and other directorships irrespective of the sign of

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[1] Mira et al. (2019), using UK data, report that both positive and negative announcement returns have no effect on the number of non-executive directorships held five years after the acquisition. In contrast, dividend increases after an M&A increase the number of future directorships.

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M&A announcement returns. These findings suggest that in the M&A context, ex post settling-up incentives do not mitigate agency concerns and can, in fact, exacerbate them (Hölmstrom, 1999; Harford and Schonlau, 2013; Greene and Smith, 2021). The lack of labour market penalties for directors with value-destructive M&A experience is puzzling, particularly as these directors continue to engage in value-destructive acquisitions during their future board appointments (Field and Mkrtchyan, 2017). Our study aims to extend these findings by exploring whether the prestige of future board seats offered to directors can explain the ex-post settling-up incentives provided by the director labour market in the context of M&As.

Specifically, this study examines the association between M&A experience and the prestige of future directorships, and additionally if directorship prestige is a possible channel through which directors are penalised for destroying or creating value in the context of M&As. This paper argues that the value of directorships varies in terms of the benefits they offer to outside directors (Boivie et al. 2012; Masulis and Mobbs, 2014; Fahlenbrach et al. 2017) and the effort and time required for a director to fulfil their responsibilities. Prior research shows that directors experience reputational benefits associated with serving on the boards of more prestigious firms (Boivie et al. 2012) and prefer to provide their services to firms that offer more worthwhile financial and reputational benefits (Masulis and Mobbs, 2014; Fahlenbrach et al. 2017). Therefore, while Harford and Schonlau's (2013) study assume that all directorships are equal, the number of directorships held by a director in the post-acquisition period may not be an accurate indicator of their accountability or incentives. Instead, the prestige of the directorships held by a director is a more nuanced factor that highlights the labour market consequences of directors' performance in M&A decisions. In a well-functioning director labour market, it is predicted that directors who destroy shareholder value in M&As will face reputational costs, either by losing directorships in prestigious firms or by failing to gain new appointments in more reputable firms.

These research questions are tested by examining the prestige of board seats held by a sample of US directors two years after an acquisition. Using multiple measures of directorship prestige, the analysis is consistent with a positive association between acquisition experience and the prestige of future directorships. Surprisingly, our results suggest that the labour market rewards directors with more prestigious directorships irrespective of whether the acquisition creates or destroys value.

The results of additional analyses and robustness tests address potential concerns with the main findings. Entropy balancing is used to address endogeneity by creating a sample of directors with and without M&A experience that exhibits covariance balance. The results remain robust to those reported in the main findings. The conclusion from the results also remains consistent when the analyses are performed only on directors with M&A experience. Furthermore, the results are unchanged when restricting the analysis to the acquisition of public firms or measuring acquisition performance using the percentage of completed acquisitions that are value-destroying. Additional tests are also conducted using measures of extreme acquisition performance to determine whether the results are driven by value destruction/creation on a magnified scale, and the results remain consistent.

This study makes several contributions to the literature examining directors' career incentives arising from labour market rewards and penalties. The primary contribution of this study is to provide new evidence on a perceived anomaly in the ex post settling-up incentives provided by the director labour market for directors with M&A experience (Harford and Schonlau, 2013; Greene and Smith, 2021). Prior literature documents significant negative consequences for director' careers when their firms are involved in negative events (Gilson, 1990; Kaplan and Reishus, 1990; Harford, 2003; Srinivasan, 2005; Fich and Shivdasani, 2007; Fos and Tsoutsoura, 2014). However, director careers appear to benefit from both value-enhancing and value-destroying M&As (Harford and Schonlau, 2013). While the literature has documented the lack of ex post settling-up in labour market in the context of M&As, it has not further examined the complexities and nuances surrounding this anomaly. The results in this study suggest that not only do directors receive additional directorships for M&A experience (Harford and Schonlau, 2013), but these directorships have greater prestige regardless of M&A performance.

This study also extends the body of research that documents the reputational choices and consequences faced by directors (Knyazeva et al. 2013; Dou, 2017; Fahlenbrach et al. 2017). Previous studies focus on the directorships retained or forfeited when a firm engages in activities that tarnish the director's reputation. In contrast, this study focuses on how the director labour market responds to directors' M&A decisions and wealth creation through the prestige of future directorships offered to them. Surprisingly, the results indicate that directors do not suffer penalties through the quality of the directorships they hold post-acquisition, even after value-destroying M&As. This finding suggests that it is M&A experience alone that matters and not the quality of the M&A deal. This study also adds to the body of research that examines whether enhancing director reputation is a primary motivator for outside directors' actions (Fama, 1980; Fama and Jensen, 1983; Masulis and Mobbs, 2014). The findings in this study contradict earlier results and indicate that ex post settling-up incentives do not deter directors from engaging in M&As that destroy shareholder value.

The remainder of this study is structured as follows. Section 2 reviews the literature on the director labour market and develops

Table 1
Sample construction.

	Director firm-years	
Director firm-years present in the BoardEx dataset from 2001 to 2015	704,320	
Less Deletions:		
Executive directors	(129,921)	
Observations with missing BoardEx data	(85,373)	
Observations with missing Compustat data	(41,924)	
Observations with missing CRSP data	(165,378)	
Directors involved in an M&A which had a deal value of less than $50 million or had a relative size of less than 5 %	(45,190)	
Total usable observations		236,534

Table 2
Descriptive statistics at the director level.

	Observations	Mean	Median	SD	25th percentile	75th percentile
Board Seats t + 2	236,534	1.45	1.00	1.24	1.00	2.00
Prestige comparing t and t + 2	236,534	0.00	0.00	0.03	0.00	0.00
High ranked new directorship	236,534	0.00	0.00	0.06	0.00	0.00
Percent change in TA	155,111	13.17	7.43	54.60	–7.44	23.52
Acquisition	236,534	0.42	0.00	0.49	0.00	1.00
Number of Acquisitions	236,534	0.77	0.00	1.45	0.00	1.00
Acq(+)	236,534	0.29	0.00	0.45	0.00	1.00
Acq(–)	236,534	0.20	0.00	0.40	0.00	0.00
SumCAR	236,534	0.02	–0.11	1.09	–0.11	0.03
Diversifying	236,534	0.44	0.00	0.50	0.00	1.00
Past Directorships	236,534	1.69	1.00	1.27	1.00	2.00
Ind Adj ROA	236,534	–0.00	0.00	0.11	–0.02	0.02
Prior BHAR	236,534	0.04	–0.03	0.69	–0.33	0.27
Firm Size	236,534	6.77	6.76	2.02	5.37	8.13
Director Tenure	236,534	8.19	6.30	7.24	2.80	11.30
Director Age	236,534	61.90	62.00	9.04	56.00	68.00
Chair	236,534	0.05	0.00	0.23	0.00	0.00
Lead	236,534	0.04	0.00	0.19	0.00	0.00

Definitions of the variables are presented in Appendix A. All continuous variables have been winsorised at the 0.5% and 99.5% percentiles, with the exception of the prestige variables which are winsorised at the 5% and 95% percentiles.

