Impact of Banker-Directors on Investment Decisions: Evidence from Acquisitions

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Abstract

This paper investigates whether the conflicts of interest between the shareholders and creditors lead to value-destroying investment decisions in the presence of a commercial bank executive on the board of directors of a non-financial corporation. With a sample of 847 acquisition decisions undertaken by the 403 corporations that were included in the S&P 500 Index between 2002 and 2004, the analyses of the paper do not find any evidence for value-destroying acquisition decisions when a creditor is represented on the board of directors: (i) Presence of a commercial bank executive on a board does not lead to an excessive acquisition activity; (ii) The acquirers that utilize the services of a commercial banker on their boards diversify more, but this diversification effect belongs only to the unaffiliated bankers; (iii) Affiliated bankers (creditors) are not associated with acquisitions that diversify the company's operations, and (iv) The analyses of shareholder wealth effects of acquisition announcements reveals that a banker's presence on a board does indeed improve the shareholder value. Commercial bankers, when serving on boards of directors, seem to act in a prudent manner and protect shareholder interests when deciding on major investments, and shareholders value the presence of a representative from the creditor community. The added value of the commercial bankers is possibly due to the monitoring role they perform when they serve on boards of directors in order to protect the value of their claims with the company.

1. Introduction

Despite the separation of banking and commerce in the United States, commercial banks are actively engaged in the corporate governance of non-financial companies by holding directorships in those companies. Of the companies that comprise the Standard and Poor's 500 Index, 27 percent had a commercial banker serving on their board of directors in 2002 (Table 1).[2] This paper studies the effects of these commercial bankers serving on corporate boards on a major class of investment decisions made by those corporations – the acquisitions.

The board of directors is a key institution to mitigate the agency problems among the management, the shareholders, and the creditors surrounding major investment decisions. When the CEO brings an investment proposal to the attention of the board, the board has a fiduciary duty to decide in favor of the investments that would enhance shareholder value. However, if a representative from the creditor community is present on the board of directors of the company, the board may have an inclination to protect the interests of the creditors, which may diverge from the interests of the shareholders (Jensen and Meckling, 1976). On the positive side, as experts in information gathering and processing, banks would be able to mitigate information problems by screening out bad investment proposals and selecting value-enhancing investment projects (Diamond, 1991). Thus, services provided by bank executives on boards should help companies to engage in good investment decisions and enhance shareholder wealth.

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[2] These numbers are consistent with the previous studies. Booth and Deli (1999) shows that 22.2 percent of the non-financial firms that constituted the S&P Index had a commercial banker serving on their boards in 1990. In 1992, 31.6 percent of the Forbes 500 companies had a director who is a commercial banker, and 5.8 percent had a director who is an executive of their main lender (Kroszner and Strahan, 2001). For 2000, the percentage of S&P firms with a banker on board is reported as 25 percent (Santos and Rumble, 2004).

The main research question in this paper is whether the presence of a commercial bank executive on the board of the acquiring company hurts the shareholders of that company. This is an unexplored question in the literature.[3] I study the 847 acquisitions announced and completed between 2002 and 2004 by the 403 non-financial companies that were included in the S&P 500 Index. Among these acquisitions, 190 (22.43 percent) were undertaken by companies that utilized the services of a commercial bank executive serving on their board of directors, and of these 190 transactions 83 (9.80 percent of the total) involved a creditor to the company serving on the board of directors of an acquirer (Table 1).

It has been argued in the literature that the presence of shareholder-creditor conflicts may lead to excessive acquisition decisions. Accordingly, I first examine whether the presence of a commercial banker on the board of directors of a company is associated with a change in the intensity of the acquisition activities by that company. The findings suggest that the commercial banker presence on a board in fact is associated with a lower probability that a company would engage in an acquisition, and also with less frequency of acquisitions.

Even though creditor representation on a board does not lead to an intensified acquisition activity, once an acquisition decision is made, it may be of a value-destroying type for the shareholders of the acquirer. In order to eliminate this concern, I analyze whether a banker's presence on a board is correlated with more diversifying acquisitions. The analysis of the diversification decisions is appropriate for the purposes of this study

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[3] Burak, Malmendier and Tate (2006) investigate the presence of <u>investment</u> bank executives on acquirer boards, and find that their presence are associated with a decrease in shareholder wealth following acquisition announcements.

for two reasons. First, Morck, Shleifer, and Vishny (1990) show that the returns to bidding shareholders are lower in case of diversifying acquisitions. Second, creditors would favor diversifying acquisitions, which would reduce the overall risk of the company (see Bharadwaj and Shivdasani, 2001). The types of acquisitions that would be most detrimental to shareholder value and beneficial to the creditor community would thus be the acquisitions that diversify a company's operations. Galai and Masulis (1976) show that in a non-synergistic merger, the increase in bondholder wealth comes from a decrease in stockholder wealth.

I define an acquisition to be "diversifying" if the two-digit SIC code for a target company is different from that of an acquiring company. Of the 847 acquisitions that form the sample, 45.3 percent are diversifying. As predicted, when a company utilizes the services of a commercial banker on its board, it undertakes acquisitions that diversify its operations with a higher probability. However, this result is associated with the unaffiliated banker-directors only – i.e., the directors who are the executives of non-creditor banks. The affiliated banker-directors, however, are not associated with more diversification activity. These results indicate that a creditor, once she accepts a directorship on a board, acts prudently in the interest of shareholders.

Last, I analyze the direct effects of creditor representation on boards of directors on shareholder value within an event study methodology. I calculate the abnormal stock market returns around the acquisition announcement dates and test whether the presence of bankers on boards of directors of the acquiring companies has any detrimental effects on the shareholder value. The results indicate that the presence of a commercial banker on the board of an acquirer is associated with a statistically significant 0.03 percentage

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increase in the abnormal returns on the day of the acquisition announcement. Given that

the mean abnormal return for the announcement day is –0.11 percent for the full sample

of acquisitions, the commercial bank presence on board is associated with favorable

shareholder reaction to an acquisition decision. The effects of unaffiliated banker-

directors and affiliated banker-directors on shareholder value are similar; both types of

bankers have a positive effect on shareholder value.

The paper proceeds as follows: Section 2 motivates the study. Section 3 presents

the data and the summary statistics. Section 4 studies the acquisition activity and types of

acquisitions. Section 5 analyzes the shareholder wealth effects of acquisition decisions in

the presence of a banker on an acquirer's board of directors. Section 6 concludes.

2. Motivation

Banks play a key role in providing advisory services during acquisitions. As advisors,

they use their information gathering capabilities to calculate the reservation price for the

target firms, to evaluate the potential gains from synergies between operations of

acquirers and targets, and to analyze the risks associated with the merger transactions. It

is often discussed that as experts in information gathering and processing, banks would

be able to mitigate information problems by screening out bad investment proposals and

selecting value-enhancing investment projects (Boyd and Prescott, 1989; Diamond,

1991). If that is the case, advisory services provided by banks should help companies to

engage in good acquisitions that would contribute to the shareholder value.

But what happens if the advising bank has at the same time a lending relationship with the acquiring company?[4] The advice provided by a lending bank might not serve the best interests of the shareholders of the acquiring companies owing to the embedded conflict of interest among shareholders and creditors (Jensen and Meckling, 1976). For example, shareholders would prefer the company to undertake acquisitions that increase the risk of the company such as non-diversifying acquisitions and acquisitions of high-growth targets, because they can capture the upside benefits of these acquisitions, while they are shielded from large losses associated with downside risks. By contrast, risky debt benefits from a reduction in the probability of default, and creditors would prefer acquisitions that provide coinsurance benefits.[5] Accordingly, creditors would favor an acquisition that diversifies that firm's operations in order to decrease the volatility of firm's cash flows and enhances the value of the debt claims. In the extreme case, when an acquiring company is near financial distress, the advising bank might have a self-interest to complete an acquisition that is unattractive as an investment, but would help access to free cash flow from the acquired company. As a result, advisory banks could compel the firms to engage in acquisitions that might be detrimental to shareholder value if they also finance the firm's operations. The call options pricing model (Black and Scholes, 1973) demonstrates that adoption of projects that reduce the firm risk (variance

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[4] In some instances, the lending relationship is established automatically during the course of the acquisition as banks provide the requisite financing to the acquirer in addition to their advisory services. For example, advisory banks may provide bridge financing that would allow the acquirer to "buy now and pay later," or they may ultimately finance the acquisition by issuing securities or securing loan agreements. In other instances, companies choose to work with banks that have already extended loans to them. In fact, implicit or explicit promises to finance the merger transactions affect the odds that a bank will be hired to provide advisory services. Allen, Jagitani, Peristiani and Saunders (2004) show that if the acquiring firm has a lending relationship with a commercial bank, then the acquirer is more likely to utilize that bank as its financial advisor.

[5] Coinsurrance effect refers to the situations when firms with imperfectly correlated earnings combine and derive a combined earnings stream that is less volatile than either of the individual firm's earnings stream.

of cash flows) may adversely affect shareholders at the expense of debt-holders. Supporting evidence for acquisitions is provided by Galai and Masulis (1976), who illustrate that in a non-synergistic merger, the increase in bondholder wealth comes from a decrease in stockholder wealth.

