LABOR MARKET CONSEQUENCES FOR BUSY DIRECTORS: EVIDENCE FROM INTERNATIONAL MERGERS AND ACQUISITIONS

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Abstract

Using 13,233 acquisitions from 57 countries, we examine merger and acquisition (M&A) decisions made by busy boards. We find that few busy acquirers originate from emerging markets and that they tend to undertake cross-border mergers, favor public targets, finance with cash and equity, pursue nondiversifying mergers, avoid targets with multiple bidders, and long-term underperform relative to nonbusy acquirers. Importantly, we discover a nonlinear relation between an acquirer's board busyness and merger announcement returns. We find that the labor market penalizes directors who approve bad acquisitions but does not reward them for good mergers. We find a similar nonlinear relation between an acquirer's board busyness and its long-term performance along with a suggestion of an optimal board busyness.

JEL Classification: G3, G34

I. Introduction

The labor market for outside directors is an important mechanism that provides reputational and financial incentives to outside directors to monitor managers (Fama 1980; Fama and Jensen 1983). The literature on the labor market for outside directors, however, focuses nearly exclusively on U.S. firms.[1] There are few studies that examine the incentives of directors to monitor managers, given that such incentives can vary significantly across countries. The primary reason for this variability is that the strength of corporate governance is country specific as reported by La Porta et al. (1999, 2002). Therefore, it is both interesting and useful to determine whether the global labor market for directors helps align the interests of managers with shareholders. Using the number

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[1] Among these U.S.-only studies are Gilson (1990), Kaplan and Reishus (1990), Brickley, Linck, and Coles (1999), Coles and Hoi (2003), Ferris, Jagannathan, and Pritchard (2003), Harford (2003), Yermack (2004), Srinivasan (2005), Fich and Shivdasani (2006), Ashraf et al. (2010), Jiang, Wan, and Zhao (2015), and Fos and Tsoutsoura (2014). A notable exception is Lel and Miller (2015b), who use an international sample.

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of board seats a director holds to capture a director's reputation, we examine how international merger and acquisition (M&A) decisions affect the total number of board appointments subsequently held by a director.

The issue of multiple directorships on corporate boards has come under increasing scrutiny from both academicians and practitioners (Fich and Shivdasani 2006).[2] There is conflicting evidence in the academic literature about the effect of multiple directorships on firm value and performance. The arguments associated with the effect of these multiple directorships separate into two hypotheses. The first is the reputation hypothesis, which contends that individuals obtain valuable experience from their multiple board appointments as well as build professional networks that make them desirable board members (Gilson 1990; Kaplan and Reishus 1990; Booth and Deli 1996; Brickley, Linck, and Coles 1999; Coles and Hoi 2003; Harford 2003; Masulis and Mobbs 2011). The competing set of arguments, which we refer to as the busyness hypothesis, is that these individuals become overcommitted in time and thus are unable to provide the diligent monitoring required of their positions (Ferris, Jagannathan, and Pritchard 2003; Kress 2018).

The literature has not established whether the reputation or busyness effect is dominant. Field, Lowry, and Mkrtchyan (2013) suggest that both effects might be present, with young firms enjoying the benefits of reputation and large, established firms suffering the costs of director busyness and overcommitment. Ferris, Jayaraman, and Liao (forthcoming) examine the effect of busy directors and boards on the value of a set of non-U.S. firms. They find that busy directors and boards are a global phenomenon but that national culture helps explain the cross-sectional variation in director and board busyness. They also report that firms with busy boards exhibit lower market-to-book ratios and reduced profitability, but this effect is reversed for younger firms. Using a novel identification strategy of exploiting the variation generated by mergers that terminate entire boards, Hauser (2018) shows that a reduction in the number of board appointments held by a director is associated with greater profitability and higher market-to-book ratios. He concludes that when directors hold fewer appointments, their firms benefit.

More recent studies examine the linkage between board busyness and major corporate decisions such as M&As. Ahn, Jiraporn, and Kim (2010) show that acquiring firms with busy boards experience more negative abnormal returns at the time of deal announcement. Benson et al. (2015) examine the effects of busy directors on merger premiums and conclude that busy directors are not uniformly detrimental. Both of these studies restrict their sample to U.S. firms and do not explore the labor market consequences for busy directors.

Although busy boards occur internationally, their effect on corporate M&A decision making might not be as consistent as that observed in the United States. For instance, national cultures help determine what is acceptable as a managerial incentive

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[2] See also Emily Chasan and Joann S. Lublin, 2015, "ISS Adopts Stricter Policy on Director "Overboarding," *Wall Street Journal* (November 20, 2015), https://blogs.wsj.com/cfo/2015/11/20/iss-adopts-stricter-policy-on-director-overboarding/.

as well as a deterrent (Chen 1995; Williams and Zinkin 2008). Furthermore, the laws and regulations governing business combinations vary considerably across countries, affecting the ability of boards to influence M&A transactions. Finally, national differences in corporate equity ownership structures and capital market depth affect the extent to which M&A activity can occur in a country (La Porta et al. 1999). For these reasons, the literature requires that board busyness and merger activity be further examined using an international sample of firms. Additionally, it is useful to explore the labor market consequences of M&A decisions made by busy directors.

Consequently, we focus on the relation among the busyness of international boards, M&A outcomes, and the subsequent labor market consequences of those decisions. To undertake our analysis, we first examine the outcome and quality of M&A decisions made by busy boards. Second, we test whether the global labor market for corporate directors reacts to the quality of M&A decisions made by busy directors. Finally, we compare the long-term operating performance of acquisitions made by busy and nonbusy boards.

Our study provides several contributions to the literature. First, it offers an international analysis of the relation among board busyness, M&A performance, and director career outcomes while controlling for country, legal, industry, and firm factors. Using 13,233 acquisitions from 57 countries, we find that only a few busy acquirers originate from emerging markets and that they favor cross-border mergers, prefer public targets, finance their acquisitions with a mix of cash and stock, pursue nondiversifying mergers, avoid targets with multiple bidders, and long-term under-perform relative to nonbusy acquirers.

Second, we extend the literature on the labor market consequences for directors serving on multiple boards. We find that the labor market penalizes directors who approve bad acquisitions. The market, however, does not reward directors with new appointments for approving good mergers. Our results are robust to alternative definitions of director busyness, model specifications, selection bias, and tests for endogeneity. Our findings complement Lel and Miller (2015a), who provide evidence that the labor market offers incentives for directors to monitor managers.

Third, this study contributes to the continuing debate between the reputation and busyness hypotheses regarding busy directors. Our findings help us determine whether busy boards signal director reputation (Gilson 1990; Kaplan and Reishus 1990; Booth and Deli 1996; Brickley, Linck, and Coles 1999; Coles and Hoi 2003; Harford 2003; Masulis and Mobbs 2011; Rappa, Schmidt, and Urband 2017) or indicate that directors are unable to provide meaningful oversight (Fich and Shivdasani 2006; Field, Lowry, and Mkrtchyan 2013; Kress 2018; Hauser 2018). We discover there is a level of busyness where the advantages due to reputation, experience, and networking shift and become negative because of overcommitment. This finding implies there might be an optimal level of director busyness as it relates to firm value and performance.

Finally, our study adds to the literature on the postmerger accounting performance of acquirers. We discover that acquirers whose boards are busy consistently underperform relative to those whose boards are not busy. We also determine that long-term merger performance has an asymmetric effect on a director's opportunity to gain additional board seats.

II. Sample Characteristics and Data

Data Sources and Sample Construction

To construct our sample, we use the Securities Data Company's (SDC) Mergers and Acquisitions Database to extract acquisitions between 1999 and 2012. Following Ahn, Jiraporn, and Kim (2010), we include only deals that are completed within 1,000 days following the announcement. This results in 57,349 acquisitions from 75 countries. We then match the SDC acquisition data with the BoardEx Database. BoardEx provides demographic, employment, and education data for corporate directors. We require that each firm in the sample has at least three directors for each year reported in BoardEx. We use Compustat Global to obtain stock return and other financial data. All financial variables are winsorized at the 1% and 99% levels. These additional data requirements reduce our sample to 13,233 firm-deal observations distributed among 57 countries. The sample firms are geographically located as follows: 1,026 in North America, 88 in South America, 9,765 in Europe, 1,129 in Asia, 85 in the Middle East, 144 in Africa, and 996 in Oceania.

Director Identification

We perform several classifications of our sample board and their directors. Consistent with Field, Lowry, and Mkrtchyan (2013), we count directorships held in both public and private firms. Directors are classified as independent if they are a nonexecutive director. Consistent with Fich and Shivdasani (2006) and Field, Lowry, and Mkrtchyan (2013), we consider independent directors busy if they sit on three or more boards. We then define a board as busy if 50% or more of its independent directors are busy.

A critical requirement of any global study of corporate directors is the correct identification of a director's board assignment. This is a concern because internationally the supervision of corporate management is achieved using two models. Boards of listed companies in the United States, Canada, and United Kingdom are unitary in nature. That is, there is only one board that supervises managers and it consists of executive and nonexecutive directors. Other countries, such as the Netherlands, Germany, Austria, Finland, Norway, and Denmark, use a two-tier system. There is a management board and a supervisory board. The management board is composed entirely of executive directors and is responsible for setting corporate strategy and overall direction. The supervisory board consists solely of nonexecutive directors.[3] Its major tasks are to appoint, monitor, and

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[3] Although BoardEx does not explicitly distinguish between management and supervisory board directors, it does so implicitly by identifying which directors are executive or nonexecutive (i.e., independent) directors. Thus, in countries where two-tier boards are either required or allowed, we select directors from the supervisory boards.

terminate members of the management board. Countries such as Belgium, Portugal, France, and Spain allow firms to choose between the two systems (Demb and Neubauer 1992; Maassen and Bosch 1999; Jungmann 2006).

Sample Summary Statistics

We present descriptive statistics for our sample mergers in Table 1. Panel A provides an annual distribution of the M&As in our sample. Merger activity ranges from 271 in 1999 to 1,475 in 2007. M&A transactions average 945 per year over our sample period. Panel A also shows that merger announcement returns exhibit a cyclical pattern. Specifically, acquirers experience negative announcement returns during 2000–2003 and 2008–2011, which coincide with the tech bubble in the early 2000s and the financial crisis in 2008. Furthermore, Panel A indicates that the incidence of busy boards decreases over time. This finding is consistent with the increasing scrutiny

TABLE 1. Sample Distribution of Mergers.