Table 3
Univariate analyses *Panel A: Univariate testing for acquirers and non–acquirers.*

	(1)	(2)	(3)	(4)	(5)
	Non–acquirer (*Acquisition* = 0)		Acquirer (*Acquisition* = 1)		
	Observations	Mean	Observations	Mean	Difference
Board Seats t + 2	136,129	1.194	100,405	1.808	–0.613***
Prestige comparing t and t + 2	136,129	0.000	100,405	0.002	–0.002***
High ranked new directorship	136,129	0.000	100,405	0.009	–0.009***
Percent change in TA	90,905	11.430	64,206	15.623	–4.192***
Past Directorships	136,129	1.341	100,405	2.155	–0.813***
Ind Adj ROA	136,129	–0.001	100,405	–0.002	0.001***
Prior BHAR	136,129	0.042	100,405	0.044	–0.002
Firm Size	136,129	6.040	100,405	7.770	–1.730***
Director Tenure	136,129	7.835	100,405	8.675	–0.840***
Director Age	136,129	60.923	100,405	63.223	–2.299***

Definitions of the variables are presented in Appendix A. All continuous variables have been winsorised at the 0.5% and 99.5% percentiles, with the exception of the prestige variables, which are winsorised at the 5% and 95% percentiles. ***, **, * denote statistical significance at the 1%, 5%, and 10% level, respectively.

Panel B: Univariate testing comparing value-enhancing acquirers and value-destroying acquirers

	(1)	(2)	(3)	(4)	(5)
	Value-destroying director		Value-enhancing director		
	Observations	Mean	Observations	Mean	Difference
Board Seats t+2	46,825	1.810	53,580	1.806	0.004
Prestige comparing t and t+2	46,825	0.002	53,580	0.002	–0.000
High ranked new directorship	46,825	0.009	53,580	0.009	–0.000
Percent change in TA	29,917	15.059	34,289	16.115	–1.056*
Past Directorships	46,825	2.151	53,580	2.158	–0.007
Ind Adj ROA	46,825	–0.001	53,580	–0.002	0.001*
Prior BHAR	46,825	0.027	53,580	0.058	–0.031***
Firm Size	46,825	7.877	53,580	7.677	0.200***
Director Tenure	46,825	8.700	53,580	8.652	0.048
Director Age	46,825	63.280	53,580	63.172	0.108**

Definitions of the variables are presented in Appendix A. All continuous variables have been winsorised at the 0.5% and 99.5% percentiles, with the exception of the prestige variables which are winsorised at the 5% and 95% percentiles. ***, **, * denote statistical significance at the 1%, 5%, and 10% level, respectively.

Table 4
Directorship prestige and acquisition outcomes.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Variables	*Prestige comparing t and t + 2*	*High ranked new directorship (Following Masulis and Mobbs 2014)*	*Percent change in TA (following Dou 2017)*	*Prestige comparing t and t + 2*	*High ranked new directorship (Following Masulis and Mobbs 2014)*	*Percent change in TA (following Dou 2017)*	*Prestige comparing t and t + 2*	*High ranked new directorship (Following Masulis and Mobbs 2014)*	*Percent change in TA (following Dou 2017)*
Acquisition	18.612***	20.856***	9.741***	–	–	–	–	–	–
	(85.147)	(18.768)	(15.863)						
Acq(+)	–	–	–	18.962***	20.478***	10.361***	–	–	–
				(74.399)	(18.667)	(15.035)			
Acq(–)	–	–	–	18.974***	20.541***	10.901***	–	–	–
				(104.419)	(18.257)	(13.963)			
Number of Acquisitions	–	–	–	–	–	–	0.175***	0.244***	1.551***
							(7.445)	(12.864)	(7.428)
Diversifying	–0.230	–0.018	4.602***	–0.205	0.009	3.539***	1.539***	1.624***	8.043***
	(–1.344)	(–0.181)	(7.932)	(–1.209)	(0.090)	(5.709)	(6.586)	(12.410)	(14.507)
Past Directorships	0.018	0.204***	–2.364***	0.021	0.204***	–2.320***	–0.005	0.144***	–2.259***
	(0.396)	(3.752)	(–9.789)	(0.485)	(3.854)	(–9.667)	(–0.089)	(5.371)	(–9.430)
Ind Adj ROA	–0.705	–1.088***	–2.821*	–0.737	–1.097***	–2.782*	–0.865	–1.172***	–2.962*
	(–1.051)	(–4.797)	(–1.753)	(–1.112)	(–4.869)	(–1.729)	(–1.614)	(–5.549)	(–1.836)
Director Tenure	–0.139***	–0.055***	0.006	–0.137***	–0.054***	0.007	–0.150***	–0.068***	–0.008
	(–5.837)	(–6.248)	(0.249)	(–5.717)	(–6.154)	(0.284)	(–6.321)	(–7.320)	(–0.340)
Director Age	–0.032***	–0.027***	–0.103***	–0.031***	–0.026***	–0.100***	–0.032***	–0.028***	–0.101***
	(–3.968)	(–5.208)	(–4.434)	(–3.952)	(–5.086)	(–4.317)	(–4.073)	(–6.042)	(–4.405)
SumCAR	0.039	0.033	0.407*	–	–	–	0.027	0.006	0.384*
	(0.818)	(1.263)	(1.781)				(0.571)	(0.217)	(1.659)
Yrs since last acquisition	–0.702***	–0.610***	–3.044***	–0.723***	–0.634***	–3.278***	–0.528***	–0.476***	–2.720***
	(–4.305)	(–8.988)	(–23.699)	(–4.413)	(–9.280)	(–24.582)	(–3.254)	(–6.821)	(–22.118)
Prior BHAR	–0.134	0.078	11.121***	–0.138	0.074	11.148***	–0.153	0.072	11.108***
	(–1.097)	(1.449)	(40.028)	(–1.133)	(1.400)	(40.133)	(–1.234)	(1.343)	(40.021)
Firm Size	0.251***	0.131***	–0.810***	0.286***	0.170***	–0.667***	0.345***	0.232***	–0.423***
	(5.991)	(5.992)	(–7.969)	(7.259)	(8.138)	(–6.749)	(9.078)	(10.807)	(–4.380)
Observations	236,534	236,534	155,111	236,534	236,534	155,111	236,534	236,534	155,111
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Pseudo R^2	0.2670	0.2269	0.0429	0.2587	0.2152	0.0429	0.2008	0.1706	0.0407

Definitions of the variables are presented in Appendix A. The models are estimated using logit or ordinary least squares regressions with standard errors clustered by director. The numbers reported in parentheses are t-statistics. ***, **, * denote statistical significance at the 1%, 5%, and 10% level, respectively.

hypotheses. Section 3 presents the regression models used to test the hypotheses. Section 4 describes the sample construction process, while the descriptive statistics and empirical results are presented in Section 5. Section 6 discusses additional analysis and robustness testing, whilst Section 7 provides some concluding remarks.