In addition to the conflicts between shareholders and creditors, shareholder value for acquiring firms could also shrink due to conflicts of interest between the shareholders and the CEO if CEOs pursue their own personal objectives during mergers. For example, managers might have empire building motives, and in order to assure the continuity and growth of the firm they might try to enter new lines of businesses and diversify excessively (Donaldson and Lorsch, 1983). In line with the empire-building argument, Schoar (2002) shows that in diversifying acquisitions, productivity increases in acquired plants, but the productivities of the existing plants of the acquirer decline, and the net effect is a decline in productivity. Besides empire building motives, managers of acquiring companies might be interested in diversifying their human capital risk. Since the risk associated with a CEO's income is closely linked to firm risk through profit-sharing schemes, bonuses, and stock options granted, she would have a strong interest in decreasing the volatility of firm's earnings. Amihud and Lev (1981) show that CEOs find it beneficial to engage in diversifying acquisitions in order to decrease their undiversifiable employment risk (also see Amihud and Kamin, 1979; Lloyd, Hand, and Modani, 1987, Amihud et. al., 1991). Such mergers would only create a cost for shareholders without any benefits, because shareholders themselves can achieve their desired level of risk through portfolio diversification.

As discussed above, shareholders of the companies suffer from a multitude of conflicts of interests during mergers. Both shareholder-creditor conflicts and shareholder-manager conflicts might translate into losses in shareholder value for the acquiring firms. Furthermore, in acquisitions that are susceptible to both types of conflicts, the negative effects on shareholder value might be amplified. The free-cash flow hypothesis (Jensen, 1986), which predicts that firms with abundant cash flows are more likely to engage in value-destroying acquisitions, rather than returning excess cash flows to shareholders (also see Lang, Stulz, and Walking, 1991). Bharadwaj and Shivdasani (2001) show that the acquisitions financed by bank debt are similar to acquisitions financed by financial slack: They are equally likely to involve diversifying acquisitions. The evidence presented in these studies hints that the CEOs and creditors have similar interests in acquisitions, which might not be value-enhancing for shareholders.

The core corporate governance mechanism to mitigate these conflicts during acquisitions and preserve shareholder value is the monitoring done by the board of directors of the acquiring company. Since the board directly participates in merger decisions either by advising or by voting, a well-functioning board would have the ability to initiate acquisitions that are valuable to the shareholders and also to prevent acquisitions that are detrimental. Clearly, some boards would be more able to do so. When it comes to alleviating the conflicts between CEO and shareholders, boards that are independent of the CEO influence would be more empowered to act on behalf of the shareholder. Boards that have representatives from the creditor community, on the other hand, might be more inclined to protect creditor interests.

To summarize, the decision to undertake an acquisition can be described as an agency problem between the CEO of the corporation and the shareholders plus a conflict of interest between shareholders and creditors. In principle, monitoring performed by the board of directors of the company could alleviate these problems. When the CEO brings an acquisition proposal to the attention of the board, the board has a fiduciary duty to decide for acquisitions that would enhance shareholder value and to decide against opportunistic acquisitions by the CEO. However, if a representative from the creditor community – a banker-director, is present on the board of directors of the company, the board may have an inclination to protect the interests of the creditor community. In such an instance, the interests of the banker-director and the CEO would be aligned, and would diverge from the interests of the shareholders in the sense that both would prefer acquisitions that diversify the risk of the company.

3. Data and Summary Statistics

3.1. Acquisition Sample

The sample consists of all completed acquisitions undertaken by the 403 non-financial companies that belong to the S&P 500 Index with announcement dates and effective dates between January 1, 2002, and December 31, 2004. The acquisitions are identified as those in the domestic Mergers and Acquisitions database of Securities Data Company, and include both public and private targets.[6] There are a total of 847 acquisition observations (Table 1). Of these 847 acquisitions, 190 (22.43 percent) involved an acquirer that was utilizing the services of at least one commercial bank executive on its

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[6] The acquisitions that are classified as "repurchases" in the ADC M&A database are excluded from the sample (354 deals).

board of directors at the time of the acquisition, and of these 190 transactions 83 (9.80 percent of the total) had an affiliated banker-director (creditor) on their boards.

Table 2 reports the means of the acquisition characteristics for the entire sample of 847 acquisitions and for the sub-samples stratified by banker-director presence on an acquiring company's board of directors. In Panel A, companies with at least one commercial banker on their boards are compared to the companies with no commercial banker on their boards, irrespective of their affiliation status. In Panel B, comparisons are made with respect to whether there is an affiliated banker on the board or not.

The results presented in Panel A indicate that acquirers that have a bank executive on their boards are relatively larger and have lower market-to-book ratios. They also hold more debt. There are no significant differences in the stock market returns among the two groups of acquirers; however, acquirers with a banker-director have more volatile stock returns. The two groups do not differ in terms of managerial ownership.

One observation is that a banker's presence on an acquirer's board is more common when acquirers have relatively low financial slack. The ratio of cash and marketable securities to total assets is 16 percent when there is no commercial banker on board as opposed to 7 percent when there is banker presence on an acquirer's board. Despite the significant differences in how much financial slack the acquirers have, the method of payment for the acquisition is not different among firms those have a banker on their boards and those who do not. 31.6 percent of the acquisitions that were undertaken when a banker was present on a board were entirely financed by cash. The ratio of acquisitions that were entirely financed by cash was 32 percent when there was

no commercial banker on the board of the acquirer. The differences in the amount of debt in capital structure may reconcile the above results. On average, a company with a commercial banker on its board holds significantly more debt (23.1 percent of total assets) than a company with no commercial banker on its board (19.2 percent of total assets).

In Panel B, the summary statistics and the mean comparison tests are provided for firms with and without an affiliated banker-director present on their boards. The results are similar to the ones presented in Panel A. The firms with a banker-director have significantly more debt and less financial slack and are less volatile.

3.2 Banker-director Classification

Companies included in the Standard and Poor's (S&P) Index in 2002 form the sample for this study. Since the main objective is to investigate whether bank executives perform a monitoring duty when they obtain a directorship on the board of a non-financial company, I exclude financial companies from the sample, leaving 403 companies[7]. I follow the board and financial characteristics of these companies between 2002 and 2004. The final sample size is thus 1209 firm-years.

I hand-collect information on individual director characteristics for companies included in the sample, using company annual reports and proxy statements filed with the Securities and Exchange Commission prior to the annual shareholder meetings. Annual reports list the names of members of the board for a given year, and proxy statements

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[7] During the sample period, AT&T Wireless was acquired by Cingular, Gillette merged with P&G, and Sears merged with K-Mart. I excluded AT&T Wireless, Gilette and K-Mart from the sample.

contain the biographies of board members.[8] From the director biographies, I identify

whether the primary employer of a director is a commercial bank ("banker-directors").

For a financial institution to be categorized as a commercial bank, I require that it is

included in the Federal Deposit Insurance Company list of U.S. chartered commercial

banks. Proxy statements provide detailed information on the employment histories of

directors, enabling me to identify the years that the director was employed at the bank.

Among other key information I obtain on the structure of boards are the number of board

members, the number of insiders,[9] and the tenures of the board members. These are the

standard control variables that are included in many empirical studies of boards of

directors.

To categorize banker-directors into "affiliated" and "unaffiliated," I need

information on creditors of the companies in the sample. I utilize the Reuters/Loan

Pricing Corporation (LPC) Dealscan database to obtain information on loans initiated

over the last two decades. The database is the most comprehensive and up-to-date source

for bank loan market data[10], and contains detailed information for 139,000 stand-alone

and syndicated loans and high-yield bonds dating back to 1988, and selected coverage

back to 1981. The database records the name of the borrower; the names of all banks that

were included in the lending syndicate at the time of the loan origination; the loan

contract date; the amount, maturity, type, and purpose of the loan; and information on the

price and non-price terms of the loan contract.

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[8] By regulation public companies have to disclose the employment histories of their board members and
nominees for the previous five years. In general, companies release the employment histories of their
directors for a much longer time, starting from their initial employments.
[9] Company employees (CEO, CFO, etc.), former employees, relatives of the employees, founders of the
company, and relatives of founders
[10] See Carey, Post, and Sharpe (1998) for more detailed description of the Dealscan database.

An affiliated banker-director is defined as an executive of a bank that has extended at least one loan to the company over the previous five years as a sole lender, or as a lead arranger in a syndicate. I require the affiliated banker-director to be employed at one of the lead banks in the syndicate, because the ex-ante due diligence and the ex-post monitoring of a loan is delegated to the lead bank within a syndicate. If there is no lending relationship over the previous five years between a company and a bank where the director is employed, the director is classified as an unaffiliated banker-director. The database updates its records to account for bank mergers, so that banker-directors are matched correctly with banks that their parent firms acquire. I also cross-check the bank merger dates to eliminate any mis-recordings.

4. Banker-Directors and Acquisition Activity

Do firms engage in more acquisitions if they have bankers serving on their boards?

It has been argued in the literature that creditors may influence companies to engage in excessive acquisition activity (references). This section examines whether the presence of a banker on the board of directors of a company has any effects on the probability that the company would engage in an acquisition, and on the frequency of acquisitions. The acquisition activity is measured in three ways:

i. An indicator variable that equals one if the firm undertook at least one acquisition between 2002 and 2004 (acquisition dummy variable);

ii.   The number of acquisitions done by the company between 2002-2004

(acquisition count); and

iii.   The ratio of the acquisition value to the firm size (acquisition relative value).