Panel A. Distribution across Sample Period

Year	N	CAR $(-1,0)$	Busy Board
1999	271	0.73	0.86
2000	940	−0.23	0.80
2001	770	−0.40	0.76
2002	625	−0.70	0.75
2003	574	−0.13	0.67
2004	753	0.07	0.72
2005	984	0.47	0.74
2006	1,249	0.49	0.77
2007	1,475	0.22	0.74
2008	1,250	−0.93	0.75
2009	911	−0.14	0.74
2010	1,217	−0.22	0.71
2011	1,139	−0.17	0.73
2012	1,075	0.46	0.70

Panel B. Distribution across Industries

Industry Classification	N	CAR $(-1,0)$	Busy Board
Consumer nondurables	1,148	0.11	0.74
Consumer durables	423	−0.04	0.77
Manufacturing	1,744	−0.10	0.73
Energy	580	−0.16	0.80
Chemicals	502	−0.42	0.77
Technology	1,980	0.01	0.68
Communication services	756	0.08	0.82
Utilities	523	−0.44	0.72
Basic materials (wholesale and retail)	1,071	0.13	0.74
Health care	764	−0.36	0.78
Financials	374	−0.14	0.83

(Continued)

TABLE 1. *(Continued)*

Panel B. Distribution across Industries

Industry Classification	N	CAR (−1,0)	Busy Board
Other	3,368	0.02	0.74

Panel C. Distribution across Sample Countries

Legal Regime	Country	N	CAR (−1,0)	Busy Board
Civil law	Argentina	8	0.906	1.000
	Austria	122	−0.370	0.607
	Belgium	180	−0.032	0.839
	Brazil	60	−0.026	0.517
	Chile	15	0.421	0.533
	Colombia	3	0.820	0.000
	Czech Republic	15	−0.821	0.133
	Denmark	85	−0.487	0.600
	Egypt	5	1.415	1.000
	Finland	338	−0.446	0.772
	France	1,658	−0.418	0.816
	Germany	811	−0.457	0.607
	Greece	39	−0.380	0.487
	Iceland	7	0.122	0.429
	Indonesia	5	−1.029	0.200
	Italy	269	−0.382	0.743
	Japan	349	0.127	0.524
	Luxembourg	36	0.108	0.306
	Mexico	52	−0.538	0.808
	Morocco	2	−2.004	0.000
	Netherlands Antilles	2	−0.739	1.000
	Netherlands	621	−0.069	0.915
	Norway	222	0.232	0.613
	Philippines	4	2.779	1.000
	Portugal	77	0.194	0.740
	South Korea	29	0.702	0.000
	Spain	457	0.581	0.788
	Sweden	586	−0.055	0.698
	Switzerland	471	−0.119	0.854
	Taiwan	19	−0.799	0.474
	Turkey	6	−4.667	0.333
	Ukraine	1	2.170	0.000
	United Arab Emirates	11	−0.938	0.545
Common law	Australia	981	−0.084	0.835
	Bermuda	10	−1.270	0.800
	Canada	40	−0.405	0.925
	Cyprus	1	−3.159	1.000
	Guernsey	6	1.152	1.000
	Hong Kong	133	0.010	0.827
	India	285	−1.108	0.891
	Ireland	228	−0.314	0.645
	Ireland–Republic	13	−0.319	1.000
	Isle of Man	7	0.801	0.429

(Continued)

TABLE 1. *(Continued)*

Panel C. Distribution across Sample Countries

Legal Regime	Country	*N*	CAR (−1,0)	Busy Board
	Israel	67	1.117	0.910
	Jersey	10	2.527	0.900
	Malaysia	33	0.272	0.727
	New Zealand	14	0.651	1.000
	Papua New Guinea	1	6.215	1.000
	Singapore	116	0.101	0.845
	South Africa	137	−0.612	0.927
	United Kingdom	3,454	0.312	0.710
	United States	924	0.002	0.716
Socialist/former socialist	China	25	−0.710	0.360
	Croatia	3	−1.650	0.000
	Hungary	6	0.500	0.000
	Poland	43	−0.867	0.628
	Russia	131	−0.124	0.626
Legal Regime		*N*	Mean	Mean
Civil law		6,565	−0.186	0.739
Common law		6,460	0.099	0.750
Socialist/former socialist		208	−0.352	0.567

Note: This table presents the distribution of the sample mergers, percentage mean value of the announcement cumulative abnormal return (CAR (−1,0)), and board busyness measured by an indicator variable that equals 1 if 50% or more of a firm's independent directors are busy. Panel A shows the distribution over 1999–2012. Panel B presents an industry distribution using the 12 Fama–French (1997) industry clarifications. Panel C presents the distribution across our sample countries.

directed toward busy directors by regulators and investors. The trend suggests that firms are slowly adopting the governance reforms regarding directorships proposed by industry and investor organizations.

We present an industry distribution of our sample in Panel B of Table 1. Industries are classified as per the Fama–French (1997) 12 industry classifications. The largest number of M&As occur in the technology, manufacturing, and consumer nondurables sectors. The financial and consumer durables industries account for the fewest number of M&A transactions in our sample. Panel B also reports that acquirers in the utilities and chemical industries experience more negative announcement returns. Acquirers in the consumer nondurables and basic materials sectors exhibit positive announcement returns and a low incidence of busy boards.

In Panel C of Table 1, we report a country distribution for our sample M&As. The number of observations varies across countries. In aggregate, our data contain approximately an equal number of mergers from common law and civil law countries. Only 208 mergers are reported from former socialist countries. On average, acquirers in common law countries experience higher announcement returns relative to firms from civil law and former socialist countries. Acquirers from former socialist countries, however, exhibit the lowest incidence of board busyness.

TABLE 2. Board and Financial Characteristics for Acquirers.

Variable	N	Mean	1st Quartile	Median	3rd Quartile	Std. Dev.
% CAR (−1,0)	13,233	−0.050	−2.237	−0.074	2.088	4.509
Total directorships per director	13,233	4.416	2.889	3.962	5.412	2.324
Total directorships per independent director	13,197	4.505	3.125	4.056	5.360	2.341
Percentage of independent directors	13,233	0.752	0.625	0.765	0.889	0.201
Percentage of busy independent directors	13,197	0.604	0.471	0.625	0.750	0.229
Busy board	13,233	0.742	0.000	1.000	1.000	0.438
Board size	13,233	13.969	9.000	13.000	18.000	7.278
Average director age	13,233	56.582	53.727	56.750	59.615	4.698
Firm age	13,233	14.195	9.000	13.000	18.000	8.887
Sales (in $millions)	13,233	11,185	477	2,024	8,689	26,532
Market-to-book	13,233	1.817	1.136	1.437	1.935	1.904
Leverage	13,233	0.238	0.117	0.230	0.337	0.172
Common law	13,233	0.488	0.000	0.000	1.000	0.500
Civil law	13,233	0.495	0.000	0.000	1.000	0.500
Former socialist	13,233	0.017	0.000	0.000	0.000	0.129

Note: This table presents the summary board and financial statistics for acquirers and their boards. Variables are defined in the Appendix.

Table 2 presents a description of various board and financial/legal characteristics for the firms in our sample. We first show that the average cumulative abnormal returns (CARs) of merger announcements over day −1 to day 0 is −0.05%. The corresponding median value is −0.074%. We then present the variables that describe the nature of the board for these firms. We find that the average director holds nearly 4 board seats, with independent directors holding slightly more (i.e., 4.5). Most of the directors on the board are independent (75%), with 60% of these directors classified as busy. Indeed, the average value of 74% for the busy board indicator variable implies that most of our sample boards can be classified as busy. The median board size is 13, the bottom quartile is 9, and the third quartile is 18. The average age of directors is 57, and the mean age for sample firms is about 14 years.

Several important financial/legal characteristics of our sample are worth noting. First, our sample firms are large, with a median of nearly $2 billion in sales. They have strong growth opportunities, as their median market-to-book ratio is 1.44. Their use of leverage is modest, with a median debt-to-total-assets ratio of only 0.23. Half of our sample firms are located in civil law countries, with the remainder distributed between common law (49%) and former socialist (1.7%) countries.

In Table 3, we introduce our measurement of busy boards into the analysis of M&A activity. We sort the acquiring firms into five size quintiles based on total sales. It is possible that larger firms are likely to engage in merger activities for expansion and attract seasoned directors. We observe in Panel A that larger firms are more likely to have busy boards. Additionally, firms with busy boards are more likely to engage in M&A transactions than those with nonbusy boards within a size group. This suggests that, regardless of size, firms that undertake mergers are more likely to hire experienced directors. In aggregate, busy boards account for 9,815 (74%) of our total sample of 13,233 M&A observations.

TABLE 3. Firm Size, Board Busyness, and M&A Activity.

Panel A. Merger Activity by Board Busyness and Firm Size

	Firm Size Quintile					
	1 (Small)	2	3	4	5 (Large)	Total
Nonbusy board	943	853	730	571	321	3,418
Busy board	1,762	1,889	1,985	2,116	2,063	9,815
Total	2,705	2,742	2,715	2,687	2,384	

Panel B. Merger Deal Type Made by Busy Boards

	Firm Size Quintile					
Acquisition Characteristics	1 (Small)	2	3	4	5 (Large)	Total
Nonemerging markets	1,669	1,776	1,866	1,994	1,987	9,292 (95%)
Emerging markets	93	113	119	122	76	523 (5%)
Domestic merger	998	993	910	893	775	4,569 (47%)
International merger	764	896	1,075	1,223	1,288	5,246 (53%)
Public target	903	959	1,085	1,191	1,240	5,378 (55%)
Private target	859	930	900	925	823	4,437 (45%)
Noncash only	1,402	1,476	1,530	1,630	1,544	7,582 (77%)
Cash only	360	413	455	486	519	2,233 (23%)
Nonstock only	1,639	1816	1,922	2,059	2,014	9,450 (96%)
Stock only	123	73	63	57	49	365 (4%)
Noncompeted offer	1,751	1,881	1,974	2,103	2,049	9,758 (99.4%)
Competed offer	11	8	11	13	14	57 (0.6%)
Nondiversified merger	999	1,035	1,077	1,102	1,072	5,285 (54%)
Diversified merger	763	854	908	1,014	991	4,530 (46%)

Note: Panel A presents the distribution of sample firms by firm size (total sales) and busyness status. Panel B shows the distribution of deal type made by firms with busy boards.

Panel B of Table 3 presents an analysis of merger deal type made by busy boards. We observe that few acquirers with busy boards (5%) are located in emerging markets. This might reflect the difficulty of managers of firms located in less developed economies to attract the interest of experienced directors. Busy boards appear to be more interested in cross-border mergers (53%) compared to domestic acquisitions. Busy boards also have a slight tendency to favor public targets (55%). Only 23% of deals made by busy boards are cash only, and 4% are stock only. Busy boards rarely pursue targets with multiple bidders (0.6%)[4] and favor vertical mergers (54%). We determine that this pattern of merger characteristics is not driven by size, as we obtain qualitatively similar results across the five size groups.

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[4] In unreported tests, we examine the industry distribution of targets with multiple bids and find no evidence of an industry pattern. Acquirers of multiple bidder deals have more negative announcement-period CARs and take longer to complete their deals. We fail to find, however, any significant differences in either the takeover

        Our review of the descriptive statistics for our sample acquirers provides useful insights. These help us better understand the nature of the global M&A market in which busy directors operate. We find that only a few busy acquirers originate from emerging markets. Firms with busy boards tend to make cross-border M&As, favor public targets, finance acquisitions with a mix of cash and stock, and do not pursue targets with multiple bidders. They often acquire targets that are in line with their current industry positioning.

III. Announcement-Period Effects

In this section, we examine how board busyness influences the market's reaction to an M&A announcement. The market response should reflect the consensus view of investors concerning the ability of the merger to create shareholder value. If busy boards are less able to commit time and attention to assessing a target's value, that reduced oversight should be reflected in a negative CAR. If, however, busy boards are better able to identify valuable targets because of their greater experience and networks, we should observe positive CARs at the time of a merger announcement.[5]

CARs across Varying Measures of Board Busyness

We begin our analysis with a comparative examination of the announcement-period CARs calculated for four measures of board busyness: (1) Acquirers are ranked into deciles by the average number of directorships held by each director (both inside and independent directors); busy is defined as the highest decile and nonbusy as the lowest decile. (2) Acquirers are ranked into deciles by the average number of directorships held by each independent director; busy is defined as the highest decile and nonbusy as the lowest decile. (3) Acquirers are ranked into deciles by the percentage of busy independent directors in each board; busy is defined as the highest decile and nonbusy as the lowest decile. (4) A busy board binary indicator variable is created where a board is defined as busy if 50% or more of its independent directors are busy.

        We present our CARs in Table 4 for these definitions of board busyness over the event period day −1 to day 0. Longer periods extending from day −2 to day +2 are estimated and provide equivalent results, but are not reported for brevity. Our first measure of board busyness is the average number of directorships held by each director. We find that the CARs are negative and significant for acquirers whose directors are busy, and they are more negative than those for firms whose directors are not busy. We obtain comparable results when we calculate board busyness using the other three measures of board busyness. We observe a consistently more negative market reaction to merger announcements made by acquirers with busy boards.

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premiums or the target's attractiveness as measured by its market-to-book ratio. This suggests that targets that enjoy multiple bids are not extraordinarily attractive. We conclude that this avoidance of multiple-bidder deals by our sample acquirers is merely an incidental finding.

        [5] We compute CARs using the MSCI index from Datastream as the market index, with the market model parameters estimated from day −210 through day −11.