2. Literature review and theory development

2.1. Prior literature

Outside directors are responsible for monitoring and advising a firms' top managers in order to mitigate agency conflicts arising from the separation of ownership and control (Fama and Jensen, 1983). Thus, their presence should increase the likelihood of corporate decisions being made in shareholders' interest (Byrd and Hickman, 1992; Cotter et al. 1997; Paul, 2007). An efficiently functioning director labour market is intended to serve as a motivating mechanism for directors to act in shareholders' best interests (Fama, 1980; Fama and Jensen, 1983), by rewarding/(penalising) them for good/(poor) performance. Prior literature shows that director career concerns have the potential to mitigate agency problems that occur between the board of directors and shareholders (Brickley et al. 1999). As the presence of outside directors is the only independent representation of shareholders in the firms they own, it is vital that directors' interests are aligned with those of shareholders (Cai et al. 2009). Consequently, the career incentives received by directors should be associated with positive outcomes for shareholders.

A number of studies support the premise of an efficiently functioning director labour market, demonstrating that directors with superior performance receive more directorships, while directors who exhibit poor performance receive fewer board seats (Kaplan and Reishus, 1990; Yermack, 2004; Srinivasan, 2005; Fich and Shivdasani, 2007; Fos and Tsoutsoura, 2014). Similarly, prior literature shows that directors who serve on larger firms and sit on larger boards are more likely to attract new directorships (Ferris et al. 2003). Additionally, firms with better internal governance mechanisms are more likely to hire shareholder-friendly directors and dismiss

Table 5
Covariate balance between treatment and entropy balanced control sample.

Panel A: Sample Distributions of the Control Variables before the Entropy Balancing Procedure

	(1)	(2)	(3)	(4)	(5)	(6)
	Acquisition = 1			*Acquisition = 0*		
	Mean	Variance	Skewness	Mean	Variance	Skewness
Diversifying	0.836	0.137	−1.816	0.145	0.124	2.015
Past Directorships	2.155	1.938	2.621	1.341	1.071	7.689
Ind Adj ROA	−0.002	0.009	0.192	−0.0001	0.016	0.731
Director Tenure	8.675	46.57	1.574	7.835	56.31	1.84
Director Age	63.22	65.1	−0.263	60.92	91.66	−0.083
SumCAR	0.155	2.484	0.604	−0.084	0.226	2.071
Yrs since last acquisition	1.966	4.288	1.888	0.577	2.495	3.651
Prior BHAR	0.044	0.382	2.195	0.042	0.536	2.059
Firm Size	7.77	3.101	0.012	6.04	3.547	0.232

Panel B: Sample Distributions of the Control Variables after the Entropy Balancing Procedure

	(1)	(2)	(3)	(4)	(5)	(6)
	Acquisition = 1			*Acquisition = 0*		
	Mean	Variance	Skewness	Mean	Variance	Skewness
Diversifying	0.836	0.137	−1.816	0.836	0.137	−1.816
Past Directorships	2.155	1.938	2.621	2.155	1.938	2.621
Ind Adj ROA	−0.002	0.009	0.192	−0.002	0.009	0.192
Director Tenure	8.675	46.57	1.574	8.675	46.57	1.574
Director Age	63.22	65.1	−0.263	63.22	65.1	−0.263
SumCAR	0.155	2.484	0.604	0.155	2.484	0.604
Yrs since last acquisition	1.966	4.288	1.888	1.966	4.288	1.888
Prior BHAR	0.044	0.382	2.195	0.044	0.382	2.195
Firm Size	7.77	3.101	0.012	7.77	3.101	0.012

Definitions of the variables are presented in Appendix A.

shareholder-unfriendly directors, therefore, rewarding directors who act in shareholders' interests (Lel and Miller, 2018). This supports the conjecture that the director labour market creates powerful incentives that motivates directors to act in shareholders' best interests (Fama and Jensen, 1983).

Prior research also highlights that directors experience reputational costs for financial reporting and corporate failures (Gilson, 1990; Srinivasan, 2005; Fos and Tsoutsoura, 2014). For example, while penalties from lawsuits and the Securities Exchange Commission (SEC) are limited for directors when their firms experience accounting restatements, they experience substantial labour market penalties, – losing 25 % of their positions on other boards (Srinivasan, 2005). Proxy contests, lawsuits, earnings restatements, and the occurrence of financial fraud also have significant adverse effects on directors' careers, as evidenced by a decline in the number of board seats held following these negative events (Fich and Shivdasani, 2007; Fos and Tsoutsoura, 2014; Dou, 2017; Krause et al. 2017). Similarly, directors involved in dividend cuts are less likely to receive additional outside directorships (Kaplan and Reishus, 1990).

Corporate governance mechanisms also contribute to the efficient functioning of the director labour market. Firms with strong corporate governance are less likely to retain directors accused of engaging in fraudulent activities (Fich and Shivdasani, 2007; Brochet and Srinivasan, 2014).[2] Similarly, managers are more likely to be removed from the boards of firms for negative events when: the firm exhibits higher corporate governance quality, the directorship is relatively more prestigious, or harm to shareholder value is significant (Karpoff et al. 2008; Masulis and Mobbs, 2017). Furthermore, experience gained at firms considered: older, larger, more complex, more transparent, better governed, qualitatively reputable, and high performing is beneficial for directors, as they are more likely to be candidates for other directorships (Do et al. 2015). The director labour market also rewards directors from superior performing firms by offering them higher quality directorships (Gupta et al. 2008). Thus, firms with superior corporate governance are more likely to penalise poorly performing directors, and directors from such firms are more likely to receive labour market benefits.

As acquisitions are major capital decisions that are often wealth-destructive for the acquiring firm's shareholders (Harford et al. 2012), it is important for directors' incentives surrounding acquisitions to be aligned with shareholders' interests. Managerial objectives may drive poor acquisitions, and managers of acquiring firms may be influenced by hubris, overpaying for target firms as they overestimate their value and their own ability to run them (Roll, 1986; Morck et al. 1990). Managers may also pursue acquisitions for self-serving purposes such as increased compensation or empire building, which can result in value destruction (Brown and Sarma, 2007). Thus, it is critical for directors to be provided with the appropriate incentives to limit managers' self-serving motives and maximise shareholder value (Byrd and Hickman, 1992; Avery et al. 1998; Wright et al. 2002).