Table 3 summarizes the acquisition activity for the 403 firms in the sample between 2002 and 2004 (1209 firm-year observations). Univariate statistics do not reveal any increase in acquisition activity when a banker serves on a company's board (Table 1, Panel B). If anything, the presence of a commercial banker (affiliated, or unaffiliated) is associated with less acquisition activity. During 2002-2004, companies with no banker-director on their boards engaged in 0.63 acquisitions amounting to 6 percent of their total assets. On the other hand, companies with at least one banker-director on their boards engaged on average in 0.49 acquisitions amounting to 3 percent of their total assets. Comparisons between affiliated banker-director presence reveal a similar pattern. Companies with no affiliated banker-director on their boards engaged in 0.60 acquisitions amounting to 5 percent of their total assets. Companies with an affiliated banker-director on their boards engaged in fewer acquisitions: 0.51 acquisitions amounting to 3 percent of their total assets. However, the differences in means for affiliated banker-director presence are not statistically significant.

Next, I analyze the relation between banker-director presence and the intensity of acquisition activity within a multivariate setting, controlling for the other possible determinants of acquisition activity: Size, market-to-book ratio, cash ratio, capital expenditures ratio, leverage ratio, shareholder rights, and managerial incentives. Acquisition activity is measured by the ratio of the total acquisition value in a given year

to the firm's total assets. Firm size is measured by the logarithm of net sales. Cash ratio is the amount of cash and marketable securities scaled total assets. Leverage ratio is total debt (short-term plus long-term debt) scaled by total assets. Shareholder rights are proxied by the governance index (G-index), which equals the number of governance provisions a firm has (Gompers, Ishii, and Metrick, 2003). Managerial incentives are proxied by the executive ownership of firm's stock. All regressions control for self-selection, following the Heckman (1978) procedure.

The results from the multivariate analysis of acquisition activity are consistent with those from univariate analysis. Table 4 reports the results when the acquisition activity is measured as the ratio of acquisition value to the firm's total assets.[11] The presence of a commercial bank executive on board is associated with less acquisition activity. The coefficient on the banker-director dummy is statistically and economically significant at 0.05.

Do firms engage in diversifying acquisitions with increased frequency if they have bankers serving on their boards?

The previous section showed that a banker's presence on board of directors does not lead to excessive acquisition activity. However, one may argue that even though creditor representation on a board does not lead to more acquisitions, once an acquisition decision is made, it may be more value-destroying for the shareholders. In this section, I analyze whether a banker's presence on a board is correlated with more diversifying acquisitions.

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[11] Similar results are obtained when acquisition activity is measured with an acquisition dummy, or with an acquisition count.

I look at diversification decisions, because it had been widely argued in the literature that diversifying acquisitions are value-destroying (see Morck, Shleifer, and Vishny, 1990). As has been discussed in the motivation section, creditors are expected to be more in favor of diversifying acquisitions, which would reduce the overall risk of the company. In line with this prediction, Bharadwaj and Shivdasani (2001) show that the acquisitions financed by bank debt are similar to acquisitions financed by financial slack:[12] they are equally likely to involve diversifying acquisitions.

I define an acquisition to be "diversifying" if the two-digit SIC code for a target company is different from that of an acquiring company. Of the 847 acquisitions undertaken by the sample companies between 2002 and 2004, 45.3 percent are diversifying (see Table 2). As predicted, the ratio of diversifying acquisitions are higher at 47.9 percent when there is a banker on a board, and 53 percent when there is a creditor on a board, but the differences are not statistically significant.

In Table 5, I analyze the correlation between banker presence and diversification decisions within a multivariate framework. The dependent variable is a an indicator variable that takes the value "one" if the two-digit SIC code for a target company is different from that of an acquiring company. The effect of commercial bankers, unaffiliated bankers, and affiliated bankers are estimated individually because the regressions control for sample selection. In Column 1, I estimate the effects of the commercial banker presence without differentiating between bankers who are the actual

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[12] The free-cash flow hypothesis (Jensen, 1986) predicts that firms with abundant cash flows are more likely to engage in value-destroying acquisitions, rather than returning excess cash flows to shareholders (also see Lang, Stulz, and Walking, 1991).

creditors of the acquiring companies and bankers who are not. The results indicate that when a company utilizes the services of a commercial banker on its board, it undertakes acquisitions that diversify its acquisitions with a higher probability (coefficient=0.536). Column II presents the results for the effects of unaffiliated commercial bankers: The presence of an unaffiliated banker is associated with more diversification activity (coefficient=0.495). Finally Column III presents the results for affiliated banker-directors. Unlike unaffiliated bankers, affiliated banker-directors are not associated with more diversification activity. The coefficient on the affiliated banker dummy is insignificant at 0.283.

The results from the analyses in this section can be summarized as follows: Despite the conflicts of interests between the shareholders and creditors of a company, a creditor's presence on a company's board of directors does not lead to excessive acquisition activity or to more diversification, which may distort shareholder value.

5. Banker Presence on Boards and Shareholder Wealth Effects of Acquisition Activities

This section discusses the effects of creditor presence on boards on shareholder value within an event study methodology. I calculate the abnormal stock market returns around acquisition announcement dates and test whether the presence of bankers on boards of directors of the acquiring companies matter.

To calculate the abnormal stock returns associated with the acquisition announcements, I use the Eventus software. For each acquisition announcement as identified in the SDC database, a single-factor market model regression is computed over

the period that starts 210 days prior to the announcement and ends 60 days before the announcement:

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it},$$ (1)

where R_{it} is the return on common stock of firm i on day t, and R_{mt} is the return of the CRSP's equally-weighted market index for day t. This index is composed of every security on the NYSE, AMEX, and NASDAQ. The parameter βi measures the sensitivity of R_{it} to the movements in the market index. Given this market model, the abnormal return for stock I on day t (A_{it}) is calculated as the residual from the predicted value:

$$A_{it} = R_{it} - (a_i + b_i R_{mt}),$$ (2)

where a_i and b_i are the ordinary least squares estimates of α_i and βi respectively. The cumulative abnormal return (CAR) over the period T_1, T_2 is

$$CAR[T_1, T_2] = \sum_{i-1}^{N} \sum_{t=T_1}^{T_2} A_{it}$$ (3)

CARs calculated over alternative event windows are the main variable used to measure the shareholder wealth effects surrounding the acquisition announcements in this study.

The test statistics are calculated following Patell (1976), which is a standardized abnormal return test. Under the null hypothesis, each A_{it} has mean zero and variance $\sigma_{A_{it}}^2$. The maximum likelihood estimate for the variance is

$$s^2_{A_{it}} = s^2_{Ai}\left[1 + \frac{1}{M_i} + \frac{(R_{mt} - \overline{R_{mEst}})^2}{\sum\limits_{k=E_1}^{E_2}(R_{mk} - \overline{R_{mEst}})^2}\right], \qquad (4)$$

where $s^2_{A_i} = \dfrac{\sum\limits_{k=E_1}^{E_2} A^2_{it}}{M_i - 2}$.

R_{mt} is the observed return on the market index on day t, $\overline{R_{mEst}}$ is the mean market return over the estimation period, and M_i is the number of non-missing trading days over the interval E1,E2 used to estimate the parameters for firm i. The standardized abnormal return would then be defined as

$$SAR_{it} = \frac{A_{it}}{s^2_{A_{it}}} \qquad (5)$$

Under the null hypothesis, SAR_{it} follows a Student's t distribution with M-2 degrees of freedom.

Univariate Analysis

In Table 6, I report the cumulative abnormal returns (CARs) for the full sample and for cross sections of the sample based on banker presence on board of directors of the acquiring company. The CARs are calculated over four different announcement periods:

(i)   CARs from day −1 to day 0,

(ii)   CARs from day −1 to day +1,

(iii)   CARs from day –1 to day 30,

(iv)   CARs from day –7 to day 7.

The first two periods (i) and (ii) quantify the initial shareholder reaction to the acquisition announcements, and the last two periods (iii) and (iv) intend to quantify the shareholder reaction to the acquisition announcements in the longer-term.

The results for the full sample of acquisitions reveal that the initial shareholder reaction to the acquisition announcements is insignificant. The CARs average at –0.11 percent on the announcement days, and at –1.79 percent for the announcement months. The negative returns for acquirers following the acquisition announcements are in line with the previous findings (Andrade, Mitchell and Stafford, 2001).

The main point of interest is the differences in cumulative abnormal returns when there is a banker on the board of an acquirer and when there is not. The last three columns in the tables test for the differences in the mean CARs. In Panel A, the data are stratified according to the commercial banker presence on a board, without differentiating between creditors and non-creditors. The results show that on the day of the acquisition, the average abnormal return is <u>positive</u> at 0.23 percent for the acquirers that have a commercial bank executive serving on their board of directors. The average abnormal return on the day of the acquisition for acquirers with no banker presence on their boards is negative at –0.20 percent. The difference in means is significant at five percent. During the two weeks surrounding the acquisition decision, the acquirers with a banker-director have an average abnormal return of –0.31 percent, and the acquirers with no banker-director have an average abnormal return of –1.37 percent. The difference is

significant at ten percent. Finally, during the month of the acquisition, acquirers with a banker-director have an average abnormal return of –1.24 percent, while acquirers with no banker-director have a more negative average abnormal return of –1.94 percent. However, the difference in means is not significant for the one-month window.

In Panel B, the data are stratified according to the creditor presence on a board. These are the banker-directors that would have the severest conflicts of interest when voting on the acquisition decisions. The results show that on the day of the acquisition, the average abnormal return is <u>positive</u> at 0.52 percent for the acquirers that have a creditor serving on their board of directors. The average abnormal return on the day of the acquisition for acquirers with no creditor presence on their boards is negative at –0.17 percent. The difference in means is significant at one percent. During the two weeks surrounding the acquisition decision, the acquirers with a creditor serving on their boards have zero average abnormal return, and the acquirers with no creditor on their boards have an average abnormal return of –1.28 percent. The difference is significant at five percent. Finally, during the month of the acquisition, acquirers with a creditor serving on their boards have zero average abnormal return, while acquirers with no banker-director have a more negative average abnormal return of –1.92 percent. Again, the difference in means is not significant for the one-month window.