TABLE 4. Comparative CARs for Various Measures of Board Busyness.

	Total directorships per director		*Total directorships per independent director*		*Percentage of busy independent directors*		*Busy board*	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median
Nonbusy	0.115	0.094**	0.131	0.006*	0.203**	0.025**	–0.027	–0.029
	(.252)	(.035)	(.157)	(.064)	(.022)	(.011)	(.632)	(.710)
Busy	–0.233**	–0.078	–0.252**	–0.178*	–0.315**	–0.149	–0.127***	–0.095***
	(.021)	(.167)	(.026)	(.097)	(.014)	(.101)	(.000)	(.007)
Difference (Busy – Nonbusy)	–0.348**	–0.172*	–0.382***	–0.184*	–0.518***	–0.174*	–0.101	–0.066*
	(.015)	(.079)	(.008)	(.060)	(.001)	(.096)	(.115)	(.075)

Note: This table presents the cumulative abnormal returns (CARs (–1,0)) of acquirers by various measures of board busyness. Board busyness is measured using four measures: (1) highest (busy) and lowest (nonbusy) deciles of the average number of directorships held by each director, (2) highest (busy) and lowest (nonbusy) deciles of the average number of directorships held by each independent director, (3) highest (busy) and lowest (nonbusy) deciles of percentage of busy independent directors per board, and (4) busy board binary indicator variable. The *p*-values are provided in parentheses.
***Significant at the 1% level.
**Significant at the 5% level.
*Significant at the 10% level.

In aggregate, these results show that the market reacts more negatively to the announcement of an acquisition by a firm whose board is busy. This result holds regardless of how board busyness is measured. The market seems to believe that the busy board of the acquirer has either overpaid for the target or will be unable to provide the oversight required to generate the anticipated synergies.

Multivariate Analysis of Board Busyness and Merger Announcements

To examine more comprehensively how the market reacts to merger activity by firms with busy boards, we estimate a series of multivariate regressions in Tables 5 and 6. In these regressions, we control for three sets of variables: (1) board characteristics, (2) deal characteristics, and (3) firm characteristics.

TABLE 5. Effect of Board Busyness on Merger Announcement CARs.

Variable	(1) *Average directorships per director*	(2) *Average directorships per independent director*	(3) *Percentage of busy independent directors*	(4) *Busy board*
Panel A. Legal Regime				
Intercept	1.877	1.909	1.863	1.902
Total directorships per director	–0.062***			
	(.001)			

(Continued)

TABLE 5. *(Continued)*

Variable	(1) *Average directorships per director*	(2) *Average directorships per independent director*	(3) *Percentage of busy independent directors*	(4) *Busy board*
Panel A. Legal Regime				
Total directorships per independent director		−0.037** (.033)		
Percentage of busy independent directors			−0.397** (.026)	
Busy board				−0.217** (.018)
Percentage of independent directors	0.162 (.452)	0.041 (.849)	0.067 (.758)	0.044 (.836)
log(*Board size*)	−0.228** (.012)	−0.240*** (.009)	−0.259*** (.005)	−0.236** (.010)
Competed	−1.480*** (.005)	−1.483*** (.005)	−1.476*** (.005)	−1.472*** (.005)
Diversifying M&A	−0.071 (.376)	−0.075 (.350)	−0.071 (.379)	−0.072 (.373)
Private target	−0.102 (.223)	−0.098 (.240)	−0.098 (.241)	−0.095 (.255)
Cash deal	0.338*** (.001)	0.352*** (.000)	0.350*** (.000)	0.349*** (.000)
Relative deal size	0.019*** (.001)	0.019*** (.001)	0.019*** (.001)	0.019*** (.001)
Firm size (log(*Sales*))	−0.067** (.017)	−0.069** (.014)	−0.062** (.028)	−0.066** (.019)
Market-to-book	0.001 (.973)	0.000 (.992)	0.000 (.993)	0.000 (.984)
Leverage (*Debt/Asset*)	0.172 (.474)	0.153 (.527)	0.157 (.514)	0.151 (.530)
Firm age	0.011** (.045)	0.011** (.048)	0.011** (.045)	0.012** (.031)
CEO directorship	−0.018 (.579)	−0.026 (.447)	−0.026 (.435)	−0.028 (.392)
CEO tenure	0.024 (.304)	0.029 (.219)	0.030 (.199)	0.027 (.237)
Average director age	−0.006 (.599)	−0.004 (.676)	−0.004 (.703)	−0.006 (.588)
Common law	0.320 (.327)	0.278 (.395)	0.307 (.349)	0.302 (.356)
Civil law	0.370 (.252)	0.307 (.341)	0.315 (.330)	0.311 (.334)
N	13,233	13,197	13,197	13,233
R^2	0.0178	0.0173	0.0173	0.0174
Country fixed effects	No	No	No	No

(Continued)

TABLE 5. *(Continued)*

Variable	(1) *Average directorships per director*	(2) *Average directorships per independent director*	(3) *Percentage of busy independent directors*	(4) *Busy board*
Panel A. Legal Regime				
Industry fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes

Variable	(1) *Average directorships per director*	(2) *Average directorships per independent director*	(3) *Percentage of busy independent directors*	(4) *Busy board*
Panel B. Country Fixed Effects				
Intercept	1.050	0.926	0.900	0.893
Total directorships per director	−0.047**			
	(.027)			
Total directorships per independent director		−0.015		
		(.425)		
Percentage of busy independent directors			−0.331*	
			(.077)	
Busy board				−0.223*
				(.018)
Percentage of independent directors	0.441	0.381	0.405	0.368
	(.100)	(.154)	(.130)	(.162)
log(*Board size*)	−0.305***	−0.307***	−0.322***	−0.306***
	(.003)	(.003)	(.002)	(.002)
Competed	−1.406***	−1.414***	−1.411***	−1.409***
	(.008)	(.008)	(.008)	(.008)
Diversifying M&A	−0.097	−0.102	−0.098	−0.097
	(.233)	(.208)	(.227)	(.234)
Private target	−0.156*	−0.155	−0.158*	−0.156*
	(.068)	(.071)	(.066)	(.068)
Cash deal	0.328***	0.334***	0.332***	0.330***
	(.001)	(.001)	(.001)	(.001)
Relative deal size	0.017***	0.017***	0.017***	0.017***
	(.003)	(.004)	(.004)	(.004)
Firm size (log(*Sales*))	−0.058*	−0.061**	−0.054*	−0.055*
	(.050)	(.040)	(.070)	(.063)
Market-to-book	0.013	0.013	0.014	0.014
	(.546)	(.547)	(.522)	(.513)
Leverage (*Debt/Asset*)	0.145	0.134	0.145	0.144
	(.553)	(.585)	(.555)	(.556)
Firm age	0.011	0.010	0.010	0.010
	(.090)	(.117)	(.123)	(.102)
CEO directorship	−0.016	−0.023	−0.022	−0.022
	(.622)	(.498)	(.507)	(.500)
CEO tenure	0.022	0.028	0.028	0.025

(Continued)

TABLE 5. *(Continued)*

Variable	(1) *Average directorships per director*	(2) *Average directorships per independent director*	(3) *Percentage of busy independent directors*	(4) *Busy board*
Panel B. Country Fixed Effects				
	(.338)	(.244)	(.238)	(.293)
Average director age	0.000	0.002	0.003	0.002
	(.992)	(.856)	(.796)	(.885)
N	13,233	13,197	13,197	13,233
R^2	0.0229	0.0226	0.0228	0.0229
Country fixed effects	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes

Note: This table presents the effect of board busyness on acquirers' cumulative abnormal returns (CARs). Variables are defined in the Appendix. The dependent variable is the CAR for acquirers estimated over days (–1,0) relative to the announcement. Board busyness is measured using (1) average number of directorships held by each director on a board, (2) average number of directorships held by each independent director on a board, (3) percentage of busy independent directors, and (4) busy board binary indicator variable. In Panel A, the country-level analysis is captured by the legal regime. In Panel B, the country-level analysis is captured by country fixed effects. The *p*-values are provided in parentheses.
***Significant at the 1% level.
**Significant at the 5% level.
*Significant at the 10% level.

TABLE 6. Nonlinear (Piecewise) Regression Analysis of Acquirer Returns and Board Busyness.

Variable	(1) *Average directorships per director*	(2) *Average directorships per independent director*	(3) *Percentage of busy independent directors*
Panel A. Two-Segment Analysis			
Intercept	1.838	1.924	1.882
Busyness < median	–0.036	–0.039	–0.472
	(.441)	(.373)	(.176)
Busyness > median	–0.050**	–0.037**	–0.422**
	(.011)	(.046)	(.039)
Percentage of independent directors	0.144	0.041	0.070
	(.505)	(.849)	(.746)
log(*Board size*)	–0.228**	–0.239***	–0.257***
	(.013)	(.009)	(.005)
Competed	–1.477***	–1.479***	–1.479***
	(.005)	(.005)	(.005)
Diversifying M&A	–0.072	–0.076	–0.071
	(.372)	(.346)	(.375)
Private target	–0.102	–0.098	–0.098
	(.223)	(.240)	(.242)
Cash deal	0.340***	0.351***	0.349***

(Continued)

TABLE 6. *(Continued)*

Variable	(1) *Average directorships per director*	(2) *Average directorships per independent director*	(3) *Percentage of busy independent directors*
	(.001)	(.000)	(.000)
Relative deal size	0.019***	0.019***	0.019***
	(.001)	(.001)	(.001)
Firm size (log(*Sales*))	–0.067**	–0.069**	–0.062**
	(.016)	(.014)	(.028)
Market-to-book	0.000	0.000	0.000
	(.996)	(.990)	(.987)
Leverage (*Debt/Asset*)	0.162	0.151	0.157
	(.500)	(.531)	(.515)
Firm age	0.011**	0.011*	0.011**
	(.042)	(.050)	(.045)
CEO directorship	–0.019	–0.025	–0.026
	(.549)	(.450)	(.438)
CEO tenure	0.025	0.029	0.030
	(.290)	(.219)	(.200)
Average director age	–0.006	–0.004	–0.004
	(.587)	(.673)	(.698)
Common law	0.321	0.277	0.310
	(.326)	(.397)	(.345)
Civil law	0.374	0.305	0.317
	(.248)	(.345)	(.327)
N	13,233	13,197	13,197
R^2	0.0177	0.0173	0.0173
Country fixed effects	No	No	No
Industry fixed effects	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes

Variable	(1) *Average directorships per director*	(2) *Average directorships per independent director*	(3) *Percentage of busy independent directors*
Panel B. Three-Segment Analysis			
Intercept	1.870	1.947	1.977
Busyness < median	–0.054	–0.057	–0.151
	(.294)	(.251)	(.442)
Median < busyness < Q3	–0.067	–0.058	–0.172
	(.062)	(.101)	(.315)
Busyness > Q3	–0.058***	–0.042**	–0.286*
	(.003)	(.028)	(.064)
Percentage of independent directors	0.158	0.052	0.010
	(.464)	(.811)	(.963)
log(*Board size*)	–0.223**	–0.239***	–0.238**
	(.015)	(.009)	(.010)
Competed	–1.476***	–1.496***	–1.454***
	(.005)	(.005)	(.006)
Diversifying M&A	–0.072	–0.076	–0.077
	(.367)	(.343)	(.336)
Private target	–0.102	–0.098	–0.100
	(.220)	(.239)	(.233)

(Continued)

TABLE 6. *(Continued)*

Variable	(1) Average directorships per director	(2) Average directorships per independent director	(3) Percentage of busy independent directors
Panel B. Three-Segment Analysis			
Cash deal	0.339***	0.354***	0.357***
	(.001)	(.000)	(.000)
Relative deal size	0.019***	0.019***	0.019***
	(.001)	(.001)	(.001)
Firm size (log(Sales))	−0.069**	−0.069**	−0.072**
	(.015)	(.014)	(.011)
Market-to-book	0.001	−0.001	−0.002
	(.974)	(.978)	(.929)
Leverage (Debt/Asset)	0.167	0.157	0.137
	(.488)	(.515)	(.570)
Firm age	0.011*	0.011*	0.013**
	(.045)	(.045)	(.022)
CEO directorship	−0.018	−0.025	−0.026
	(.574)	(.457)	(.446)
CEO tenure	0.023	0.029	0.032
	(.315)	(.226)	(.170)
Average director age	−0.006	−0.004	−0.006
	(.602)	(.683)	(.556)
Common law	0.323	0.279	0.296
	(.323)	(.393)	(.367)
Civil law	0.375	0.302	0.297
	(.246)	(.350)	(.358)
N	13,233	13,197	13,197
R^2	0.0179	0.0173	0.0172
Country fixed effects	No	No	No
Industry fixed effects	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes

Note: This table presents the nonlinear effect of board busyness on acquirers' cumulative abnormal returns (CARs). Variables are defined in the Appendix. The dependent variable is the acquirer's CAR (−1,0). Board busyness is measured using: (1) average number of directorships held by each director on a board, (2) average number of directorships held by each independent director, and (3) percentage of busy independent directors. In Panel A, we create two segments using the median value of busyness. In Panel B, we create three segments using the median and third-quartile (Q3) values. The *p*-values are provided in parentheses.
***Significant at the 1% level.
**Significant at the 5% level.
*Significant at the 10% level.