While empirical evidence suggests that the director labour market is mostly efficient and rewards and penalises directors appropriately for their performance, M&As are one instance when directors' actions are not penalised for poor performance, particularly

[2] Strong corporate governance is measured by the Gomper et al. (2003) score.

Table 6
Directorship prestige and acquisition outcomes using entropy balancing sample.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Variables	*Prestige comparing t and t + 2*	*High ranked new directorship (Following Masulis and Mobbs 2014)*	*Percent change in TA (following Dou 2017)*	*Prestige comparing t and t + 2*	*High ranked new directorship (Following Masulis and Mobbs 2014)*	*Percent change in TA (following Dou 2017)*	*Prestige comparing t and t + 2*	*High ranked new directorship (Following Masulis and Mobbs 2014)*	*Percent change in TA (following Dou 2017)*
Acquisition	19.741***	20.319***	8.392***	–	–	–	–	–	–
	(61.397)	(12.891)	(6.635)						
Acq(+)	–	–	–	18.011***	20.121***	6.879***	–	–	–
				(45.960)	(8.291)	(4.635)			
Acq(–)	–	–	–	18.362***	20.575***	8.577***	–	–	–
				(43.786)	(8.489)	(4.712)			
Number of Acquisitions	–	–	–	–	–	–	0.252***	0.318***	2.042***
							(10.508)	(14.732)	(6.099)
Diversifying	−0.230	−0.018	3.574***	−0.479***	−0.279***	1.989*	0.045	0.085	2.880***
	(−1.344)	(−0.181)	(3.897)	(−2.691)	(−2.694)	(1.958)	(0.222)	(0.752)	(2.944)
Past Directorships	0.018	0.204***	−2.820***	0.015	0.214***	−2.723***	−0.063	0.130***	−2.934***
	(0.396)	(3.753)	(−7.078)	(0.306)	(3.635)	(−7.225)	(−1.013)	(4.003)	(−7.169)
Ind Adj ROA	−0.705	−1.088***	−0.616	−0.544	−1.092***	−0.423	−0.857	−1.139***	−0.402
	(−1.051)	(−4.797)	(−0.115)	(−0.788)	(−4.791)	(−0.079)	(−1.460)	(−4.922)	(−0.074)
Director Tenure	−0.139***	−0.055***	0.154**	−0.134***	−0.054***	0.156**	−0.148***	−0.068***	0.136*
	(−5.838)	(−6.248)	(1.966)	(−5.504)	(−5.744)	(2.009)	(−6.051)	(−6.953)	(1.707)
Director Age	−0.032***	−0.027***	−0.247***	−0.035***	−0.030***	−0.260***	−0.041***	−0.036***	−0.272***
	(−3.969)	(−5.209)	(−2.633)	(−4.364)	(−5.695)	(−2.797)	(−5.013)	(−7.087)	(−2.934)
SumCAR	0.039	0.033	−0.118	–	–	–	0.005	−0.019	−0.221
	(0.818)	(1.264)	(−0.200)				(0.115)	(−0.729)	(−0.374)
Yrs since last acquisition	−0.702***	−0.610***	−2.732***	−0.725***	−0.655***	−2.782***	−0.641***	−0.593***	−2.562***
	(−4.305)	(−8.989)	(−12.842)	(−4.646)	(−9.717)	(−13.055)	(−3.931)	(−8.239)	(−11.788)
Prior BHAR	−0.134	0.078	8.753***	−0.145	0.094*	8.801***	−0.159	0.085	8.808***
	(−1.097)	(1.449)	(9.350)	(−1.204)	(1.726)	(9.546)	(−1.280)	(1.516)	(9.547)
Firm Size	0.251***	0.131***	−0.935***	0.259***	0.127***	−0.917***	0.219***	0.109***	−0.939***
	(5.991)	(5.992)	(−2.982)	(6.096)	(5.492)	(−2.943)	(5.031)	(4.458)	(−3.004)
Observations	236,534	236,534	155,111	236,534	236,534	155,111	236,534	236,534	155,111
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Pseudo R^2	0.0670	0.0412	0.0406	0.0159	0.0394	0.0388	0.0403	−0.0077	0.0384

Definitions of the variables are presented in Appendix A. The models are estimated using ordinary least squares or logit regressions with standard errors clustered by director. The numbers reported in parentheses are t-statistics. ***, **, * denote statistical significance at the 1%, 5%, and 10% level, respectively.

Table 7
Measuring acquisition performance using percentage of value-destroying acquisitions completed.

	(1)	(2)	(3)
Variables	*Prestige comparing t and t + 2*	*High ranked new directorship (Following Masulis and Mobbs 2014)*	*Percent change in TA (following Dou 2017)*
% of Acq(–)	1.357***	1.332***	61.848
	(6.922)	(14.014)	(0.628)
Controls	Yes	Yes	Yes
Observations	207,503	226,015	155,111
Year FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Pseudo R^2	0.1931	0.1603	0.0151

Definitions of the variables are presented in Appendix A. The models are estimated using ordinary least squares or logit regressions with standard errors clustered by director. The numbers reported in parentheses are t-statistics. ***, **, * denote statistical significance at the 1%, 5%, and 10% level, respectively.

from the perspective of the acquiring firm. For example, Harford and Schonlau (2013) find that acquisition experience is rewarded with additional future directorships two years after the acquisition irrespective of M&A performance. Additionally, Greene and Smith (2021) document that senior managers in the US receive both higher compensation and more future board seats for both positive and negative M&As.

Table 8
Measuring acquisition performance using extreme acquisition abnormal returns.

	(1)	(2)	(3)
Variables	*Prestige comparing t and t + 2*	*High ranked new directorship (Following Masulis and Mobbs 2014)*	*Percent change in TA (following Dou 2017)*
Extreme Acq(+)	0.825***	0.981***	275.500*
	(3.844)	(1.683)	(1.831)
Extreme Acq(−)	0.823***	0.780***	150.057*
	(3.868)	(7.498)	(1.751)
Controls	Yes	Yes	Yes
Observations	207,503	226,015	159,929
Year FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Pseudo R^2	0.1863	0.1544	0.0129

Definitions of the variables are presented in Appendix A. The models are estimated using ordinary least squares or logit regressions with standard errors clustered by director. The numbers reported in parentheses are t-statistics. ***, **, * denote statistical significance at the 1%, 5%, and 10% level, respectively.