Finally, the data are stratified according to the investment banker presence on a board in Panel C. The investment bankers serve as a control group in the study. These directors are the executives of stand-alone investment banks that do not engage in any lending, and their services would be in terms of financial advice during the acquisitions, and they would not be in conflict with the shareholders as a creditor would be at the time

of the acquisition decision. The results form the comparison of mean tests indicate that there are no differences in cumulative abnormal returns for acquirers that have an investment banker on their boards and for acquirers that do not have an investment banker on their boards.

The results from the univariate analyses show that the positive effects of banker presence on boards are associated with commercial banks, and mostly with commercial banks that are the creditors of the acquiring companies, despite the feared conflicts of interest between the shareholders and creditors.

Multivariate Analysis

In this section, I perform a multivariate analysis of the cumulative abnormal returns, controlling for the variables that potentially influence the shareholder wealth effects surrounding the acquisition announcements. The main equation of interest is

$$Y_i = \beta_0 + \beta_1 X_i + \beta_2 D_i + \varepsilon_i ,$$ (6)

where Y_i is the cumulative abnormal return for firm i, X_i is the set of firm-specific and deal-specific control variables that influence abnormal returns, and D_i is a dummy variable indicating the presence of a bank executive on the company's board of directors.

Control Variables

The first set of variables control for the acquirer firms' characteristics and include the acquirer size, growth opportunities, leverage ratio, and stock returns. Firm size is defined as the natural logarithm of the net sales of the acquirer. I include firm size as a

control variable, because it has been shown that the shareholder reaction to announcements is greater for smaller firms (Bajaj and Vijh, 1995). Growth opportunities is defined as the market-to-book ratio. Leverage ratio is measured as total debt over total assets of the company. Finally, the performance of the acquiring company is measured by the stock return over the year preceding the acquisition activity.

The second set of control variables relates to the deal-specific characteristics: The method of payment, and whether the acquisition is diversifying or not. I include the method of payment (stock versus cash deal), because there is empirical evidence that cash offers are characterized by insignificant abnormal returns, whereas acquisitions financed by stock are characterized by significantly negative returns (Travlos 1987; Wansley, Lane and Yang, 1987; Franks, Harris and Mayer, 1988). The method of payment is specified by an indicator variable that takes the value one if the acquisition deal is entirely financed by cash and zero otherwise. The regressions also include an indicator variable that equals one if the primary industry of the acquiring company as specified by the 2-digit SIC codes is different than that of the target company.

The last set of control variables proxy other governance mechanisms that may influence the shareholder wealth and include managerial equity ownership at the acquiring company, governance index, and board characteristics. Datta, Iskandar-Datta, and Raman (2001) document a strong positive relation between acquiring managers' equity-based compensation and merger performance. Also, Amihud, Lev, and Travlos (1990) show that in corporate acquisitions, the larger is the managerial ownership

fraction of the acquiring firm, the more likely is the use of cash financing.[13] The

managerial ownership is measured by the percentage of common stock held by an

acquiring company's management. The overall corporate governance quality of the

acquirer is proxied by the G-index. The board characteristics that enter the analysis

include the board size and the ratio of independent directors on an acquirer's board of

directors. Finally, all regressions control for year and industry effects.

5.2.1. Self-Selectivity Model

The primary variable of interest in equation (1) is the indicator variable for the

presence of a bank executive on an acquiring company's board of directors. The

potential endogeneity between the banker presence on an acquirer's board and

shareholder wealth effects as summarized by the cumulative abnormal returns would

cause the OLS estimations of equation (1) to be inconsistent. The main concern for

endogeneity in this study arises from the fact that companies self-select themselves into

utilizing a bank executive on their boards, and at the same time the factors that determine

the banker presence on a board of an acquirer are correlated with the factors that

determine the acquirer CARs.

To account for the self-selection problem, I use the self-selectivity model

(Heckman, 1978). The empirical model is summarized by the following system of

equations:

$$Yi = \beta_0 + \beta_1 X_i + \beta_2 D_i + \varepsilon_i \qquad (7a)$$

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[13] The rationale is that CEOs do not want to dilute their control. According to the free cash flow hypothesis (Jensen, 1986), CEOs that value control will prefer to finance merger activities by cash or debt rather than issuing new stock, which would dilute their holdings and increase the risk of losing control.

$$D_i^* = \delta Z_i + u_i \qquad\qquad (7b)$$

$$D_i = 1 \quad \text{if} \quad D_i^* > 0$$

$$D_i = 0 \quad \text{if} \quad D_i^* < 0$$

Y_i is the cumulative abnormal return for firm i, X_i is the set of firm-specific and deal-specific control variables that has been listed formerly. D_i is an endogenous dummy variable indicating whether the acquirer had a bank executive serving on its board when an acquisition announcement was made. The binary decision to employ a bank executive on board of directors is modeled as an outcome of an unobserved latent variable, D_i^*. Z_i is a set of characteristics that affect the acquirer's decision to have a banker-director. The individual error terms, ε_i and u_i, are assumed to have a bivariate normal distribution:

$$\varepsilon_i \sim N(0,\sigma)$$

$$u_i \sim N(0,1)$$

$$\mathrm{corr}(\varepsilon_i, u_i) = \rho .$$

The parameters of the model are estimated by full information maximum likelihood method (Maddala, 1983; Greene, 1980; Greene, 1995a).

Table 7 presents the results from the multivariate estimation. The observed CARs and banker-presence are endogenous outcomes, as the p-values for the test of independent equations indicate; thus the self-selectivity model is the right model to

employ in analyzing the association between banker presence on boards and acquisition activity outcomes.

I estimate the model for short-term (Panels A, B and C) and for long-term cumulative abnormal returns (Panel D). In Panel A, the dependent variable is the abnormal returns measured on the day of the acquisition announcement – CAR(-1,0). In Column 1, I analyze the effects of commercial bank presence on boards in general, without differentiating between a creditor banks and non-creditor banks. The results indicate that the presence of a commercial banker on the board of an acquirer is associated with a 0.03 points increase in the abnormal returns on the day of the acquisition announcement, and this increase is significant at the 5 percent level. Given that the mean abnormal return for the announcement day is –0.11 percent for the full sample of acquisitions, commercial bank presence on board is associated with favorable shareholder reaction to an acquisition decision. Among other variables that affect the shareholder reaction are the executive ownership of the firm's common stock and the ratio of independent directors. Both variables affect shareholder returns positively, as predicted.

The results reported in Column 2 and Column 3 analyze the effects of non-creditors (unaffiliated banker-directors) and creditors (affiliated banker-directors) respectively. We see that both types of bankers affect the shareholder wealth following acquisition announcement similarly. The coefficients on the indicator variables for banker presence are almost identical at 0.03 and are significant at the 1 percent level.

Finally in Column 4, I estimate the model for the presence of an investment banker on acquirers' board of directors. Investment bankers, unlike commercial bankers, are free of conflicts of interests with the shareholders, as they are not creditors, or have the potential to become creditors in the future.[14] The results indicate that the shareholder reaction to the acquisition announcements are more negative when there is an investment bank executive serving on a company's board.

The results for event windows (-1,1) and (-7,7) provide additional evidence for the effect of banker-directors on short-term shareholder returns following acquisition announcements, and are qualitatively and quantitatively similar (see Panels B and C).

In Panel D, the dependent variable is the longer-term cumulative abnormal returns measured over the month following the acquisition announcement – CAR(-1,30). As before, Column 1 analyzes the effects of commercial bank presence on boards in general, without differentiating between a creditor banks and non-creditor banks. The results are similar to the former findings with respect to short-term shareholder reaction- the presence of a commercial banker on the board of an acquirer is associated with an increase of 0.16 points in the cumulative abnormal returns over the one-month period following the acquisition announcements, and this increase is significant at the 1 percent level. The results reported in Column 2 and Column 3 analyze the effects of non-creditors and creditors respectively. Once more, we see that both types of bankers affect the shareholder wealth following acquisition announcement similarly. Unaffiliated banker presence is associated with an increase of 0.15 points, and creditor presence is

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[14] The investment banks are pure investment banks, and do not include the bank holding companies that give commercial banking and investment banking services at the same time.

associated with an increase of 0.19 points in cumulative abnormal returns. Finally, mimicking the results from the analysis of the initial-day abnormal returns, investment bank presence on the board of directors of acquiring companies are associated with negative wealth affects during the one-month period following the acquisition announcements.

The results find do not find any evidence for the conflicts of interest between the creditors and shareholders resulting in value-destroying acquisition decisions when a creditor is represented on the board of directors. If anything, creditors seem to act in a prudent manner and protect the shareholder interests when deciding on acquisitions, and shareholders value the presence of a representative from the creditor community. Moreover, the negative shareholder reaction to an acquisition announcement when there is an investment banker on board indicates that shareholders value the presence of commercial bankers, including the creditors of the companies they own beyond any other financial expert that may provide expertise to the management about investment decisions. The added value of the commercial banks is possibly due to the monitoring role they perform when they serve on a board of directors in order to protect the value of their claims with the company.

5.2.2 Ordinary Least Squares Estimation

The previous section employed a self-selectivity model based on the observation that the sample firms have self-selected themselves into the decision to utilize the services of a bank executive on their board of directors. If the variables that determine the banker

presence on a company's board are correlated with that company's CARs following an acquisition activity, then ordinary least squares will yield biased estimates.