      Because major corporate decisions such as M&As must be approved by the board, we control for two aspects of board structure and organization: board size and percentage of independent directors. Yermack (1996) provides empirical evidence for a strong inverse relation between firm value and board size. Weisbach (1988) reports the effect of independent boards on chief executive officer (CEO) turnover, and Brickley, Coles, and Terry (1994) show that board independence influences how likely a firm is to adopt a poison pill.

Furthermore, we control for deal characteristics. We differentiate between related and diversifying acquisitions, as it is more challenging to integrate unrelated targets into an existing business and to achieve projected synergies. We control for the presence of multiple bidders with a binary indicator variable. Edmister and Walkling (1985) find evidence that acquirers pay a higher bid premium when two or more bidders compete for the same target. We include a binary indicator variable to identify whether the target firm is private. Fuller, Netter, and Stegemoller (2002) provide evidence that acquirers experience significant negative (positive) returns when they acquire public (private) firms. We control for the method of payment because previous research establishes that bidders experience negative abnormal returns when they use equity to pay for an acquisition (Amihud, Lev, and Travlos 1990). Consistent with Moeller, Schlingemann, and Stulz (2004) and Ahn, Jiraporn, and Kim (2010), we control for relative deal size, calculated as the target's market value of equity relative to the acquirer's market value of equity.

Finally, we control for firm characteristics. We control for firm size by using the log of the firm's total sales. Moeller, Schlingemann, and Stulz (2004) report that the announcement CARs for acquirers are 2% higher for smaller acquirers. We use a firm's market-to-book ratio to proxy for its growth opportunities as the potential for future growth helps determine how aggressively it pursues a target. We also include controls for firm leverage, which is one measure of firm risk (Hamada 1972); firm age, which is related to size and growth (Evans 1987); and the legal regime in which the firm is incorporated (La Porta et al. 2002). In all regressions, we include industry and year fixed effects to capture systematic shocks to the merger decision.

We present our initial multivariate analysis of the acquirer's announcement-period CARs in Panel A of Table 5. As with our univariate examination in Table 4, we use four measures of board busyness. The coefficients of board busyness are negative and significant across all models, confirming our earlier finding of an inverse relation between board busyness and the market's reaction. These coefficients are not only statistically significant, but also economically significant. For example, the coefficients for board busyness in model (1) is −0.062. Assuming 5 directors from a board of 10 members obtain an additional directorship, the average number of directorships increases by 0.5. This suggests a decrease in the announcement-period return by 0.031% (0.5 × −0.062). This decrease in the announcement return accounts for 62% of our sample mean (−0.05%).

Additionally, the signs for the control variables are generally as hypothesized. For example, larger acquirers, acquirers with larger boards, or acquirers facing competing bids experience lower announcement-period returns. Also, acquirers who use cash to finance the merger, who are larger than the target, and older acquirers experience higher announcement returns. The coefficients for these variables are consistently significant and provide explanatory power for the market's reaction beyond board busyness.

We conclude from Panel A of Table 5 that mergers pursued by firms with busy directors are associated with a significant reduction in shareholder wealth at the time of the announcement. This result is consistent with the busyness hypothesis described by

Ferris, Jagannathan, and Pritchard (2003) and Fich and Shivdasani (2006). It also implies that the adverse effect of board busyness is not merely a U.S. phenomenon but also occurs internationally.[6]

Country-Level Variation Analysis

To explore how the variation in corporate governance and legal systems affect merger outcomes, we estimate a set of regressions using select country variables. We control for governance, legal, and regulatory differences between countries by using legal regime indicator variables as well as country fixed effects.

　　　Table 5 provides regression results that control for country differences. In Panel A, we present the results using the legal regime indicator variable. In Panel B, we obtain qualitatively identical results using country fixed effects. In untabulated results, we repeat our analysis using the anti-self-dealing and anti-director indices of Djankov et al. (2008) as well as the corruption and rule of law indices of the World Bank. We obtain qualitatively identical results to those reported in Panels A and B. We conclude from this analysis that acquirers with busy directors or boards experience lower announcement returns.

IV. Nonlinear Effect of Board Busyness

Our prior findings suggest that the effect of directors' busyness on acquirer returns is negative across the entire range of busyness. Yet the evidence on board size (Yermack 1996; Coles, Daniel, and Naveen 2008) and the conflicting advising and monitoring advantages associated with busy directors (Field, Lowry, and Mkrtchyan 2013) implies that board busyness might not be uniformly adverse to shareholder wealth. That is, an optimal board busyness might exist that balances the competing demands of monitoring (i.e., less busyness) and advising (i.e., more busyness). Is there an inflection point at which the advantages of networking and skill due to serving on multiple boards reverses because of the disadvantages of overcommitment and disinterest? To test for such a possibility, we estimate a set of piecewise regressions using the model developed in the preceding section. We present our results in Table 6.

　　　In Panel A of Table 6, we use the median value of board busyness to create two segments of our busyness measure. Following Ahn, Jiraporn, and Kim (2010), the *Busyness < median* variable in model (1) equals the average number of directorships for the firm if the average directorship of a firm is below the median of the firm's country–industry–year group, and 0 otherwise. The *Busyness > median* variable equals the firm's average number of directorships if the average

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[6] To address potential endogeneity caused by serial acquirers, we repeat our analysis using acquirer fixed effects and obtain qualitatively similar results.

directorship of a firm is above the median of the firm's country–industry–year group, and 0 otherwise. The same methodology applies to models (2) and (3). Decomposing the busyness measure into two segments based on its median value allows us to determine whether high or low levels of busyness most influences the market's reaction to a merger announcement.

In model (1) of Panel A in Table 6, we show that the effect of the number of directorships on acquirer returns is negative and significant only at higher levels of busyness. At below-median levels of busyness, the effect is statistically insignificant. We find comparable results when using the number of directorships held by independent directors in model (2) and the percentage of busy independent directors in model (3) to capture board busyness. These results further confirm the busyness hypothesis for corporate boards. That is, investors perceive board busyness as inconsistent with pursuing mergers that increase firm value. These findings also show that it is not simply busyness that the market finds objectionable. Rather, it is extreme busyness, which we measure relative to the median, that the market dislikes. This result suggests a nonlinear relation in the number of board appointments a director should hold. That is, the advantages associated with the networking and advising skills gained from multiple board seats are displaced by the disadvantages of insufficient time to monitor and advise.

To gain a further understanding of this result, we use the overall sample median for interpretation. Our sample median value of the number of directorships held by a director is 3.96, while the median number of directorships held by an independent director is 4.06. Our results suggest that when director busyness exceeds this level, the disadvantages of overcommitment and insufficient time outweigh the benefits from networking and experience.

We extend our analysis of the nonlinear effect of busyness by creating three segments of board busyness: low, moderate, and high. In Panel B of Table 6, we use the median and third-quartile value to create these segments. Across all models, the coefficients are statistically insignificant at the low level of busyness (i.e., below the median). We observe insignificant coefficients in two of the three models for moderate busyness (i.e., between the median and third quartile). But for the high level of busyness, the coefficients are negative and significant across all measures of director busyness. We repeat our analysis (unreported) using the four measures of country-level factors and obtain qualitatively identical results. The third-quartile value of the number of directorships held by a director is 5.41, and the corresponding number for an independent director is 5.36. The results presented in Panel B suggest that directors are less effective when they serve on five or more boards.

The results presented in Table 6 suggest that when directors sit on more than five boards, and possibly four, they are likely to be distracted, overcommitted, and less able to provide effective monitoring of the M&A process. This finding is consistent with proposals developed by Institutional Shareholder Services (ISS) to place limits on multiple directorships. ISS ultimately adopted a policy beginning in 2017 that lowers the limit on multiple directorships from six to five.

We conclude that it is not busyness per se that the market disfavors, but rather high levels of busyness. There seems to be a level of busyness where the disadvantages outweigh the benefits for directors with multiple board seats. That is, the reputation, experience, and networking advantages to directors serving on multiple boards become negative at high levels of board busyness, as directors' ability to monitor or advise deteriorates.

V. Possible Endogeneity

It is possible that larger firms wanting to grow or firms with M&A plans are more likely to appoint experienced and skilled directors. To address this possible self-selection issue as well as to control for potential endogeneity from an omitted variable, we follow Masulis and Mobbs (2011) and undertake a Heckman (1979) two-step procedure. In the first stage, we use a probit model and analyze the determinants of busy boards. In this first equation, the dependent variable equals 1 if an acquirer has a busy board, and 0 otherwise. In the second stage, the dependent variable is the CAR an acquirer that has a busy board. The second stage also includes the inverse Mills ratio of the first-stage probit regression.

Table 7 presents our estimates from this Heckman model. The results from the first stage show that larger or younger acquirers, acquirers with larger boards or greater growth opportunities proxied by sales growth, or acquirers with less board independence are more likely to have a busy board. This indicates that these acquirers have a greater need or are more likely to appoint seasoned directors.

TABLE 7. Heckman Two-Step Analysis of Acquirer Returns and Board Busyness.

Heckman Stage 1		Heckman Stage 2		
Variable	(1)	Variable	(1)	(2)
Intercept	−2.111	Intercept	−6.114	−6.018
Firm size (log(Sales))	0.143***	Busyness	−0.052**	
	(<.0001)		(0.018)	
Percentage of independent directors	−0.100*	Busyness < median		−0.053
	(0.075)			(0.353)
log(Board size)	0.259***	Busyness > median		−0.047**
	(<.0001)			(0.041)
Sales growth	0.007***	Percentage of independent directors	−0.104	−0.127
	(0.001)		(0.742)	(0.689)
ROA	−0.031**	log(Board size)	0.223	0.217
	(0.035)		(0.352)	(0.363)
Market-to-book	0.000	Competed	−0.852	−0.853
	(0.354)		(0.213)	(0.213)
Firm age	−0.028***	Diversifying M&A	−0.096	−0.098
	(<.0001)		(0.327)	(0.321)
		Private target	−0.101	−0.100
			(0.323)	(0.326)

(Continued)

TABLE 7. *(Continued)*

Heckman Stage 1		Heckman Stage 2		
Variable	(1)	Variable	(1)	(2)
		Cash deal	0.348***	0.350***
			(0.004)	(0.004)
		Relative deal size	0.017**	0.017**
			(0.015)	(0.015)
		Firm size (log(Sales))	0.273**	0.269**
			(0.025)	(0.028)
		Market-to-book	–0.007	–0.007
			(0.869)	(0.872)
		Leverage (Debt/Asset)	0.426	0.419
			(0.148)	(0.154)
		Firm age	–0.045*	–0.044*
			(0.066)	(0.071)
		CEO directorship	–0.032	–0.033
			(0.436)	(0.419)
		CEO tenure	0.041	0.042
			(0.143)	(0.139)
		Average director age	–0.008	–0.008
			(0.548)	(0.539)
		Common law	0.717	0.724
			(0.184)	(0.180)
		Civil law	0.740	0.744
			(0.169)	(0.168)
		Lambda	3.382	3.344
			(0.009)	(0.010)
		N	8,334	8,334
		R^2	0.0120	0.0117
		Country fixed effects	No	No
		Industry fixed effects	Yes	Yes
		Year fixed effects	Yes	Yes

Note: This table presents the effect of board busyness on acquirers' cumulative abnormal returns (CARs) using the Heckman (1979) procedure. Variables are defined in the Appendix. *Lambda* represents the inverse Mill's ratio of the first-stage probit regression that estimates the likelihood of a firm having a busy board. The dependent variable in the first stage is an indicator variable that equals 1 if a firm has a busy board, and 0 otherwise. The dependent variable in the second stage is the CAR for acquirers estimated over days (−1,0) relative to the announcement. Board busyness is measured using the average number of directorships held by each director on each board. The *p*-values are provided in parentheses.
***Significant at the 1% level.
**Significant at the 5% level.
*Significant at the 10% level.