2.2. Hypothesis development

Fama and Jensen (1983) argue that directors are motivated to enhance their reputation as it increases their prospects of securing future directorships. Prior research suggests that directors are aware of the labour market's perception of their performance, and directors seek to maintain and enhance their reputation because it enhances their human capital and increases their attractiveness as candidates for other board appointments (Zajac and Westphal, 1996). This is evidenced when directors pre-emptively depart from the firms in advance of negative firm events (Fahlenbrach et al. 2017). Although directors' pre-emptive departures are intended to avoid negative reputation effects, early departures have adverse effects for directors through labour market penalties (Dou, 2017). Directors are also more likely to resign from poorly performing firms, which are associated with lower prestige and greater workload (Fahlenbrach et al. 2017). Similarly, directors are more willing to forfeit lower-ranking directorships when the firm is performing poorly to avoid negative reputational consequences (Masulis and Mobbs, 2014). This demonstrates that directors are motivated to protect their perceived reputation in the director labour market.

The findings in Harford and Schonlau (2013) and Greene and Smith (2021) are consistent with acquisition experience per se being valuable and in demand in the director labour market regardless of the performance of an acquisition. This heightened demand for directors with M&A experience, coupled with the limited supply of directors with such experience,[3] is likely to place directors with M&A experience in a strong bargaining position when deciding which additional board appointments to accept. Evidence from prior research indicates that directors place a higher value on more prestigious directorships, as they are less willing to forfeit these directorships during times of hardship (Knyazeva et al. 2013; Masulis and Mobbs, 2014). Based on this preference of directors to serve on prestigious boards, we predict that the increase in directorships for directors with M&A experience (Harford and Schonlau, 2013) will result in these directors being appointed to more prestigious boards. This leads to Hypothesis 1a:

Hypothesis 1a Directors with acquisition experience are more likely to gain prestigious future directorships than directors without acquisition experience.

Prior evidence suggests that outside directors whose external board appointments are considered more prestigious and relatively high-ranking are associated with higher firm value and better operating performance (Masulis and Mobbs, 2014; Le et al., 2022) . *Firms with boards that include directors whose appointment is more prestigious also have higher accounting quality* (Bryan and Mason, 2020; Masulis and Mobbs, 2023). *In contrast, directors are more likely to be punished for events that negatively impact a firm at their more prestigious directorships* (Masulis and Mobbs, 2017). *These findings, suggest that the ability to obtain prestigious directorships based on prior M&A experience, should be associated with the quality* (*i.e., value enhancing or value decreasing*) *of a director's acquisition experience. Thus, it is conjectured that prestigious and reputable firms are more/*(*less*) *likely to appoint outside directors with proven good/*(*poor*) *acquisition experience. Formally, it is hypothesised that:*

Hypothesis 1b There is a positive association between acquisition performance and the prestige of outside directors' future directorships following an M&A.

Research design

The following model is estimated to test Hypothesis 1a, which examines the impact of acquisition experience on the prestige of directors' post-acquisition directorships:

$$\text{DirectorshipPrestige} = \alpha + \beta_1 \text{Acquisition} + \beta_j \text{Control Variables} + \varepsilon_i \quad (1)$$

The model is estimated using both logit regressions and OLS regressions, depending on the alternative dependent variable specified

[3] The descriptive statistics presented in Table 2 show only approximately 40% of directors have acquisition experience.

to measure directorship prestige. The dependent variable (*DirectorshipPrestige*), which proxies for directorship prestige, is measured alternatively in the following three ways.

i) *Prestige comparing t and t + 2* is a variable coded one if, for a specific director, a new directorship held in year $t + 2$ is larger than the average size of the directorships held by that director in year t (excluding the acquisition firm). The market value of a firm's equity is used to determine firm size.
ii) *High ranked new directorship* follows Masulis and Mobbs (2014) and is coded one if a new directorship obtained by a specific director in year $t + 2$ is at least 10 % larger than the smallest directorship where a specific individual held a directorship in year t, (excluding the acquisition firm). The market value of a firm's equity is used to determine firm size.
iii) *Percent change in TA* following Dou (2017) is calculated as the percentage change in the total assets of the largest firm where a specific director holds a directorship at from year t to year $t + 2$, excluding the acquisition firm.[4]

The main variable of interest to test Hypothesis 1a is an indicator variable (*Acquisition*) equal to one if the director has made a large acquisition at some point as director in any year since 2001 up to and including year t, and zero otherwise. Similar to Harford and Schonlau (2013) an acquisition is classified as large if the target size, as measured by SDC transaction value, is at least 5 % of the size of the market value of the acquirer as of the end of the prior calendar year, and the target size is at least $50 million.

Numerous characteristics are controlled for in Model (1) based on prior M&A and governance research (Harford and Schonlau, 2013). *Diversifying* is measured as an indicator variable equal to one in year t if the director has made at least one diversifying acquisition since 2001, and zero otherwise. An acquisition is considered diversifying if the target firm's industry differs from the acquirer's industry. Industry is measured using two-digit SIC codes. *Yrs since last acquisition* is the number of years since the director engaged in a large acquisition. This variable is set to zero if the director has made no previous large acquisitions. *Ind Adj ROA* is measured as the change from year t–1 to year t in the firm's industry-adjusted return on assets (ROA).[5] *Prior BHAR* is the buy-and-hold abnormal return over the financial year t–1. *Firm Size* is measured as the natural logarithm of the market capitalisation of the firm in year t–1.[6]

This study also controls for governance measures that may influence the likelihood of an acquisition and impact acquisition outcomes. *Past Directorships* are measured as the number of directorships held by the director in the year of their last large acquisition. This variable is set to zero if a director has not made any prior large acquisitions. *Director Tenure* is defined as the number of years since the director first became a director at any firm in the sample. *Director Age* is the age of the director in years.

Following Harford and Schonlau (2013), two potential alternative explanations for the findings are considered. First, an unobserved omitted variable could explain both the acquisition and future board seats, as directors who are better at working with boards could be the same directors who are able to convince their boards to make acquisitions. To address this possibility, the study controls for directors' prior board seats and firm performance. Another explanation may be the possibility that inter-industry experience or reputation gained via the acquisition process, rather than the acquisition itself, is associated with subsequent board seats. This concern is addressed by controlling for diversifying acquisitions (*Diversifying*).

In the model specification, potentially endogenous sources of variation in the number of directorships held by directors are addressed. Aggregate trends in the labour market for directorships may drive changes in directorships. Specifications are augmented with year fixed effects and industry fixed effects using two-digit SIC codes to address this concern (Fos and Tsoutsoura, 2014). Standard errors are clustered by director, as the same directors are present in the data set across multiple years. Appendix A summarises the definitions of all variables used in the study.