However, it may also be argued that the factors that determine the presence of bankers on corporate boards are already incorporated into expectations and therefore should not be a part of the stock price reaction. In that case, the ordinary least squares (OLS) estimation would give unbiased estimates. In Table 8, I present the results from the OLS estimation, where the regressions are clustered at firm level.

Each column reports the results for a different event window. The results n Columns I, II and III show that the presence of an affiliated banker-director on a company's board is associated with a significant one percent increase in the cumulative abnormal returns over the short-term event windows [-1,0], [-1,1] and [-7,7] respectively. The presence of unaffiliated commercial bankers and investment bankers, however, has no significant impact on cumulative abnormal returns following an acquisition announcement.

Column IV presents the results for the long-term event window: [-1,30]. When OLS is employed as the estimation method, there is no significant relationship between the affiliated banker-director presence and shareholder wealth, and a negative relationship between unaffiliated banker-director presence and shareholder wealth following acquisition announcements.

The results from the OLS analysis should be taken by precaution. The tests for independence of equations (Equations 7a and 7b) in the self-selectivity model were rejected at the one percent level (see Table 7), pointing to a strong endogeneity between

cumulative abnormal returns following acquisition announcements and banker presence on boards.   Thus, the self-selectivity model is the correct model to use, and the OLS estimation introduces biases to all of the coefficients in the model. The significant negative correlation between the error terms in Equation 7a and Equation 7b (see Table 7) indicate a downward bias for the coefficients belonging to the banker-director indicator variables in the ordinary least squares estimation. We would expect the coefficients in the OLS model to be lower than their unbiased estimates. The comparison of the coefficients belonging to the banker-director indicator variables in the self-selectivity model (Table 7) and in the OLS model (Table 8) reveals that the coefficients in the unbiased self-selectivity model are much larger and more significant than the biased estimates in the OLS model.

5.2.3   Saxonhouse (1976) Methodology

Saxonhouse (1976) warns that regressing estimated parameters on a set of independent variables would give inefficient, albeit unbiased estimates of the coefficients of the independent variables. He suggests that the problem of heteroscedasticity in such regressions using estimated dependent variables could be confronted by weighting each observation on all variables by the inverse of the estimated standard error of the dependent variable.

The regressions in Table 9 present the results from the Saxonhouse (1976) estimation. All of the variables entering the regression model, including the constant, are multiplied by the inverse of the estimated standard error of the corresponding cumulative abnormal return (the dependent variable), and an ordinary least squares estimation is

performed using the rescaled variables. Consistent with the OLS estimation (Table 8) the regressions are clustered at the firm level. The Saxonhouse estimation yields coefficients similar to the OLS coefficients in direction and magnitude, however the coefficients on the banker-director dummies lose their significance.

The loss of significance could be explained by the biases introduced by the OLS estimation (see section 5.2.2). The self-selectivity model illustrated that the banker-director presence and the cumulative abnormal returns following acquisition announcements are endogenous. However, once the banker-director indicator variable is rescaled using the Saxonhouse methodology, the self-selectivity model is no longer valid because it requires the endogenous selection variable to be an indicator variable taking the values zero or one.

An alternative way to alleviate the endogeneity problem is to employ an instrumental variables (IV) estimation. Table 10 presents the results from the IV estimation, where the indicator variable for banker presence on a board (scaled by the inverse of the standard error of the CAR estimate) is instrumented. The instruments for banker-director indicator variables are identical to the variables that enter the selection equation.

The results from the IV estimation establish a significant positive correlation between the presence of an affiliated commercial bank executive on an acquirer's board of directors and the cumulative abnormal returns following acquisition announcements. On the initial day of an acquisition announcement, an acquirer that employs an affiliated banker on its board performs 5 percent higher than an acquirer that does not employ an

affiliated banker on its board (Table 10, Column 1). The positive affect of affiliated banker-directors on cumulative abnormal returns is robust over different event window specifications: The average cumulative abnormal return for the [-1,1] event window is 9 percent higher; the average cumulative abnormal return for the [-7,7] event window is 15 percent higher and the average cumulative abnormal return for the [-1,30] event window is 21 percent higher when an affiliated banker-director is present on an acquirer's board of directors. These percentages are comparable to the ones from the self-selectivity models presented in Table 7.

6. Conclusions

This paper investigates whether the conflicts of interest between the shareholders and creditors lead to value-destroying investment decisions in the presence of a commercial bank executive on the board of directors of a non-financial corporation.

With a sample of 847 acquisition decisions undertaken between 2002 and 2004 by the 403 corporations that were included in the S&P 500 Index, the analyses do not find any evidence for the conflicts of interest between the creditors and shareholders resulting in value-destroying acquisition decisions when a creditor is represented on the board of directors. The presence of a commercial bank executive on a board does not lead to an excessive acquisition activity. The acquirers that utilized the services of a commercial banker on their boards diversify more, but this diversification effect belongs only to the unaffiliated bankers. Affiliated bankers (creditors), on the other hand, are not associated with acquisitions that diversify the company's operations. The analyses of shareholder

wealth effects of acquisition announcements reveal that a banker's presence does indeed improve the shareholder value.

Creditors, when serving on boards of directors, seem to act in a prudent manner and protect the shareholders' interests when deciding on major investments, and shareholders value the presence of a representative from the creditor community. The added value of the commercial banks is possibly due to the monitoring role they perform when they serve on a board of directors in order to protect the value of their claims with the company.

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Table 1. Banker presence on board of directors during acquisitions

The sample includes 847 acquisition deals that were announced and completed between 2002 and 2004, where the acquirer is a non-financial company included in the S&P 500 Index as of end-2002. The deal data are from the SDC database; the financial data are from Compustat and CRSP. The board composition data are from Sisli (2006). An "unaffiliated banker-director" is an executive of a bank with no outstanding loan relationship with the company during the previous five years. An "affiliated banker-director" is defined as an executive of a bank that has extended at least one loan to the company over the previous five years as a sole lender, or a lead arranger in a syndicate.

	Number	Percentage
Number of acquisitions	847	
Executive of a commercial bank serving on the board of directors	190	22.43%
with lending relationship (affiliated)	83	9.80%
with no lending relationship (unaffiliated)	119	14.05%
Executive of an investment bank serving on the board of directors	86	10.15%

Table 2. Descriptive statistics for acquisition deals

The sample includes 847 acquisition deals that were announced and completed between 2002 and 2004, where the acquirer is a non-financial company included in the S&P 500 Index as of end-2002. The deal data are from the SDC database; the financial data are from Compustat and CRSP. An "unaffiliated banker-director" is an executive of a bank with no outstanding loan relationship with the company during the previous five years. An "affiliated banker-director" is defined as an executive of a bank that has extended at least one loan to the company over the previous five years as a sole lender, or a lead arranger in a syndicate. The board composition data are from Sisli (2006). Financial Slack is the sum of cash and marketable securities. Cash Finance is an indicator variable that equals one if the acquisition deal is financed entirely by cash. Acquirer size is the net sales of the acquiring company. Market-to-Book Ratio is the sum of market value of common stock, liquidating value of preferred stock, and book value of total debt to the book value of the total assets. Total Debt is long-term debt plus short-term debt (debt in current liabilities). Prior Stock Market Performance is the stock return measured over the year preceding the acquisition decision. Stock Return Volatility is measured by the standard deviation of monthly stock returns over the previous three years. Diversifying Acquisition refers to the mergers in which the two-digit SIC code for a target company is different from that of an acquiring company. Acquirer Managerial Ownership is the percentage of common stock owned by the management of the company.

Panel A.

	All Acquisitions	Acquisitions when a commercial bank executive is present on board	Acquisitions when a commercial bank executive is not present on board	Hypothesis: Equal Means (Prob>t)
Acquirer Size ($ million)	18,105	21,832	17,025	0.109*
Financial Slack /Acquirer Size	0.139	0.070	0.160	0.000***
Cash Finance	0.319	0.316	0.320	0.920
Acquirer Market-to-Book Ratio	1.915	1.629	1.998	0.000***
Acquirer Total Debt / Assets	0.201	0.231	0.192	0.001***
Acquirer Prior Stock Price Performance	0.092	0.101	0.090	0.784
Acquirer Stock Price Volatility	0.141	0.114	0.148	0.000***
Diversifying Acquisitions	0.453	0.479	0.446	0.422
Acquirer Managerial Ownership	1.485	1.357	1.522	0.636

Panel B.

	All Acquisitions	Acquisitions when an affiliated banker is present on board	Acquisitions when an affiliated banker is not present on board	Hypothesis: Equal Means (Prob>t)
Acquirer Size ($ million)	18,105	15,180	18,423	0.441
Financial Slack /Acquirer Size	0.139	0.082	0.146	0.001***
Cash Finance	0.319	0.349	0.315	0.529
Acquirer Market-to-Book Ratio	1.915	1.816	1.926	0.453
Acquirer Total Debt / Assets	0.201	0.236	0.197	0.019**
Acquirer Prior Stock Price Performance	0.092	0.094	0.092	0.976
Acquirer Stock Price Volatility	0.141	0.114	0.144	0.000***
Diversifying Acquisitions	0.453	0.530	0.445	0.140
Acquirer Managerial Ownership	1.485	0.926	1.545	0.204

Table 3. Banker presence on board of directors and acquisition activity
The table summarizes the acquisition activity for the 403 firms in the sample between 2002 and 2004 (1209 firm-year observations). An "unaffiliated banker-director" is an executive of a bank with no outstanding loan relationship with the company during the previous five years. An "affiliated banker-director" is defined as an executive of a bank that has extended at least one loan to the company over the previous five years as a sole lender, or a lead arranger in a syndicate. "At Least One Acquisition" is an indicator variable that equals to one if the firm undertook at least one acquisition in a given year. "The Number of Acquisitions" refers to the number of acquisitions done by the company in a given year. "Relative Value of Acquisitions" is the ratio of the total value of acquisitions completed in a given year to the total assets measured as of the end of the previous year.