     We then estimate the effect of board busyness on merger announcement returns in the second stage. We observe that the results are consistent with our original findings reported in Tables 5 and 6. Specifically, we continue to find that mergers pursued by firms with busy directors are associated with a significant reduction in shareholder wealth at the time of the announcement. In addition, in model (2) of stage 2, we use busyness segments relative to the median as regressors. We find that it is not busyness per se that the market dislikes, but rather high levels of busyness.

VI. Labor Market for Busy Directors

Fama (1980) and Fama and Jensen (1983) contend that a labor market exists for outside directors that functions on the basis of reputation, a position confirmed in numerous empirical studies.[7] Because mergers have such an important effect on the profitability and future growth of a firm, the quality of these M&A decisions should be an important determinant of any director's reputation. If reputation is a factor in the hiring and retention of corporate directors, the quality of their merger decisions should help explain the number of directorships they actually hold. In this context, we interpret merger quality as the ability of the merger to generate value for the shareholders of the acquiring firm.

Gaining Board Seats

We begin our analysis of the effect of merger quality on subsequent directorship appointments by estimating the likelihood of additional directorships. We present our logit regression results in Table 8. The dependent variable *Addition* equals 1 if a director gains an additional directorship. In models (1) and (2), the dependent variable is a binary indicator variable that equals 1 if a director gains an additional directorship during the first year following a merger. In models (3) and (4), the dependent variable is a binary indicator variable that equals 1 if a director gains an additional directorship during the first two years following a merger. In models (5) and (6), the dependent variable is a binary indicator that equals 1 if a director gains an additional directorship during the first three years following a merger. In these regressions, we control for three sets of variables: (1) deal characteristics, (2) firm characteristics, and (3) board characteristics.

TABLE 8. Good Mergers and the Likelihood of Gaining Additional Directorships.

	Dependent Variable					
	Addition in Year (0,1)		*Addition* in Year (0,2)		*Addition* in Year (0,3)	
Variable	(1)	(2)	(3)	(4)	(5)	(6)
Intercept	−1.154	−1.120	0.137	0.148	−0.156	−0.122
Top 10% CARs dummy	0.075	0.070	0.071	0.069	0.157	0.151

(Continued)

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[7] Brickley, Linck, and Coles (1999) report that CEOs who perform well in the year before retirement receive more directorships following their retirements. Ferris, Jagannathan, and Pritchard (2003) show that firm performance positively affects the number of appointments held by a director. Ashraf et al. (2010) find that a good merger has a positive effect on nonexecutive directors' reputations and increases the likelihood of acquiring subsequent new board appointments. Alternatively, CEOs of firms that reduce dividends (Kaplan and Reishus 1990), directors who resign following a bankruptcy filing (Gilson 1990), and directors of firms that restate earnings (Srinivasan 2005) are less likely to receive directorships.

TABLE 8. *(Continued)*

Variable	Dependent Variable					
	Addition in Year (0,1)		*Addition* in Year (0,2)		*Addition* in Year (0,3)	
	(1)	(2)	(3)	(4)	(5)	(6)
	(.388)	(.423)	(.374)	(.385)	(.400)	(.471)
Total directorships		–0.006***		–0.002		–0.006***
		(.006)		(.342)		(.002)
Competed	0.112	0.107	–0.038	–0.040	0.042	0.037
	(.338)	(.360)	(.734)	(.723)	(.696)	(.729)
Diversifying M&A	–0.023	–0.023	–0.018	–0.018	–0.036	–0.036
	(.309)	(.315)	(.399)	(.401)	(.076)	(.078)
Private target	–0.013	–0.012	–0.024	–0.024	–0.023	–0.023
	(.597)	(.613)	(.288)	(.292)	(.286)	(.297)
Cross-border M&A	0.018	0.018	0.044**	0.044**	0.011	0.011
	(.465)	(.472)	(.046)	(.046)	(.601)	(.609)
Cash deal	0.004	0.003	0.005	0.005	0.000	0.000
	(.900)	(.909)	(.843)	(.846)	(.991)	(.996)
Friendly	–0.030	–0.034	–0.053*	–0.054*	–0.016	–0.020
	(.381)	(.322)	(.089)	(.082)	(.604)	(.520)
Relative deal size	0.000	0.001	–0.001	–0.001	–0.001	–0.001
	(.848)	(.831)	(.782)	(.789)	(.687)	(.702)
CEO duality	–0.057	–0.064	–0.067	–0.070	–0.040	–0.046
	(.592)	(.550)	(.477)	(.463)	(.659)	(.612)
log(CEO directorship)	–0.013	–0.011	–0.002	–0.001	0.001	0.003
	(.361)	(.452)	(.876)	(.922)	(.928)	(.785)
CEO tenure	–0.019***	–0.019***	–0.032***	–0.032***	–0.031***	–0.031***
	(<.0001)	(<.0001)	(<.0001)	(<.0001)	(<.0001)	(<.0001)
Percentage of busy independent directors	0.605***	0.611***	0.430***	0.432***	0.237***	0.243***
	(<.0001)	(<.0001)	(<.0001)	(<.0001)	(<.0001)	(<.0001)
Firm size (log(Sales))	0.029***	0.028***	0.029***	0.029***	0.034***	0.034***
	(<.0001)	(<.0001)	(<.0001)	(<.0001)	(<.0001)	(<.0001)
Past-year stock performance	0.004	0.004	0.003	0.003	0.008**	0.008**
	(.332)	(.341)	(.525)	(.529)	(.034)	(.035)
Firm age	–0.006***	–0.006***	–0.004***	–0.004***	–0.004***	–0.004***
	(<.0001)	(<.0001)	(.005)	(.005)	(.002)	(.002)
Leverage (Debt/Asset)	0.263	0.264	0.194	0.195	0.265	0.266
	(.001)	(.001)	(.005)	(.005)	(<.0001)	(<.0001)
Director age > 61 dummy	–0.033	–0.038	0.002	0.001	–0.033	–0.037*
	(.177)	(.128)	(.930)	(.976)	(.136)	(.094)
LAW	–0.139	–0.135	–0.151*	–0.150*	–0.006	–0.002
	(.130)	(.142)	(.072)	(.074)	(.940)	(.976)
MBA	–0.036	–0.039	–0.053**	–0.054**	–0.087***	–0.090***
	(.214)	(.181)	(.042)	(.039)	(.001)	(.001)
PHD	–0.061*	–0.0610*	–0.038	–0.039	–0.077***	–0.077***
	(.064)	(.062)	(.195)	(.193)	(.009)	(.008)
Female	0.078*	0.070*	0.058	0.056	0.037	0.030
	(.051)	(.079)	(.114)	(.130)	(.297)	(.401)
Emerging	–0.158**	–0.136*	–0.014	–0.007	0.002	0.023
	(.028)	(.060)	(.827)	(.910)	(.969)	(.711)
Common law	–0.173	–0.169	–0.226	–0.225	0.222	0.226
	(.433)	(.444)	(.256)	(.259)	(.291)	(.282)

(Continued)

TABLE 8. *(Continued)*

	Dependent Variable					
	Addition in Year (0,1)		*Addition* in Year (0,2)		*Addition* in Year (0,3)	
Variable	(1)	(2)	(3)	(4)	(5)	(6)
Civil law	–0.425*	–0.407*	–0.498**	–0.493**	–0.080	–0.062
	(.054)	(.065)	(.012)	(.013)	(.705)	(.767)
N	61,254	61,254	61,254	61,254	61,254	61,254
R^2	0.0106	0.0106	0.0120	0.0121	0.0147	0.0149
Country fixed effects	No	No	No	No	No	No
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes

Note: This table tests whether merger success influences the ability of independent busy directors to gain new directorships. Variables are defined in the Appendix. The dependent variable *Addition* annually equals 1 if a director gains an additional directorship, and 0 otherwise. The success of a merger is measured by a binary indicator that equals 1 if an acquirer's cumulative abnormal return (CAR (–1,0)) is among the top 10% of CARs for firms within its country and industry during the year. In models (1) and (2), the dependent variable is a binary indicator that equals 1 if a director gains an additional directorship during the first year following a merger, and 0 otherwise. In models (3) and (4), the dependent variable is a binary indicator that equals 1 if a director gains an additional directorship during the first two years following a merger, and 0 otherwise. In models (5) and (6), the dependent variable is a binary indicator that equals 1 if a director gains an additional directorship during the first three years following a merger, and 0 otherwise. The *p*-values are provided in parentheses.
***Significant at the 1% level.
**Significant at the 5% level.
*Significant at the 10% level.

The use of announcement-period CARs to capture merger quality is established in the corporate finance literature. Lehn and Zhao (2006) argue that the announcement-period return is an unbiased estimate of whether the merger serves the interest of the acquirer's shareholders. Liu and McConnell (2013) use the stock price reaction at the time of a merger announcement as a measure of the potential value created by the acquisition for the bidder.

One might argue that announcement-period CARs are a noisy proxy for the quality of an M&A decision. Therefore, we define a good merger as one that produces a top-decile CAR. We then test to see mergers generating these top-decile CARs are associated with additional board appointments for the approving directors.

In models (1), (3), and (5) of Table 8, we show that that likelihood of gaining additional directorships does not depend on the announcement-period CAR. These results hold for each of the three years following the merger and offer consistent evidence that the labor market does not reward director approval of good mergers with more board appointments. Even when the director has approved what investors perceive as a good merger, the labor market appears to ignore it when deciding whom to reward with additional board seats. These findings show that regardless of how positively the market reacts to an announcement, merger quality does not meaningfully affect the ability of approving directors to gain additional board appointments.

In models (2), (4), and (6) of Table 8, we include *Total directorships* as an additional control. This variable examines whether the labor market perceives a busy director serving on multiple boards as knowledgeable and skillful or as overcommitted and distracted. We obtain negative and significant coefficients for this variable in two of our three models. This suggests that holding multiple directorships reduces the likelihood of obtaining new board seats even when the mergers are favorably viewed by the capital market.

The results presented in Table 8 offer two important insights. First, the labor market for directors does not reward directors for their merger successes. Even mergers most favorably viewed by investors are ignored by the director labor market. Furthermore, the number of directorships an individual holds is inversely related to the likelihood of gaining an additional board seat. This result holds even after controlling for the perceived quality of the merger.

Losing Board Seats

Although merger quality does not influence whether approving directors gain new board seats, it might affect the extent to which they lose a board seat. Loss aversion theory (Tversky and Kahneman 1991; Thaler et al. 1997) contends that individuals are more motivated by the threat of a loss than the possibility of a gain. Hence, the labor market might view the loss of a board seat as a more effective incentive than the offer of a new seat. Furthermore, research in psychology (Taylor 1991) explains how negative events generate stronger emotive and social responses than positive events. Thus, a bad merger decision might be more harmful to a director's chance of gaining a new board seat than a good merger is beneficial.