We estimate regression Model (2) to test Hypothesis 1b. To determine whether outside directors are rewarded/(penalised) for good/(poor) acquisition performance through the prestige of future board seats, acquisition performance is measured using two indicator variables: *Acq(+)* and *Acq(–)*. *Acq(+)/(Acq(–))* are respectively indicator variables measured in year t and highlight whether the sum of the abnormal returns from a director's past large acquisition announcements is positive/(negative), and zero otherwise. The abnormal returns are calculated from a market model using the Center for Research in Security Prices (CRSP) value-weighted market return. The parameters of the market model are estimated using data from days –280 to –61 relative to the announcement date (Fahlenbrach et al. 2010). The alternative dependent variables and controls used in Model (2) are consistent with those employed in Model (1).

$$\text{DirectorshipPrestige} = \alpha + \beta_1 \text{Acq}(+) + \beta_2 \text{Acq}(-) + \beta_j \text{Control Variables} + \varepsilon_i \quad (2)$$

4. Sample construction and descriptive statistics

The sample is obtained from the SDC US Mergers and Acquisitions database and comprises acquisitions made by US publicly listed acquirers between 2001 and 2015 for either public or private US and non-US targets. Applying the standard filters used in the M&A

[4] Consistent results (untabulated) are obtained if the market value of equity (rather than total assets) is used to calculate the change in the size of a specific director's largest directorship from year t to year t+2.

[5] This study controls for the change in ROA, as firms with higher ROA are better positioned to become acquirers (Harford, 1999).

[6] Firm size is controlled for as more resources are required to acquire larger targets; thus, the size of a firm could serve as an effective takeover defence (Masulis et al. 2007).

literature, small transactions in which the deal value is less than $50 million or less than 1 % of the acquirer's market capitalisation are excluded, and the sample is restricted to deals in which the acquirer obtains at least 51 % of the target's shares. The SDC M&A data is matched to BoardEx to identify outside directors who have been involved in M&As. Financial data are obtained from Compustat and stock price data from CRSP and WRDS Event Study. To be included in the empirical testing, observations must have both complete BoardEx and Compustat data. The final sample consists of 236,534 observations and a summary of the sample selection process is documented in Table 1.

Table 2 presents the descriptive statistics for all variables used in the regression models. The average director has 1.69 past directorships (*Past Directorships*) and 1.45 directorships in year $t + 2$ (*Board Seats* $t + 2$) (all with a median of one). Approximately, 42 % of directors have engaged in acquisitions including their current year acquisition (*Acquisition)*, and on average directors have undertaken 0.77 acquisitions including their current-year acquisition (*Number of Acquisitions)*. Approximately, 29 % of directors have made acquisitions that are on average net value-enhancing according to the sum of the CAR surrounding the acquisition announcement (*Acq(+)*), whilst 20 % of directors have made net value-destroying acquisitions (*Acq(–)*). The sum of directors' cumulative abnormal returns surrounding acquisition announcements (*SumCAR*) is 0.02 on average, similar to Harford and Schonlau (2013), who report a mean of zero. This is also consistent with Dhaliwal et al. (2016) and Betton et al. (2009), who also report summary statistics for acquirer announcement returns close to zero.

The prestige of directors' other board appointments increases by 13 %, using the percentage change in the total assets of the largest firm a specific individual serves as a director, from year t to year $t + 2$ and excluding the M&A firm (*Percent change in TA*). However, when comparing a specific individual's new directorships post-M&A in year $t + 2$ to the average size of the firms in which the same individual serves as a director in year t (*Prestige comparing t and* $t + 2$), the mean is 0. Directors have held their position on the board for approximately 8 years on average (*Director Tenure*), and the average director age is 61.9 years.

Table 3 presents univariate analyses for different subsamples. The univariate analysis reported in Panel A compares acquiring with non-acquiring directors. The results reveal that directors' past directorships (*Past Directorships*) and directorships in year $t + 2$ (*Board Seats* $t + 2$) are statistically different between non-acquiring and acquiring directors. Consistent with Harford and Schonlau (2013) the results show that non-acquiring directors have 0.613 less board seats in year $t + 2$ on average than acquiring directors. This mean difference is statistically significant at the 1 % level. Acquiring directors also held more directorships than non-acquiring directors prior to the acquisition (*Past Directorships)*, significant at the 1 % level. The results for the prestige proxies indicate that non-acquiring directors have less prestigious directorships in year $t + 2$ compared with acquiring directors, denoted by the statistically significant differences on all three prestige variables. These initial results support Hypothesis 1a. Compared to non-acquiring directors, acquiring directors have on average longer tenure and are older.

Panel B of Table 3 reports univariate tests analysing the differences between directors on value-enhancing and value-destroying acquirers. Thus, the sample reported in this table is limited to acquirers. Interestingly, there is no significant difference in the number of board seats held by value-enhancing acquirers and value-destroying acquirers at year $t + 2$ (*Board Seats* $t + 2$). There is some evidence that value-enhancing directors obtain board seats with greater prestige, as measured by the percentage change in total assets. Value-enhancing acquirers have significantly higher prior BHARs than value-destroying acquirers at the 1 % level. Value-destroying directors are more likely to work at larger firms compared to value-enhancing acquirers demonstrated by the significant difference in means. Value-destroying directors are also significantly older than value-enhancing directors.

5. Main results

5.1. Reproducing the results in Harford and Schonlau (2013)

Prior to formally testing the hypotheses, we conduct a similar analysis to Harford and Schonlau (2013) by examining whether outside directors who preside on boards that complete acquisitions are more likely to gain additional board seats than directors without acquisition experience. Ordered logit models are estimated to explain the number of directorships held by directors two years post-acquisition. The conclusion from the results (not tabulated) provides the same conclusion as those in Harford and Schonlau (2013). The results indicate that directors' board appointments in year $t + 2$ are significantly and positively related to an indicator variable denoting acquisition activity and the number of acquisitions undertaken. We also find that the director labour market rewards directors for both value-enhancing and value-destructive acquisitions. Thus, these results indicate that M&A experience is more highly valued than director M&A ability in the labour market.[7]

5.2. Results for Hypothesis one

Directors generally strive to develop and maintain a favourable reputation, as directors with better reputations are more highly sought after in the director labour market (Zajac and Westphal, 1996). As a result, directors are willing to forfeit their board positions at poorly performing firms to avoid adverse reputational effects (Masulis and Mobbs, 2014). Prior studies also demonstrate that directors are rewarded for positive firm performance (Yermack, 2004).