	Commercial bank executive present on board	No commercial bank executive present on board	Hypothesis: Equal Means (Prob>t)
At Least One Acquisition	0.342	0.361	0.565
The Number of Acquisitions	0.488	0.633	0.069 **
Relative Value of Acquisitions	0.030	0.060	0.061 **
	Affiliated commercial bank executive present on board	No affiliated commercial bank executive present on board	Hypothesis: Equal Means (Prob>t)
At Least One Acquisition	0.353	0.356	0.934
The Number of Acquisitions	0.510	0.609	0.335
Relative Value of Acquisitions	0.033	0.056	0.286
	Investment bank executive present on board	No investment bank executive present on board	Hypothesis: Equal Means (Prob>t)
At Least One Acquisition	0.345	0.357	0.784
The Number of Acquisitions	0.521	0.605	0.466
Relative Value of Acquisitions	0.028	0.056	0.239

*, **, *** denote significance at the 10 percent, 5 percent and 1 percent level respectively.

Table 4. Commercial banker presence on board of directors and the relative value of acquisition deals

The table analyzes the acquisition activity for the 403 firms in the sample between 2002 and 2004 (1209 firm-year observations). The dependent variable is the "Relative Value of Acquisitions," which is the ratio of the total value of acquisitions completed in a given year to the total assets measured as of the end of the previous year. An "unaffiliated banker-director" is an executive of a bank with no outstanding loan relationship with the company during the previous five years. An "affiliated banker-director" is defined as an executive of a bank that has extended at least one loan to the company over the previous five years as a sole lender, or a lead arranger in a syndicate. Size is measured by the logarithm of net sales. Market-to-Book Ratio is the sum of market value of common stock, liquidating value of preferred stock and book value of total debt to the book value of total assets. Financial Slack is the sum of cash and marketable securities. Total Debt is long-term debt plus short-term debt (debt in current liabilities). Prior Stock Market Performance is the stock return measured over the year preceding the acquisition decision. Stock Return Volatility is measured by the standard deviation of monthly stock returns over the previous three years. Diversifying Acquisition refers to the mergers in which the two-digit SIC code for a target company is different from that of an acquiring company. Acquirer Managerial Ownership is the percentage of common stock owned by the management of the company. Board size is the logarithm of the number of directors on board of directors. Insiders include company employees (CEO, CFO, etc.), former employees, relatives of the employees, founders of the company, and relatives of founders that serve on the board. All variables are averaged over the previous three years. All estimations include industry effects (48 Fama-French industry dummies) and year effects and are clustered at the firm level. P-values are in parentheses.

Table 4. Commercial banker presence on board of directors and the relative value of acquisition deals (cont'd)

	(1)	(2)	(3)
Banker Dummies			
Banker-director	-0.059***		
	(0.005)		
Unaffiliated Banker-Director		-0.056***	
		(0.005)	
Affiliated Banker-Director			-0.052**
			(0.037)
Control Variables			
Size	-0.010**	-0.011**	-0.010**
	(0.021)	(0.017)	(0.020)
Market-to-book Ratio	0.019***	0.019***	0.018***
	(0.006)	(0.006)	(0.007)
Financial Slack / Assets	0.090	0.095	0.102*
	(0.135)	(0.122)	(0.099)
Capital Expenditures / Assets	-0.072	-0.059	-0.049
	(0.421)	(0.504)	(0.584)
Total Debt / Assets	0.000**	0.000**	0.000*
	(0.055)	(0.041)	(0.102)
Governance Index	-0.001	-0.001	-0.001
	(0.129)	(0.155)	(0.112)
Executive Ownership	0.000	0.000	-0.001
	(0.570)	(0.601)	(0.515)
Board Size	0.082***	0.074***	0.074***
	(0.004)	(0.004)	(0.005)
Ratio of Independent Directors	-0.090	-0.085	-0.095
	(0.159)	(0.175)	(0.146)
Constant	-0.087	-0.071	-0.076
	(0.212)	(0.284)	(0.260)
Year Indicator Variables	Yes	Yes	Yes
Industry Indicator Variables	48 Fama-French	48 Fama-French	49 Fama-French
Observations	1199	1199	1200
Prob > Chi2	0.022	0.022	0.015
rho	0.161	0.134	0.162
sigma	0.162	0.162	0.162
lambda	0.026	0.022	0.026
Test of Independent Equations: P>chi2	0.002	0.007	0.007

Table 5. Commercial banker presence on board of directors and the diversification decisions

The table analyzes the probability that an acquisition activity diversifies the acquirer's business operations. The dependent variable is a an indicator variable that takes the value "one" if the two-digit SIC code for a target company is different from that of an acquiring company. An "unaffiliated banker-director" is an executive of a bank with no outstanding loan relationship with the company during the previous five years. An "affiliated banker-director" is defined as an executive of a bank that has extended at least one loan to the company over the previous five years as a sole lender, or a lead arranger in a syndicate. Size is measured by the logarithm of net sales. Market-to-Book Ratio is the sum of market value of common stock, liquidating value of preferred stock and book value of total debt to the book value of total assets. Financial Slack is the sum of cash and marketable securities. Total Debt is long-term debt plus short-term debt (debt in current liabilities). Prior Stock Market Performance is the stock return measured over the year preceding the acquisition decision. Stock Return Volatility is measured by the standard deviation of monthly stock returns over the previous three years. Diversifying Acquisition refers to the mergers in which the two-digit SIC code for a target company is different from that of an acquiring company. Acquirer Managerial Ownership is the percentage of common stock owned by the management of the company. Board size is the logarithm of the number of directors on board of directors. Insiders include company employees (CEO, CFO, etc.), former employees, relatives of the employees, founders of the company, and relatives of founders that serve on the board. All variables are averaged over the previous three years. All estimations include industry effects (48 Fama-French industry dummies) and year effects and are clustered at the firm level. P-values are in parentheses.

	(1)	(2)	(3)
Banker Dummies			
Banker-director	0.536**		
	(0.017)		
Unaffiliated Banker-Director		0.495**	
		(0.043)	
Affiliated Banker-Director			0.283
			(0.655)
Control Variables			
Size	0.070*	0.068*	0.064**
	(0.007)	(0.006)	(0.015)
Total Debt / Assets	-0.398**	-0.481***	-0.364**
	(0.036)	(0.011)	(0.045)
Financial Slack / Assets	0.208	0.116	0.060
	(0.294)	(0.516)	(0.759)
Market-to-Book Ratio	-0.023	-0.031	-0.037
	(0.400)	(0.276)	(0.211)

	(1)	(2)	(3)
Prior Stock Return	-0.005	-0.008	0.001
	(0.860)	(0.776)	(0.958)
Stock Return Volatility	0.065	-0.055	-0.603
	(0.860)	(0.931)	(0.276)
Governance Index	0.009	0.008	0.009
	(0.348)	(0.433)	(0.360)
Executive Ownership	0.005	0.006	0.005
	(0.412)	(0.349)	(0.381)
Board Size	-0.245	-0.164	-0.197
	(0.107)	(0.214)	(0.249)
Ratio of Independent Directors	-0.369	-0.259	0.171
	(0.339)	(0.496)	(0.581)
Constant	0.216	0.134	0.274
	(0.583)	(0.728)	(0.463)
Year Indicator Variables	Yes	Yes	Yes
Industry Indicator Variables	48 Fama-French	48 Fama-French	49 Fama-French
Observations	841	841	841
Prob > Chi2	0.000	0.000	0.000
rho	-0.593	-0.559	-0.241
sigma	0.496	0.483	0.463
lambda	-0.295	-0.270	-0.112
Test of Independent Equations: P>chi2	0.024	0.051	0.740

*, **, *** denote significance at the 10 percent, 5 percent and 1 percent level respectively.

**Table 6. Comparisons of mean cumulative abnormal returns by banker-director
Presence**

The table presents the mean cumulative abnormal returns around the acquisition announcement
dates. The sample includes 847 acquisition deals that were announced and completed between
2002 and 2004, where the acquirer is a non-financial company included in the S&P 500 Index as
of end-2002. An "affiliated banker-director" is defined as an executive of a bank that has
extended at least one loan to the company over the previous five years as a sole lender, or a lead
arranger in a syndicate. t-values are in italics.