In Table 9, we present our logit analysis of the likelihood of a director losing a board seat following a merger. In models (1) and (2), the dependent variable is a binary indicator variable that equals 1 if a director loses a directorship during the first year following a merger. In models (3) and (4), the dependent variable is a binary indicator that equals 1 if a director loses a directorship during the first two years following a merger. In models (5) and (6), the dependent variable is a binary indicator that equals 1 if a director loses a directorship during the first three years following a merger.

TABLE 9. Bad Mergers and the Likelihood of Losing a Directorship.

	Dependent Variable					
	Reduction in (0,1)		*Reduction* in (0,2)		*Reduction* in (0,3)	
Variable	(1)	(2)	(3)	(4)	(5)	(6)
Intercept	−4.579	−4.625	−4.606	−4.628	−4.553	−4.589
Bottom 10% CARs dummy	0.037	0.036	0.164**	0.163**	0.183***	0.183***
	(.639)	(.652)	(.017)	(.017)	(.005)	(.005)

(Continued)

TABLE 9. *(Continued)*

			Dependent Variable			
	Reduction in (0,1)		*Reduction* in (0,2)		*Reduction* in (0,3)	
Variable	(1)	(2)	(3)	(4)	(5)	(6)
Total directorships		0.012***		0.006***		0.009***
		(<.0001)		(.001)		(<.0001)
Competed	0.037	0.046	0.08	0.088	0.190**	0.198**
	(.737)	(.672)	(.386)	(.360)	(.038)	(.031)
Diversifying M&A	0.024	0.024	0.012	0.012	0.033*	0.033*
	(.259)	(.261)	(.523)	(.525)	(.066)	(.067)
Private target	0.009	0.008	0.007	0.006	−0.005	−0.006
	(.683)	(.724)	(.746)	(.733)	(.784)	(.739)
Cross-border M&A	0.022	0.023	0.043**	0.043**	0.051***	0.051***
	(.331)	(.321)	(.031)	(.031)	(.008)	(.008)
Cash deal	−0.001	−0.001	−0.021	−0.021	−0.013	−0.013
	(.959)	(.958)	(.377)	(.379)	(.562)	(.568)
Friendly	−0.016	−0.008	0.034	0.038	0.038	0.044
	(.617)	(.805)	(.228)	(.179)	(.157)	(.100)
Relative deal size	0.001	0.001	0.001	0.001	0.000	0.000
	(.721)	(.752)	(.469)	(.483)	(.938)	(.901)
CEO duality	−0.032	−0.021	0.208**	0.213**	0.175**	0.182**
	(.748)	(.834)	(.011)	(.010)	(.027)	(.022)
log(*CEO directorship*)	−0.013	−0.017	−0.019	−0.021*	−0.022**	−0.025**
	(.327)	(.203)	(.102)	(.074)	(.046)	(.024)
CEO tenure	0.025***	0.024***	0.031***	0.030***	0.034***	0.033***
	(<.0001)	(<.0001)	(<.0001)	(<.0001)	(<.0001)	(<.0001)
Percentage of busy independent directors	1.353***	1.344***	1.340***	1.335***	1.449***	1.442***
	(<.0001)	(<.0001)	(<.0001)	(<.0001)	(<.0001)	(<.0001)
Firm size (log(Sales))	0.049***	0.050***	0.047***	0.048***	0.049***	0.050***
	(<.0001)	(<.0001)	(<.0001)	(<.0001)	(<.0001)	(<.0001)
Past-year stock performance	0.000	0.001	−0.003	−0.003	−0.002	−0.002
	(.905)	(.867)	(.434)	(.450)	(.597)	(.630)
Firm age	−0.005***	−0.005***	−0.004***	−0.004***	−0.004***	−0.004***
	(<.0001)	(<.0001)	(.001)	(.001)	(.001)	(.001)
Leverage (*Debt/Asset*)	−0.328***	−0.331***	−0.144**	−0.145**	−0.118*	−0.119*
	(<.0001)	(<.0001)	(.025)	(.024)	(.054)	(.051)
Director age > 61 dummy	0.026	0.037	0.017	0.022	0.007	0.015
	(.252)	(.105)	(.394)	(.266)	(.698)	(.425)
LAW	−0.096	−0.105	−0.128*	−0.132*	−0.094	−0.100
	(.262)	(.217)	(.088)	(.078)	(.183)	(.155)
MBA	−0.043	−0.036	−0.066***	−0.063***	−0.043*	−0.039*
	(.118)	(.185)	(.006)	(.009)	(.055)	(.087)
PHD	−0.079**	−0.078**	−0.039	−0.039	0.014	0.014
	(.010)	(.010)	(.141)	(.141)	(.577)	(.575)
Female	0.008	0.024	0.036	0.043	−0.033	−0.021
	(.832)	(.540)	(.281)	(.194)	(.302)	(.502)
Emerging	−0.176***	−0.222***	−0.184***	−0.206***	−0.198***	−0.232***
	(.009)	(.001)	(.002)	(.001)	(<.0001)	(<.0001)
Common law	−0.108	−0.116	0.177	0.174	0.122	0.117
	(.673)	(.649)	(.453)	(.461)	(.572)	(.587)
Civil law	−0.240	−0.277	0.044	0.026	−0.012	−0.038

(Continued)

TABLE 9. *(Continued)*

	Dependent Variable					
	Reduction in (0,1)		*Reduction* in (0,2)		*Reduction* in (0,3)	
Variable	(1)	(2)	(3)	(4)	(5)	(6)
	(.347)	(.277)	(.854)	(.911)	(.956)	(.860)
N	61,254	61,254	61,254	61,254	61,254	61,254
R^2	0.0254	0.0264	0.0271	0.0274	0.0326	0.0333
Country fixed effects	No	No	No	No	No	No
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes

Note: This table examines whether poor merger performance leads to the loss of a directorship by an independent busy director. Variables are defined in the Appendix. The dependent variable *Reduction* equals 1 if a director loses a directorship, and 0 otherwise. Poor merger performance is measured as a binary indicator that equals 1 if an acquirer's cumulative abnormal return (CAR (−1,0)) is among the bottom 10% of CARs for all firms within its country and industry for the year, and 0 otherwise. In models (1) and (2), the dependent variable is a binary indicator that equals 1 if a director loses a directorship during the first year following a merger, and 0 otherwise. In models (3) and (4), the dependent variable is a binary indicator that equals 1 if a director loses a directorship during the first two years following a merger, and 0 otherwise. In models (5) and (6), the dependent variable is a binary indicator that equals 1 if a director loses a directorship during the first three years following a merger, and 0 otherwise. The *p*-values are provided in parentheses.

***Significant at the 1% level.
**Significant at the 5% level.
*Significant at the 10% level.

Similar to our analysis in Table 8, we focus on a subset of extremely poor mergers. Specifically, we examine mergers whose announcement-period CARs are in the bottom decile of our sample and label these "bad mergers." The coefficients for the CAR are positive across all three sample periods, and are statistically significant for two of them. This result is consistent with the labor market penalizing directors for their approval of bad mergers. We note, however, that the coefficients become significant only in years 2 and 3 postmerger. This suggests that it takes about a year for the market to begin assessing penalties against directors.

We further find that holding multiple directorships increases the likelihood of losing a board seat. In models (2), (4), and (6) of Table 9, the coefficients of *Total directorships* are positive and statistically significant across all three subperiods. This result is consistent with the negative effect of multiple directorships on the likelihood of gaining new board seats reported in Table 8.

Our results in Tables 8 and 9 are robust to several model specifications. First, we use different measures of director busyness. In particular, we use the same partition method as in Table 6, the piecewise modeling of the average number of directorships within a firm. Second, we use different measures of CARs to capture good or bad mergers. Specifically, we use: (1) the continuous value of CARs, (2) top (good merger) and bottom (bad merger) quartiles of CARs, (3) an indicator variable that equals 1 if CARs are positive (to capture good mergers), and (4) an indicator variable that equals 1 if CARs are negative (to capture bad mergers). We obtain qualitatively similar results (untabulated) throughout all model specifications. We conclude that our results are not driven by the measurement choice of merger quality.

Asymmetric Effect of Bad Mergers

Our findings that directors associated with good mergers go unrewarded whereas those approving bad mergers are punished can be understood in the context of several arguments developed in the behavioral economics, marketing, and psychology literatures. Theory of loss aversion (Tversky and Kahneman 1991; Thaler et al. 1997) argues that individuals are more motivated by the threat of a loss than the possibility of a gain. That is, the threat of a dollar loss provides more disutility than the corresponding utility of a dollar gain. Thus, loss aversion implies that an individual's loss of a board seat is likely to be a more effective motivator than the possibility of a future additional appointment. Hence, it is not surprising that the labor market for directors reacts in a corresponding fashion.

Marketing and communication researchers such as Mizerski (1982), Ahluwalia, Burnkrant, and Unnava (2000), Dawar and Pillutla (2000), and Henard (2002) describe how a single negative experience can overwhelm and dominate a set of previous positive outcomes enjoyed by the consumer. Silver and Wortman (1980), Wortman and Silver (1987), and Tait and Silver (1989) report that negative life events can persist for years and continue to exert a corrosive influence on psychological health. Garcia, Hankins, and Rusiniak (1974) show that it takes only a single trial or experience for learning to occur, with the bad generally dominating the good. Taylor (1991) describes how negative events evoke stronger cognitive, emotional, and social responses than corresponding positive events. Thus, it is likely that a bad merger can be more detrimental to a director's career than a good merger is beneficial. That is, directors are more likely to be harmed in their career by the single bad merger they approve than helped by the multiple good mergers they authorize.

These results are also consistent with the observation that a bad merger can be more critical to the viability of a firm than a good merger. A bad merger can result in strategic misalignment, financial losses, negative cash flow, and prolonged reduced profitability (Duchin and Schmidt 2013). A bad merger can bankrupt a firm (Shrieves and Stevens 1979; Bergstrom et al. 2005). A good merger increases earnings and market share, but this upside is rarely as dramatic as the downside caused by a bad merger. This potential asymmetry in the effects of bad and good mergers on corporate financial health might also explain the labor market's differential response.

Finally, these results are broadly consistent with the literature on the psychology of crime and punishment. Sigmund, Hauert, and Nowak (2001) examine the role of reputation in fostering cooperative behavior among selfish agents and conclude that it is more effective with punishment than with reward. Arvey and Ivancevich (1980) determine that punishment is most effective when the aversive is high (e.g., the loss of a board seat and its perquisites) and timely (e.g., in the years immediately following the bad merger) and a rationale is provided (e.g., the subsequently poor accounting performance).

VII. Postacquisition Accounting Performance

In this section, we examine whether the firm's subsequent operating performance justifies the market's reaction at the time of the merger announcement. We begin by calculating a simple correlation between the announcement-period CAR and the postmerger return on assets (ROA). In Panel A of Table 10, the correlation between these two variables is generally positive and statistically significant. The results are even stronger for acquirers with busy boards. These results justify our use of announcement-period CARs as a proxy for the quality and subsequent performance of the merger.

TABLE 10. Postmerger Operating Performance and Board Busyness.