Table 4 presents the results of tests that examine whether directors' acquisition experience is associated with changes in the

[7] The results for the control variables are largely consistent with those reported in Harford and Schonlau (2013). *Past Directorships*, *Prior BHARs*, and *Firm Size* are all positive and significant, while *Director Tenure* is negative and significant.

prestige of directorships held and obtained. Specifically, Hypothesis 1a predicts that directors with acquisition experience are more likely to gain prestigious future directorships than directors without acquisition experience. Following prior studies and to test Hypothesis 1a, three alternative dependent variables measuring prestige are used. When calculating the prestige variables, the acquisition firm is excluded, as generally firm size automatically increases post-acquisition.

The results of estimating regression model (1) using alternative measures of directorship prestige are presented in Columns (1) through (3) of Table 4. In support of Hypothesis 1a we find a positive and significant association between a director's acquisition experience and the prestige of future directorships.

We now turn to an examination of Hypothesis 1b which predicts that directors who engage in value-enhancing/(destroying) acquisitions are rewarded/(penalised) with additional/(fewer) directorships on reputable and prestigious boards. The results of estimating Model 1(b) are presented in Columns (4) through (6) of Table 4. The positive and significant coefficients on *Acq(+)* and *Acq(–)* indicate that directors are rewarded for completing *both* value-enhancing and value-destroying acquisitions through increases in the prestige of subsequent board appointments. This finding is surprising as it demonstrates that the labour market does not penalise directors for poor acquisition decisions through less prestigious board appointments. Consequently, Hypothesis 1b, which predicts that the director labour market penalises directors through a loss of high-quality directorships, or a reduction in obtaining fewer high-quality directorships, is not supported.

As an additional test in Columns (7) through (9) we replace the *Acquisition* or acquisition quality indicator variable with a count of the number of prior acquisitions (*Number of Acquisitions*) in which a director has been involved. The findings also show a positive association between directorship prestige and the number of prior acquisitions conducted.

In terms of the control variables, *Director Tenure* and *Director Age* are negatively associated with the prestige of board seats held by directors, denoted by the negative and significant coefficients at the 1 % level in Table 5. Similarly, in some of the tests, industry adjusted return on assets (*Ind Adj ROA)* has a negative and significant impact on the prestige of subsequent directorships held by directors.

6. Additional analysis and robustness testing

6.1. Endogeneity

One concern with the results presented in Table 4 is that firms and directors self-select to engage in acquisitions and that the characteristics of acquiring firms differ significantly from those of firms that do not make acquisitions. Panel A of both Table 3 and Table 5 highlight the significant differences between acquiring and other firms. To address this endogeneity issue, we adopt the entropy balancing approach (Hainmueller, 2012) using all the variables included in the regression model. The advantage of the entropy balancing approach is that the technique assigns weights to observations in the control group to achieve covariate balance with observations in the treatment group. This approach allows for the adjustment of imbalances in the representation with respect to higher moments of the covariate distribution, such as variance and skewness.

Panel B of Table 5 presents summary statistics on the covariate balance of the treatment and entropy balanced control groups after matching directors with similar characteristics. As would be expected, the results show minimal statistical differences between acquisition directors and non-acquisition directors. The statistical similarity between the treatment and control directors allows for an analysis to address the issue of self-selection.

Table 6 reports the results of testing Hypothesis One using the treatment and entropy balanced control sample. Similar to the results in Table 4 there is a positive association between acquisition experience (*Acquisition*) and the prestige of future directorships. We also continue to find a positive association between both negative (*Acq(−)*) and positive (*Acq(+)*) acquisition experience and the subsequent directorship prestige. In summary, the results using entropy balancing are consistent with the main results and indicate that it is acquisition experience, rather than acquisition performance that matters.

6.2. Results using the M&A sub-sample

As an additional test, Hypothesis 1a and 1b are tested by repeating the analysis presented in Table 4 only on the sample of directors with M&A experience. In this alternative test, only *Acq(−)* is included in the tests to avoid introducing perfect multicollinearity into the model. The tests alternatively employ the *Number of Acquisitions* and *Acq(−)* as the measures of M&A experience. The coefficients on these variables (not tabulated) are not statistically significant. These results, combined with those reported in Table 4, suggest that directors with M&A experience achieve an increase in the prestige of their directorship portfolio, and that this increase is unrelated to either the quality or the number of acquisitions.

6.3. Other robustness tests

We also conduct several additional tests and find results largely consistent with the main findings presented. The first additional test respecifies the measure of acquisition performance as a single variable that calculates the percentage of acquisitions conducted by an independent director with negative abnormal returns (*% of Acq(−))*. The summary results of this analysis are presented in Table 7. The results in Columns (1) to (3) show that a larger proportion of acquisitions with negative returns is associated with an increase in the prestige of future directorships, except in Column (3) when prestige is measured by the percentage change in total assets.

Second, we estimate our results using *Extreme Acq(+)* and *Extreme Acq(–)* as proxies for acquisition quality. *Extreme Acq(+)* is

coded one if the cumulative abnormal returns of acquisitions completed by an outside director were in the top 25th percentile and zero otherwise. *Extreme Acq(–)* is coded one if the cumulative abnormal returns of acquisitions completed by a director were in the bottom 25th percentile and zero otherwise. The summary results are presented in Table 8. The results in Columns (1) through (3) are consistent with independent directors receiving more prestigious future directorships for acquisitions in both the top and bottom 25th percentiles of abnormal returns.

Third, the regression analysis is conducted only for public and completed acquisitions, and we obtain similar results (not tabulated). Finally, the sample is divided into two periods 2001–2008 and 2009–2016 and the tests of the hypotheses are conducted for these two periods. The results (not tabulated) are similar across both sub-periods.

6.4. Additional tests – Accountability of chairperson and lead independent director

Directors assume varying levels of monitoring and advising responsibilities depending on their specific board role. In accordance with agency theory, the separation of CEO and chairperson positions benefits shareholders, potentially at the expense of clear hierarchical leadership (Krause et al. 2017). Alternatively, if firms choose to preserve CEO/chairperson duality, many firms have opted to appoint a lead independent director. Lamoreaux et al. (2019) find that lead independent directors are allocated additional responsibilities compared with other directors, including liaising between directors and the CEO, approving board meeting agendas, and chairing board meetings. Further emphasising the importance of lead independent directors, legislators and regulators advocate for the separation of the chairperson and CEO position in order to lessen the power of executives over directors (Brickley et al. 1997).[8] Prior literature also demonstrates that an independent chairperson or lead independent director are one of the most prominent roles on the board, as they are responsible for establishing and securing effective corporate governance and ensuring that the board of directors fulfils its central duties. For instance, Teti et al. (2017) highlight that CEO/chairperson duality results in significantly lower M&A announcement returns.