**Panel A. Comparison of mean cumulative abnormal returns by commercial
banker-director presence**

	All Acquisitions	Acquisitions when a commercial bank executive is present on board	Acquisitions when a commercial bank executive is not present on board	Hypothesis: CAR is Equal Across the 2 Portfolios (Prob>F)
	(1)	(2)	(3)	(4)
CAR from day -1 to day 0	-0.11%	0.23%	-0.20%	0.044**
	-0.967	*1.380*	*-1.817**	
CAR from day -1 to day +1	-0.12%	0.21%	-0.22%	0.114
	-0.646	*0.720*	*-1.102*	
CAR from day -1 to day 30	-1.79%	-1.24%	-1.94%	0.496
	-5.922***	*2.390***	*-5.438****	
CAR from day -7 to day 7	-1.14%	-0.31%	-1.37%	0.090*
	-5.646***	*0.960*	*-5.880****	

**Panel B. Comparison of mean cumulative abnormal returns by affiliated commercial
banker-director presence**

	All Acquisitions	Acquisitions when an affiliated banker is present on board	Acquisitions when an affiliated banker is not present on board	Hypothesis: CAR is Equal Across the 2 Portfolios (Prob>F)
	(1)	(2)	(3)	(4)
CAR from day -1 to day 0	-0.11%	0.52%	-0.17%	0.007***
	-0.967	*2.134**	*-1.711**	
CAR from day -1 to day +1	-0.12%	0.48%	-0.19%	0.032**
	-0.646	*1.674**	*-1.224*	
CAR from day -1 to day 30	-1.79%	-0.0061	-1.92%	0.278
	-5.922***	*1.290*	*-5.807****	
CAR from day -7 to day 7	-1.14%	0.0018	-1.28%	0.059*
	-5.646***	*-0.029*	*-5.929****	

*, **, *** denote significance at the 10 percent, 5 percent and 1 percent level respectively.

Table 6. Comparisons of mean cumulative abnormal returns by banker-director presence (cont'd)

Panel C. Comparison of mean cumulative abnormal returns by investment banker-director presence

	All Acquisitions (1)	Acquisitions when an investment bank executive is present on board (2)	Acquisitions when an investment bank executive is not present on board (3)	Hypothesis: CAR is Equal Across the 2 Portfolios (Prob>F) (4)
CAR from day -1 to day 0	-0.11%	-0.34%	-0.08%	0.705
	-0.967	*-1.205*	*-0.624*	
CAR from day -1 to day +1	-0.12%	-0.50%	-0.08%	0.441
	-0.646	*-1.417*	*-0.199*	
CAR from day -1 to day 30	-1.79%	-0.0008	-1.98%	0.153
	-5.922***	*0.150*	*-6.283****	
CAR from day -7 to day 7	-1.14%	-0.011	-1.14%	0.577
	-5.646***	*-1.910**	*-5.316****	

*, **, *** denote significance at the 10 percent, 5 percent and 1 percent level respectively.

Table 7. Commercial bank executive presence on the board of directors and shareholder wealth effects of acquisition announcements - Sample Selection Estimation

The table analyzes the shareholder wealth effects of an acquisition announcement in the presence of a commercial bank executive on the board of directors of an acquiring company. The dependent variable is the cumulative abnormal returns over the defined event window. An "unaffiliated banker-director" is an executive of a bank with no outstanding loan relationship with the company during the previous five years. An "affiliated banker-director" is defined as an executive of a bank that has extended at least one loan to the company over the previous five years as a sole lender, or a lead arranger in a syndicate. Size is measured by the net sales. Market-to-Book Ratio is the sum of market value of common stock, liquidating value of preferred stock and book value of total debt to the book value of the total assets. Financial Slack is the sum of cash and marketable securities. Total Debt is long-term debt plus short-term debt (debt in current liabilities). Prior Stock Market Performance is the stock return measured over the year preceding the acquisition decision. Stock Return Volatility is measured by the standard deviation of monthly stock returns over the previous three years. Diversifying Acquisition refers to the mergers in which the two-digit SIC code for a target company is different from that of an acquiring company. Acquirer Managerial Ownership is the percentage of common stock owned by the management of the company. Board size is the logarithm of number of directors on board of directors. Insiders include company employees (CEO, CFO, etc.), former employees, relatives of the employees, founders of the company, and relatives of founders that serve on the board. All variables are averaged over the previous three years. All estimations include industry effects (48 Fama-French industry dummies) and year effects and are clustered at firm level. P-values are in parentheses.

Table 7. Commercial bank executive presence on the board of directors and shareholder wealth effects of acquisition announcements (cont'd)

Panel A. Cumulative abnormal returns for event window [-1,0]

	(1)	(2)	(3)	(4)
Banker Dummies				
Banker-director	0.030**			
	(0.041)			
Unaffiliated Banker-Director		0.037***		
		(0.000)		
Affiliated Banker-Director			0.033***	
			(0.003)	
Investment Banker-Director				-0.047***
				(0.000)
Control Variables				
Size	-0.002	0.002	-0.001	-0.001
	(0.201)	(0.232)	(0.324)	(0.586)
Total Debt / Assets	0.015	0.014	0.020	0.011
	(0.250)	(0.426)	(0.087)	(0.359)
Market-to-Book Ratio	0.001	0.001	0.000	-0.001
	(0.446)	(0.350)	(0.916)	(0.647)
Cash-only Payment	0.003	0.003	0.002	0.002
	(0.295)	(0.265)	(0.446)	(0.514)
Diversifying Acquisition	0.000	0.002	0.000	0.001
	(0.879)	(0.953)	(0.978)	(0.752)
Stock Return	0.004	0.002	0.004	0.004
	(0.138)	(0.159)	(0.111)	(0.115)
Governance Index	-0.001	0.001	0.000	-0.001
	(0.150)	(0.156)	(0.348)	(0.327)
Executive Ownership	0.002***	0.001***	0.001***	0.002***
	(0.010)	(0.009)	(0.011)	(0.007)
Board Size	-0.006	0.009	-0.005	0.003
	(0.558)	(0.862)	(0.561)	(0.720)
Ratio of Independent Directors	-0.046**	0.019***	-0.020	-0.023
	(0.021)	(0.014)	(0.198)	(0.245)
Constant	0.027	0.018	0.016	0.013
	(0.251)	(0.383)	(0.425)	(0.521)
Year Indicator Variables	Yes	Yes	Yes	Yes
Industry Indicator Variables	Yes	Yes	Yes	Yes

Observations	840	840	840	840
Prob > Chi2	0.018	0.001	0.013	0.000
rho	-0.468	-0.628	-0.405	0.665
sigma	0.035	0.036	0.034	0.036
lambda	-0.017	-0.023	-0.014	0.024
Test of Independent Equations: P>chi2	0.084	0.000	0.069	0.000

*, **, *** denote significance at the 10 percent, 5 percent and 1 percent level respectively.

Table 7. Commercial bank executive presence on the board of directors and shareholder wealth effects of acquisition announcements (cont'd)

Panel B. Cumulative abnormal returns for event window [-1,1]

	(1)	(2)	(3)	(4)
Banker Dummies				
Banker-director	0.040**			
	(0.002)			
Unaffiliated Banker-Director		0.041***		
		(0.002)		
Affiliated Banker-Director			0.048***	
			(0.000)	
Investment Banker-Director				-0.060***
				(0.000)
Control Variables				
Size	-0.003*	-0.003*	-0.002	-0.002
	(0.094)	(0.109)	(0.164)	(0.352)
Total Debt / Assets	0.037**	0.033**	0.042***	0.035**
	(0.039)	(0.079)	(0.007)	(0.029)
Market-to-Book Ratio	0.003*	0.003	0.001	0.001
	(0.088)	(0.116)	(0.316)	(0.625)
Cash-only Payment	0.007**	0.007**	0.006*	0.006*
	(0.042)	(0.044)	(0.098)	(0.058)
Diversifying Acquisition	-0.002	-0.001	-0.001	0.000
	(0.526)	(0.659)	(0.667)	(0.879)
Stock Return	0.005	0.005	0.005*	0.006*
	(0.110)	(0.125)	(0.077)	(0.090)
Governance Index	-0.001	-0.001	0.000	0.000
	(0.277)	(0.302)	(0.555)	(0.641)
Executive Ownership	0.001***	0.001***	0.001***	0.001***
	(0.011)	(0.009)	(0.012)	(0.008)
Board Size	-0.010	-0.004	-0.010	0.001
	(0.369)	(0.739)	(0.341)	(0.887)
Ratio of Independent Directors	-0.038	-0.033	-0.005	-0.007
	(0.122)	(0.164)	(0.819)	(0.786)
Constant	0.037	0.023	0.025	0.017
	(0.178)	(0.380)	(0.319)	(0.481)
Year Indicator Variables	Yes	Yes	Yes	Yes
Industry Indicator Variables	Yes	Yes	Yes	Yes

Observations	840	840	840	840
Prob > Chi2	0.003	0.004	0.000	0.000
rho	-0.530	-0.575	-0.549	0.701
sigma	0.042	0.042	0.042	0.043
lambda	-0.023	-0.024	-0.023	0.030
Test of Independent Equations: P>chi2	0.009	0.004	0.004	0.000

*, **, *** denote significance at the 10 percent, 5 percent and 1 percent level respectively.