Panel A. Correlations between Operating Performance and Market Reaction

	ROA in Year 0	*ROA* in Year 1	*ROA* in Year 2	*ROA* in Year 3
Acquirers with nonbusy boards				
CAR (−1,0)	0.057***	0.047**	0.002	-0.026
p-value	.0025	.0128	.9064	.17
Acquirers with busy boards				
CAR (−1,0)	0.025**	0.031**	0.024*	0.041***
p-value	.046	.0141	.0575	.0012

Panel B. Comparative Industry-Adjusted ROA

	Year 0	Year 1	Year 2	Year 3
Busy board indicator				
(1) Nonbusy board	−0.009	−0.009	−0.009	−0.010
(2) Busy board	−0.013	−0.015	−0.017	−0.013
Difference ((2) − (1))	−0.004	−0.007***	−0.008***	−0.003
	(.138)	(.008)	(.008)	(.295)
Two segments				
(1) Busyness < median	−0.010	−0.011	−0.010	−0.007
(2) Busyness > median	−0.014	−0.017	−0.020	−0.019
Difference ((2) − (1))	−0.004*	−0.006**	−0.010***	−0.012***
	(.100)	(.026)	(.007)	(.003)
Three segments				
(1) Busyness < median	−0.010	−0.011	−0.010	−0.007
(2) Median < busyness < Q3	−0.013	−0.021	−0.024	−0.018
(3) Busyness > Q3	−0.013	−0.017	−0.019	−0.022
Difference ((3) − (1))	−0.003	−0.006**	−0.009***	−0.015**
	(.167)	(.026)	(.009)	(.017)

Note: This table tests postmerger operating performance as measured by return on assets (ROA) up to three years following an acquisition. Panel A presents the correlations between the cumulative abnormal returns (CARs (−1,0)) and postmerger ROA. Panel B compares postmerger industry-adjusted ROA between acquirers with busy and nonbusy boards as well as the nonlinear relation between busyness and ROA. Busyness nonlinearity is measured using total directorships per director and is divided into two and three segments relative to the median and third quartile (Q3). The *p*-values are provided in parentheses.
***Significant at the 1% level.
**Significant at the 5% level.
*Significant at the 10% level.

In Panel B of Table 10, we present our results using a median industry-adjusted ROA. The results show that the ROA for acquirers with and without busy boards is below the industry median, and the performance is worse for mergers undertaken by busy boards. This difference in merger performance between acquirers with busy and nonbusy boards is statistically significant in years 1 and 2 relative to the merger.

We also examine whether board busyness is nonlinearly related to corporate long-term underperformance. Consistent with our previous analysis, we divide busyness into two and three segments relative to the median and third quartile. Busyness is measured using the number of total directorships per director. As shown in Panel B of Table 10, firms with greater than median or third quartile busyness exhibit significantly lower ROA than firms with less busyness. This suggests that busy boards are less able to acquire targets that are value creating for their shareholders.

In untabulated results, we repeat our analysis using the unadjusted or raw ROA. We continue to find that acquirers with busy boards significantly underperform relative to acquirers whose boards are not busy. We also obtain support for a nonlinear relation between busyness and ROA. That is, firms with busier boards experience greater long-term underperformance than firms with less busy boards.

We conclude from this analysis that the market response at the time of the merger announcement is correlated with the acquirer's subsequent operating performance. This justifies our use of announcement-period CARs as a proxy for the quality of the merger. More important, we determine that mergers approved by busy boards underperform relative to those approved by nonbusy boards. This is consistent with arguments that busy boards are too busy to mind their business (Ferris, Jagannathan, and Pritchard 2003). This result holds even when we control for peer performance by estimating industry-adjusted measures of ROA.

VIII. Optimal Busyness and Director Career Effects

In this section, we explore the optimal level of board busyness. Furthermore, we examine the effect of long-term merger performance on a director's career success as measured by appointments to other corporate boards.

Optimal Busyness

It might be that there is an optimal level of board busyness and that a certain level of busyness is beneficial to shareholders. That is, optimally busy directors create value for their investors through their M&A decisions. If there is such an optimal level of busyness, it is likely to differ across industries, legal environments, and the firm's life cycle. To test such a possibility, we model optimal busyness based on the busyness of the most valued firms. More specifically, we measure optimal busyness as the board busyness observed for firms in the top quartile of the market-to-book ratio for firms in the same country–industry–year group as the sample firm. We estimate three measures of optimal busyness based on the ranking within this subsample of high-valued firms: median, 75th percentile, and 95th percentile value of board busyness. We then estimate excess busyness

as the difference between a firm's observed board busyness and the corresponding measure of optimal busyness. We use the total number of directorships per director to capture busyness within the board.

Our findings are provided in Table 11. In Panel A, we compare ROA between firms with and without excess busyness in the postmerger period. We find that firms with excess busyness have lower ROA. This result holds for the year of the merger as well as for each of the three years following the merger. We obtain the same findings across each measure of optimal board busyness. These results are consistent with our earlier finding that it is high levels of board busyness that are harmful to shareholder wealth.

In Panel B of Table 11, we examine the effect of excess busyness on the announcement-period returns surrounding a merger using a multivariate model with a set of appropriate control variables. Using several measures of busyness, we find that excess busyness is associated with lower merger announcement-period returns.

We conclude from Table 11 that firms whose boards are excessively busy receive a weaker market response to their merger announcements. Furthermore, they suffer from lower levels of operating performance following their merger decisions. These findings support our earlier conclusion that it is high levels of busyness that destroy shareholder value. They are also consistent with an optimal board busyness or at least a level of busyness that suggests industry best practices to avoid damaging shareholder value.

TABLE 11. Excess Busyness and Merger Outcomes.

Panel A. Excess Busyness and ROA

	ROA in Year 0	*ROA* in Year 1	*ROA* in Year 2	*ROA* in Year 3
95th percentile of busyness				
(1) No excess busyness	0.071	0.065	0.064	0.066
(2) Excess busyness	0.063	0.059	0.055	0.056
Diff ((2) − (1))	−0.008***	−0.006**	−0.009**	−0.011*
Pr > |*t*|	0.002	0.031	0.016	0.082
75th percentile of busyness				
(1) No excess busyness	0.071	0.065	0.064	0.066
(2) Excess busyness	0.063	0.059	0.055	0.056
Diff ((2) − (1))	−0.008***	−0.006**	−0.009**	−0.011*
Pr > |*t*|	0.002	0.031	0.016	0.082
Median busyness				
(1) No excess busyness	0.071	0.065	0.065	0.066
(2) Excess busyness	0.067	0.062	0.058	0.061
Diff ((2) − (1))	−0.004*	−0.003	−0.007**	−0.004
Pr > |*t*|	0.095	0.347	0.046	0.264

Panel B. Excess Busyness and CAR

	Total directorships per director	*Total directorships per independent director*	*Percentage of busy independent directors*
Intercept	1.229	1.332	1.207
Excess busyness	−0.065***	−0.039**	−0.418**
	(.000)	(.021)	(.018)

(Continued)

TABLE 11. *(Continued)*

Panel B. Excess Busyness and CAR

	Total directorships per director	*Total directorships per independent director*	*Percentage of busy independent directors*
Percentage of independent directors	0.151	0.026	0.057
	(.476)	(.903)	(.789)
log(*Board size*)	−0.258***	−0.270***	−0.289***
	(.004)	(.003)	(.001)
Competed	−1.488***	−1.492***	−1.482***
	(.005)	(.005)	(.005)
Diversifying M&A	−0.052	−0.054	−0.051
	(.512)	(.495)	(.520)
Private target	−0.086	−0.083	−0.083
	(.295)	(.313)	(.313)
Cash deal	0.361***	0.378***	0.375***
	(.000)	(.000)	(.000)
Relative deal size	0.019***	0.019***	0.019***
	(.001)	(.001)	(.001)
Firm size (log(*Sales*))	−0.060	−0.061	−0.055
	(.028)	(.024)	(.047)
Market-to-book	0.017	0.017	0.017
	(.411)	(.406)	(.409)
Leverage (*Debt/Asset*)	0.230	0.220	0.225
	(.324)	(.347)	(.336)
Firm age	0.013**	0.013**	0.013**
	(.021)	(.022)	(.021)
CEO directorship	−0.012	−0.021	−0.021
	(.717)	(.542)	(.526)
CEO tenure	0.020	0.026	0.027
	(.396)	(.276)	(.250)
Average director age	−0.009	−0.008	−0.008
	(.352)	(.431)	(.426)
Common law	0.390	0.337	0.367
	(.220)	(.289)	(.250)
Civil law	0.406	0.340	0.345
	(.197)	(.278)	(.273)
N	13,233	13,197	13,197
R^2	0.0079	0.0073	0.0073
Country fixed effects	No	No	No
Industry fixed effects	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes

Note: This table tests for the effect of board busyness optimality. We define optimal board busyness as the busyness of boards for firms in the top quartile (50%, 5%) of market-to-book ratios in the same country–industry–year as the sample firm. We then calculate excess busyness as the difference between each firm's observed level of board busyness and optimal busyness. Panel A presents the results regarding excess busyness and a firm's long-term performance. Busyness is measured using the number of total directorships per director. Panel B shows the results for excess busyness and the merger announcement cumulative abnormal returns (CARs). Busyness is measured using (1) *Total directorships per director*, (2) *Total directorships per independent director*, and (3) *Percentage of busy independent directors*. Variables are defined in the Appendix.
***Significant at the 1% level.
**Significant at the 5% level.
*Significant at the 10% level.

Long-Term Merger Operating Performance and Director Career Success

In this section, we extend our analysis of director labor market outcomes following a merger by examining the effect of long-term performance. Previously, we establish that the market response at the time of the merger announcement is a signal of merger quality that is associated with subsequent director career success. We now investigate whether long-term performance after the merger has a corresponding effect on the careers of directors.

In Panel A of Table 12, we examine the likelihood of a director gaining an additional directorship following a merger. We observe that the coefficients for *ROA* are not statistically significant. This is consistent with our previous findings that the labor market does not reward directors for mergers judged successful by their subsequent ROA. Furthermore, we continue to find that the number of directorships an individual holds is inversely related to the likelihood of gaining an additional board seat. This is evidenced by the negative coefficient for *Total directorships*.

TABLE 12. Effect of Operating Performance on Director Careers.

Panel A. Likelihood of Gaining an Additional Directorship

	Addition in Year (0,1)	*Addition* in Year (0,2)	*Addition* in Year (0,3)
Intercept	−1.123	0.140	−0.150
ROA	−0.046	−0.081	−0.109
	(.745)	(.582)	(.404)
Total directorships	−0.006***	−0.002	−0.006***
	(.005)	(.357)	(.001)
Competed	0.105	−0.040	0.029
	(.371)	(.722)	(.785)
Diversifying M&A	−0.026	−0.021	−0.041*
	(.270)	(.327)	(.047)
Private target	−0.012	−0.020	−0.013
	(.637)	(.371)	(.565)
Cross-border M&A	0.019	0.042*	0.005
	(.441)	(.058)	(.820)
Cash deal	0.004	0.007	−0.002
	(.893)	(.798)	(.932)
Friendly	−0.037	−0.053*	−0.024
	(.287)	(.088)	(.428)
Relative deal size	0.000	−0.001	−0.001
	(.842)	(.773)	(.618)
CEO duality	−0.063	−0.070	−0.028
	(.552)	(.460)	(.764)
log(*CEO directorship*)	−0.011	−0.001	0.003
	(.457)	(.951)	(.792)
CEO tenure	−0.019***	−0.032***	−0.031***
	(<.0001)	(<.0001)	(<.0001)
Percentage of busy independent directors	0.614***	0.445***	0.276***
	(<.0001)	(<.0001)	(<.0001)
Firm size (log(*Sales*))	0.029***	0.029***	0.037***
	(.000)	(<.0001)	(<.0001)
Past-year stock performance	0.004	0.003	0.008**
	(.337)	(.517)	(.030)

(Continued)

TABLE 12. *(Continued)*

Panel A. Likelihood of Gaining an Additional Directorship

	Addition in Year (0,1)	*Addition* in Year (0,2)	*Addition* in Year (0,3)
Firm age	–0.006***	–0.004***	–0.004***
	(<.0001)	(.005)	(.002)
Leverage (*Debt/Asset*)	0.260***	0.197***	0.251***
	(.001)	(.005)	(.000)
Director age > 61 dummy	–0.041*	0.001	–0.039*
	(.098)	(.963)	(.078)
LAW	–0.137	–0.150*	–0.029
	(.136)	(.073)	(.720)
MBA	–0.040	–0.055**	–0.089***
	(.167)	(.039)	(.001)
PHD	–0.062*	–0.040	–0.083***
	(.060)	(.176)	(.005)
Female	0.069*	0.053	0.041
	(.087)	(.153)	(.257)
Emerging	–0.137*	–0.010	0.015
	(.059)	(.876)	(.816)
Common law	–0.166	–0.238	0.220
	(.452)	(.233)	(.296)
Civil law	–0.408*	–0.505**	–0.070
	(.064)	(.011)	(.738)
N	61,167	60,940	60,575
R^2	0.0107	0.0119	0.0149
Country fixed effects	No	No	No
Industry fixed effects	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes

Panel B. Likelihood of Losing a Directorship

	Reduction in (0,1)	*Reduction* in (0,2)	*Reduction* in (0,3)
Intercept	–4.702	–4.663	–4.674
ROA	–0.799***	–0.918***	–0.767***
	(<.0001)	(<.0001)	(<.0001)
Total directorships	0.012***	0.006***	0.009***
	(<.0001)	(.001)	(<.0001)
Competed	0.036	0.088	0.209**
	(.742)	(.358)	(.023)
Diversifying M&A	0.017	0.010	0.032*
	(.444)	(.604)	(.082)
Private target	0.013	0.010	–0.007
	(.574)	(.627)	(.716)
Cross-border M&A	0.020	0.039*	0.051***
	(.394)	(.053)	(.008)
Cash deal	0.005	–0.014	–0.008
	(.865)	(.550)	(.719)
Friendly	–0.012	0.036	0.048*
	(.705)	(.206)	(.074)
Relative deal size	0.000	0.001	0.000
	(.870)	(.588)	(.833)
CEO duality	–0.018	0.226***	0.168**
	(.853)	(.006)	(.038)

(Continued)

TABLE 12. *(Continued)*

Panel A. Likelihood of Gaining an Additional Directorship

	Addition in Year (0,1)	*Addition* in Year (0,2)	*Addition* in Year (0,3)
log(*CEO directorship*)	–0.015	–0.021*	–0.023**
	(.257)	(.077)	(.039)
CEO tenure	0.024***	0.029***	0.033***
	(<.0001)	(<.0001)	(<.0001)
Percentage of busy independent directors	1.366***	1.336***	1.466***
	(<.0001)	(<.0001)	(<.0001)
Firm size (log(*Sales*))	0.059***	0.061***	0.059***
	(<.0001)	(<.0001)	(<.0001)
Past-year stock performance	0.000	–0.003	–0.003
	(.943)	(.366)	(.362)
Firm age	–0.005***	–0.005***	–0.004***
	(.000)	(.000)	(.001)
Leverage (*Debt/Asset*)	–0.370***	–0.157**	–0.121*
	(<.0001)	(.015)	(.050)
Director age > 61 dummy	0.025	0.016	0.012
	(.281)	(.425)	(.539)
LAW	–0.119	–0.121	–0.076
	(.163)	(.108)	(.289)
MBA	–0.029	–0.048**	–0.032
	(.300)	(.044)	(.162)
PHD	–0.084***	–0.046*	0.007
	(.006)	(.083)	(.770)
Female	0.020	0.048	–0.026
	(.606)	(.152)	(.419)
Emerging	–0.190***	–0.162***	–0.190***
	(.006)	(.007)	(.001)
Common law	–0.109	0.172	0.094
	(.671)	(.467)	(.662)
Civil law	–0.280	0.002	–0.074
	(.272)	(.994)	(.732)
N	61,167	60,940	60,575
R^2	0.0275	0.0281	0.0347
Country fixed effects	No	No	No
Industry fixed effects	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes

Note: This table examines the effect of a firm's operating performance on the gain or loss of external board seats by corporate directors. Panel A tests whether successful postmerger return on assets (ROA) helps independent busy directors gain new directorships. Panel B examines whether poor postmerger ROA leads to the loss of a directorship. Variables are defined in the Appendix. In Panel A, the dependent variable *Addition* equals 1 if a director gains an additional directorship, and 0 otherwise. In Panel B, the dependent variable *Reduction* equals 1 if a director loses a directorship, and 0 otherwise. Postmerger long-term performance is measured by ROA in the year before the gain or loss year. In model (1), the dependent variable is a binary indicator that equals 1 if a director gains (or loses) a directorship during the first year following a merger, and 0 otherwise. In model (2), the dependent variable is a binary indicator that equals 1 if a director gains (or loses) a directorship during the first two years following a merger, and 0 otherwise. In model (3), the dependent variable is a binary indicator that equals 1 if a director gains (or loses) a directorship during the first three years following a merger, and 0 otherwise. The *p*-values are provided in parentheses.
***Significant at the 1% level.
**Significant at the 5% level.
*Significant at the 10% level.

In Panel B of Table 12, we analyze the likelihood of losing a directorship. We find that the coefficients for *ROA* are negative and significant, suggesting that a director is more likely to lose a directorship following poor postmerger operating performance. This is consistent with our earlier conclusion that the labor market penalizes directors for approving bad mergers.

We conclude that the effect on a director's career is driven by both the market's immediate reaction to the merger announcement and its long-term operating performance. We further confirm our findings that merger performance exerts an asymmetric effect in the labor market for directors. That is, directors are not rewarded with additional board appointments for approving mergers that perform well, but they are penalized with seat loss for mergers that perform poorly.

IX. Summary and Discussion

Despite the increasing scrutiny of and restrictions on individual directors holding multiple board seats and the conflicting evidence regarding its effect on firm value, most of the research on busy boards has been limited to U.S. firms. In this study, however, we explore board busyness and its effect on M&A activity using an international sample. Specifically, we examine more than 13,233 acquisitions spanning 57 countries from 1999 through 2012. This sample allows us to examine how differences in legal regimes, regulatory oversight, and corporate governance influences corporate merger decisions made by busy boards.

We initially discover important differences in the M&A activity of firms with and without busy boards. We find that firms with busy boards purchase corporate assets more frequently than their nonbusy peers. Indeed, firms with busy boards are 2.9 times more likely to engage in M&A transactions than are those with nonbusy boards. Furthermore, we determine that only a few busy acquirers are from emerging markets and that they tend to undertake cross-border mergers, favor public targets, finance their acquisitions with both cash and stock, do not pursue targets with multiple bidders, and focus on targets within their own industry.

We then investigate the outcome and quality of the M&A decisions made by busy boards. We first observe that the market reacts negatively to the announcement of an acquisition by a firm whose board is busy. Our multivariate analysis, which controls for board, deal, and firm characteristics, further confirms that mergers pursued by firms with busy directors are wealth reducing for shareholders. These results are consistent with the busyness hypothesis of multiple directorships as described by Ferris, Jagannathan, and Pritchard (2003). We further observe that it is not busyness per se that the market discounts, but rather high levels of busyness. There seems to be a level of busyness where the advantages due to reputation, experience, and networking turn into disadvantages because of overcommitment. This finding provides support for policy makers such as ISS, which recommends limits on multiple directorships, and the idea that there is an optimal level of director busyness.

Our analysis uncovers important patterns in the labor market for busy directors. We find that the labor market does not reward directors with additional board seats for merger success. It does, however, penalize directors with seat loss for approving bad mergers. Thus, a bad merger is more adverse to a director's ability to gain a new board seat than a good merger is beneficial. These results hold for both the market's immediate response to a merger announcement and the merger's long-term performance. We conclude that the effect of mergers on the career success of directors is asymmetric.

Finally, we explore the postmerger accounting performance of acquirers. We find that the correlation between an acquirer's ROA in the three years following the merger and the announcement-period CAR is generally positive and statistically significant. These results justify our use of announcement-period CARs as a proxy for merger quality. We also examine raw and industry-adjusted ROAs for three years postmerger and find that acquirers with busy boards consistently underperform acquirers with nonbusy boards.

We conclude from this study that board busyness matters and that it exerts its own effect on merger activity. Our results provide support for policy recommendations and practices that limit board appointments. Furthermore, this study makes an important contribution to the debate on the value of multiple board appointments by identifying an inflection point in the relation between board busyness and merger returns. Our results suggest that the knowledge and networking advantages of busy directors provide value to the firm only up to a point. Beyond that, the overcommitment and time demands on these busy directors erode their ability to contribute to firm value.

We acknowledge, however, that alternative channels might exist that can affect the relation between busyness and M&A performance. For instance, if it is difficult to assess director ability, busyness can signal a director's quality. Busy directors might be more valuable in certain types of acquisitions, especially if they have connections to the target or competitors.

Appendix: Definitions of Variables

Variable	Definition
Addition (0,1)/ *Addition* (0,2)/ *Addition* (0,3)	Indicator variables that equal 1 if a director gains additional directorship during the first year/first two years/first three years following a merger.
Anti-self-dealing index	Average of the ex ante and ex post private control of self-dealing. Ex ante is the average of approval by disinterested shareholders and ex ante disclosure; ex post is the average of disclosure in periodic filings and the ease of proving wrongdoing. Values range between zero and one. Source: Djankov et al. (2008).
Busy board	Indicator variable that equals 1 if 50% or more of a firm's independent directors are busy.
Busy director	Director who sits on the boards of three or more firms.
Cash deal	Indicator variable that equals 1 if an acquirer pays 100% in cash.
CEO duality	Indicator variable that equals 1 if a firm's chief executive officer (CEO) also serves as the chairman of the board.

CEO tenure	CEO tenure in years.
Common law/	Indicator variables that equal 1 if a firm's legal origin is based on English common
Civil law/	law/Napoleonic Code/is a former socialist country.
Former socialist	
Competed	Indicator variable that equals 1 if a merger has multiple bidders.
Control of corruption	Captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption as well as "capture" of the state by elites and private interests. Estimates for this measure gives the country's score with an aggregate indicator in units of a standard normal distribution. These values range from approximately −2.5 to 2.5. Source: World Bank.
Cross-border M&A	Indicator variable that equals 1 if an acquirer's nation is different from that of its target.
Director age > 61 dummy	Indicator variable that equals 1 if a director is over 61 years old.
Diversifying M&A	Indicator variable that equals 1 if an acquirer's industry classification is different from that of its target. The industry is defined using the Fama–French (1997) 49-industry classification.
Emerging	Indicator variable that equals 1 if an acquirer is from an emerging market.
Female	Indicator variable that equals 1 if a director is female.
Firm age	Firm's age in years since its listing on a public exchange.
Firm size	Log of total sales in U.S. dollars of a firm.
Friendly	Indicator variable that equals 1 if the attitude of a merger is defined by SDC as friendly.
LAW/MBA/PHD	Indicator variables that equal 1 if a director holds a law/MBA/PhD degree.
Leverage	Firm's total debt divided by its total assets.
log(Board size)	Log of total number of directors in each firm.
log(CEO directorship)	Log of number of directorships held by the CEO of a firm.
Market-to-book	Market value of a firm's equity plus the difference between the book value of its assets and the book value of its equity at the end of the year, divided by the book value of the firm's assets at the end of the year.
Mean director age	Average age of a firm's directors.
Past-year stock performance	Firm's stock return in year $t-1$.
Percentage of busy independent directors	Number of busy independent directors divided by number of total independent directors.
Percentage of independent directors	Number of independent directors divided by number of total directors in each firm.
Private target	Indicator variable that equals 1 if the target of a merger is a private firm.
Reduction (0,1)/	Indicator variables that equal 1 if a director loses a directorship during the first year/
Reduction (0,2)/	first two years/first three years following a merger.
Reduction (0,3)	
Relative deal size	Target market value of equity relative to acquirer's market value of equity.
Revised anti-director index	Aggregate index of shareholder rights. The index is formed by summing: (1) vote by mail, (2) shares not deposited, (3) cumulative voting, (4) oppressed minority, (5) preemptive rights, and (6) capital to call a meeting. Source: Djankov et al. (2008).
ROA	A firm's earnings before interest and taxes (EBIT) divided by its total assets.
Rule of law	Captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, police, and courts, as well as the likelihood of crime and violence. The values of this measure provide an aggregate country score in units of a standard normal distribution, ranging from approximately −2.5 to 2.5. Source: World Bank.
Sales growth	Firm's sales in year t minus sales in year $t-1$ and divided by sales in year $t-1$.
Total directorships per director	Number of total directorships held by each director.
Total directorships per independent director	Number of total directorships held by each independent director.

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