Since an independent chairperson and lead independent director are clearly visible to shareholders, they have greater reputational incentives to act in shareholders' interests. Therefore, as an additional exploratory test, we analyse whether the chairperson or the lead independent director are held more accountable in the direct labour market for poor M&A decisions. To conduct this test we repeat the analysis in Columns (1) through (6) of Table 4 by interacting *Acquisition* and *Acq(+)* and *Acq(−)* with alternatively an indicator variable denoting if the director is the chairperson (*Chair*) or the lead independent director (*Lead*). These tests examine if the association between M&A experience and acquisition quality and the prestige of future board seats is different for the chairperson and the lead independent director. The results (untabulated) show insignificant coefficients on the interaction variables consistent with there being no differential accountability in the director labour market for either the chairperson or lead director.

7. Conclusion

Prior research suggests that the director labour market does not provide sufficient ex post settling-up incentives, as directors with M&A experience are rewarded for both value-enhancing and value-destroying acquisitions (Harford and Schonlau, 2013; Greene and Smith, 2021). This study further explores this result by examining whether acquisition experience is associated with directors being appointed to more prestigious directorships, and if the prestige of directors' future directorships is associated with their M&A performance.

Using a sample of 236,534 US director-firm-years, we find that directors' acquisition experience is associated with an increase in the prestige of their directorships two years after an acquisition. Surprisingly, the results also suggest that irrespective of whether an M&A is value-enhancing or value-destroying, directors with M&A experience are appointed to the boards of more reputable and prestigious firms. Additional tests suggest that lead independent directors and the chairperson are not held more accountable for poor M&A decisions than other directors. Whilst we have attempted to address the endogeneity associated with directors' acquisition experience using entropy balancing, it is acknowledged that entropy balancing only addresses endogeneity arising from the observable factors that are used to create the weighted control group. As it is possible that other observable or unobservable factors may be associated with a director obtaining acquisition experience, the main findings in this study remain subject to endogeneity concerns and this limitation of the research is acknowledged.

The findings in this study add to prior evidence and are consistent with directors not being held accountable by the labour market for poor acquisitions through a change in the prestige of their directorships. These results suggest that there may be other factors driving the appointment of directors with M&A experience to subsequent boards. We leave it to future research to investigate why firms demand directors with acquisition experience, regardless of their prior acquisition quality. It would also be interesting for future research to examine the reaction of shareholders to the appointment of directors with M&A experience. particularly when that experience has destroyed shareholder wealth.

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[8] Regulators are advocating for a lead independent director to be present on the board of firms where the CEO and Chair position are held by the same individual.

Declaration of competing interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

Data availability

Data is available from the electronic databases specified in the paper.

Appendix A. . Definition of variables.

Variable	Definition	Source
Panel A – Dependent Variables		
Board Seats t + 2	The number of total outside directorships held by directors in year $t + 2$.	BoardEx
Prestige comparing t and t + 2	Indicator variable equal to one if, for a specific director, a new directorship held in year $t + 2$ is larger than the average size of the directorships held by that director in year *t* (excluding the acquisition firm). The market value of a firm's equity is used to determine firm size.	BoardEx, Compustat
High ranked new directorship	Indicator variable equal to one if a new directorship obtained by a specific director in $t + 2$ is at least 10 % larger than the smallest directorship where a specific individual held a directorship in year *t* (excluding the acquisition firm). The market value of a firm's equity is used to determine firm size.	BoardEx, Compustat
Percent change in TA	The percentage change in the total assets of the largest firm a specific director holds a directorship at from year *t* to year $t + 2$, excluding the acquisition firm.	BoardEx, Compustat
Change in Directorships	The difference between the directorships held by a director in year $t + 2$ and year *t*.	BoardEx
Panel B – Variables of Interest		
Acquisition	Indicator variable in year *t* equal to one if the director has made a large acquisition at some point as director in any year since 2001 up to and including year *t*, and zero otherwise. An acquisition is classified as large if (1) the target size, as measured by the SDC transaction value, is at least 5 % of the size of the market value of the acquirer as of the end of the prior calendar year, and (2) the target is at least $50 million.	SDC
Number of Acquisitions	Cumulative count in year *t* of all large acquisitions completed by the director since 2001 up to an including year *t*.	SDC
Acq(+), Acq(–)	Indicator variables in year *t* identifying whether the sum of the director's past large acquisition announcement returns is negative or positive. These indicators are set to zero in year *t* if the director has not previously made a large acquisition.	SDC, CRSP
Extreme Acq(+), Extreme Acq(–)	Indicator variables in year *t* identifying whether the sum of the director's past large acquisition announcement returns is in the bottom 25 % percentile (*Extreme Acq(–)*) or top 25 % percentile (*Extreme Acq(+)*). These indicators are set to zero in year *t* if the director has not previously made a large acquisition.	SDC, CRSP
% of Acq(–)	The percentage of value-destroying acquisitions a director has undertaken. Value-destroying acquisitions are defined as acquisitions that generated CAR less than zero.	SDC, CRSP
Lead	Indicator variable equal to one if the director is the lead independent director of the acquiring firm, and zero otherwise.	BoardEx
Chair	Indicator variable equal to one if the director is the independent Chair of the Board of the acquiring firm, and zero otherwise.	BoardEx
Panel C – Acquirer and deal controls		
Diversifying	An indicator variable equal to one in year *t* that the director made at least one diversifying acquisition since 1991, and zero otherwise. An acquisition is considered diversifying if the target firm's industry differs from the acquirer's industry. Industry is measured using two-digit SIC codes.	SDC, Compustat
Prior ROA Change	The change from year *t*–1 to year *t* in the firm's industry-adjusted ROA. *Prior BHARs* are annualised buy-and-hold abnormal returns starting in January of year *t*–1 and ending in December of year *t*.	Compustat
Prior BHARs	Buy-and-hold abnormal returns in year *t*–1.	CRSP
Firm Size	The natural logarithm of the market capitalisation of the firm in year *t*–1.	Compustat
Relative Size	The deal value reported by the SDC, divided by the acquirer's market capitalisation, measured at the fiscal year end before the acquisition announcement.	SDC
SumCAR	In year *t*, this is the sum of the CAR(−1,+1), (–1,0) or (–2,+2) announcement returns for all large acquisitions done previously by the director in any year since 2001 up to year *t*. This variable is set to zero if the director has made no previous large acquisition. The variable is standardized such that a unit increase is associated with a standard deviation increase in the underlying and winsorised at the 0.5 % level.	CRSP
Panel D – Governance controls		
Past directorships	The number of directorships held by the director in the year of their last large acquisition. If the director has not made a large acquisition, then this variable is the number of directorships held in the previous year.	BoardEx
Director Tenure	The number of years since the director first became a director at any firm in the sample.	BoardEx
Director Age	The age of the director in years.	BoardEx

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