Table 7. Commercial bank executive presence on the board of directors and shareholder wealth effects of acquisition announcements (cont'd)

Panel C. Cumulative abnormal returns for event window [-7,7]

	(1)	(2)	(3)	(4)
Banker Dummies				
Banker-director	0.094***			
	(0.000)			
Unaffiliated Banker-Director		0.086***		
		(0.005)		
Affiliated Banker-Director			0.127***	
			(0.000)	
Investment Banker-Director				-0.104***
				(0.000)
Control Variables				
Size	-0.006	-0.005	-0.004	-0.003
	(0.155)	(0.175)	(0.242)	(0.415)
Total Debt / Assets	0.033	0.026	0.043	0.032
	(0.379)	(0.495)	(0.170)	(0.332)
Market-to-Book Ratio	0.005	0.004	0.002	0.000
	(0.228)	(0.328)	(0.684)	(0.905)
Cash-only Payment	0.013**	0.013**	0.009	0.011*
	(0.054)	(0.052)	(0.200)	(0.089)
Diversifying Acquisition	-0.015***	-0.013**	-0.013**	-0.011*
	(0.011)	(0.020)	(0.025)	(0.063)
Stock Return	0.010	0.010	0.011	0.010
	(0.380)	(0.393)	(0.339)	(0.418)
Governance Index	-0.002	-0.002	-0.001	-0.001
	(0.140)	(0.143)	(0.346)	(0.351)
Executive Ownership	-0.001	-0.001	-0.001	-0.001
	(0.469)	(0.493)	(0.332)	(0.490)
Board Size	-0.016	0.001	-0.019	0.011
	(0.497)	(0.958)	(0.400)	(0.574)
Ratio of Independent Directors	-0.098*	-0.078	-0.021	-0.017
	(0.065)	(0.121)	(0.644)	(0.733)
Constant	0.109*	0.069	0.087	0.053
	(0.078)	(0.217)	(0.138)	(0.280)

Year Indicator Variables	Yes	Yes	Yes	Yes
Industry Indicator Variables	Yes	Yes	Yes	Yes
Observations	840	840	840	840
Prob > Chi2	0.000	0.002	0.000	0.001
rho	-0.619	-0.618	-0.680	0.638
sigma	0.092	0.090	0.090	0.090
lambda	-0.057	-0.056	-0.061	0.058
Test of Independent Equations: P>chi2	0.000	0.003	0.000	0.000

*, **, *** denote significance at the 10 percent, 5 percent and 1 percent level respectively.

Table 7. Commercial bank executive presence on the board of directors and shareholder wealth effects of acquisition announcements (cont'd)

Panel D. Cumulative abnormal returns for event window [-1,30]

	(1)	(2)	(3)	(4)
Banker Dummies				
Banker-director	0.160***			
	(0.000)			
Unaffiliated Banker-Director				
		0.151***		
Affiliated Banker-Director		(0.000)	0.194***	
			(0.000)	
Investment Banker-Director				-0.168***
				(0.000)
Control Variables				
Size	-0.005	-0.005	-0.003	-0.002
	(0.456)	(0.475)	(0.685)	(0.789)
Total Debt / Assets	0.015	0.004	0.036	0.022
	(0.816)	(0.957)	(0.505)	(0.699)
Market-to-Book Ratio	0.008	0.006	0.002	-0.002
	(0.224)	(0.330)	(0.732)	(0.725)
Cash-only Payment	0.015*	0.014	0.009	0.010
	(0.100)	(0.118)	(0.305)	(0.313)
Diversifying Acquisition	-0.023***	-0.019*	-0.022**	-0.019**
	(0.018)	(0.060)	(0.027)	(0.064)
Stock Return	0.001	0.000	0.003	0.005
	(0.947)	(0.979)	(0.820)	(0.764)
Governance Index	-0.003	-0.003	-0.002	-0.003
	(0.145)	(0.159)	(0.273)	(0.191)
Executive Ownership	0.002	0.002	0.002	0.003*
	(0.207)	(0.140)	(0.180)	(0.105)
Board Size	-0.042	-0.013	-0.041	0.008
	(0.273)	(0.693)	(0.250)	(0.799)
Ratio of Independent Directors	-0.163***	-0.136	-0.031	-0.028
	(0.078)	(0.121)	(0.669)	(0.741)
Constant	0.188	0.125	0.144	0.101
	(0.031)	(0.118)	(0.077)	(0.190)
Year Indicator Variables	Yes	Yes	Yes	Yes
Industry Indicator Variables	48 Fama-French	49 Fama-French	48 Fama-French	49 Fama-French

Observations	840	840	840	840
Prob > Chi2	0.000	0.000	0.000	0.000
rho	-0.732	-0.735	-0.732	0.714
sigma	0.146	0.141	0.140	0.140
lambda	-0.107	-0.104	-0.102	0.100
Test of Independent Equations: P>chi2	0.000	0.000	0.000	0.000

*, **, *** denote significance at the 10 percent, 5 percent and 1 percent level respectively.

Table 8. Commercial bank executive presence on the board of directors and shareholder wealth effects of acquisition announcements – Ordinary Least Squares Estimation

The table analyzes the shareholder wealth effects of an acquisition announcement in the presence of a commercial bank executive on the board of directors of an acquiring company. The dependent variable is the cumulative abnormal returns over the defined event window. An "unaffiliated banker-director" is an executive of a bank with no outstanding loan relationship with the company during the previous five years. An "affiliated banker-director" is defined as an executive of a bank that has extended at least one loan to the company over the previous five years as a sole lender, or a lead arranger in a syndicate. Size is measured by the net sales. Market-to-Book Ratio is the sum of market value of common stock, liquidating value of preferred stock and book value of total debt to the book value of the total assets. Financial Slack is the sum of cash and marketable securities. Total Debt is long-term debt plus short-term debt (debt in current liabilities). Prior Stock Market Performance is the stock return measured over the year preceding the acquisition decision. Stock Return Volatility is measured by the standard deviation of monthly stock returns over the previous three years. Diversifying Acquisition refers to the mergers in which the two-digit SIC code for a target company is different from that of an acquiring company. Acquirer Managerial Ownership is the percentage of common stock owned by the management of the company. Board size is the logarithm of number of directors on board of directors. Insiders include company employees (CEO, CFO, etc.), former employees, relatives of the employees, founders of the company, and relatives of founders that serve on the board. All variables are averaged over the previous three years. All estimations include industry effects (48 Fama-French industry dummies) and year effects and are clustered at firm level. P-values are in parentheses.

Table 8. Commercial bank executive presence on the board of directors and shareholder wealth effects of acquisition announcements – Ordinary Least Squares Estimation (cont'd)

	(1) CAR(-1,0)	(2) CAR(-1,1)	(3) CAR(-7,7)	(4) CAR(-1,30)
Banker Dummies				
Unaffiliated Banker-Director	-0.0004	0.0005	-0.0061	-0.0225*
	(0.902)	(0.898)	(0.435)	(0.062)
Affiliated Banker-Director	0.0085**	0.0075*	0.0194**	0.0158
	(0.041)	(0.098)	(0.042)	(0.187)
Investment Banker-Director	-0.0032	-0.0044	0.0008	0.0102
	(0.357)	(0.329)	(0.955)	(0.589)
Control Variables				
Size	-0.0012	-0.0022	-0.0046	-0.0037
	(0.389)	(0.185)	(0.161)	(0.507)
Total Debt / Assets	0.0168	0.0390**	0.0482	0.0482
	(0.152)	(0.015)	(0.137)	(0.379)
Market-to-Book Ratio	-0.0002	0.0009	0.0007	-0.0010
	(0.875)	(0.481)	(0.847)	(0.844)
Cash-only Payment	0.0024	0.0058*	0.0101	0.0100
	(0.407)	(0.085)	(0.152)	(0.306)
Diversifying Acquisition	0.0001	-0.0011	-0.0109*	-0.0194*
	(0.975)	(0.728)	(0.075)	(0.060)
Stock Return	0.0041	0.0055*	0.0110	0.0047
	(0.115)	(0.082)	(0.388)	(0.753)
Governance Index	-0.0004	-0.0002	-0.0011	-0.0019
	(0.445)	(0.740)	(0.423)	(0.364)
Executive Ownership	0.0015***	0.0015***	-0.0007	0.0026
	(0.010)	(0.009)	(0.470)	(0.112)
Board Size	0.0002	-0.0013	0.0072	0.0063
	(0.979)	(0.881)	(0.650)	(0.803)
Ratio of Independent Directors	-0.0147	0.0024	0.0032	0.0198
	(0.328)	(0.900)	(0.939)	(0.763)
Constant	0.0049	0.0073	0.0320	0.0483
	(0.782)	(0.740)	(0.514)	(0.461)
Year Indicator Variables	Yes	Yes	Yes	Yes
Industry Indicator Variables	Yes	Yes	Yes	Yes
Observations	840	840	840	840
Prob > F	0.0251	0.0273	0.0138	0.0787
R-squared	0.0546	0.0566	0.0478	0.1311

*, **, *** denote significance at the 10 percent, 5 percent and 1 percent level respectively.

Table 9. Commercial bank executive presence on the board of directors and shareholder wealth effects of acquisition announcements – Saxonhouse (1976) Estimation by OLS

The table analyzes the shareholder wealth effects of an acquisition announcement in the presence of a commercial bank executive on the board of directors of an acquiring company. The dependent variable is the cumulative abnormal returns over the defined event window. An "unaffiliated banker-director" is an executive of a bank with no outstanding loan relationship with the company during the previous five years. An "affiliated banker-director" is defined as an executive of a bank that has extended at least one loan to the company over the previous five years as a sole lender, or a lead arranger in a syndicate. Size is measured by the net sales. Market-to-Book Ratio is the sum of market value of common stock, liquidating value of preferred stock and book value of total debt to the book value of the total assets. Financial Slack is the sum of cash and marketable securities. Total Debt is long-term debt plus short-term debt (debt in current liabilities). Prior Stock Market Performance is the stock return measured over the year preceding the acquisition decision. Stock Return Volatility is measured by the standard deviation of monthly stock returns over the previous three years. Diversifying Acquisition refers to the mergers in which the two-digit SIC code for a target company is different from that of an acquiring company. Acquirer Managerial Ownership is the percentage of common stock owned by the management of the company. Board size is the logarithm of number of directors on board of directors. Insiders include company employees (CEO, CFO, etc.), former employees, relatives of the employees, founders of the company, and relatives of founders that serve on the board. All variables are averaged over the previous three years. All estimations include industry effects (48 Fama-French industry dummies) and year effects and are clustered at firm level. P-values are in parentheses.

Table 9. Commercial bank executive presence on the board of directors and shareholder wealth effects of acquisition announcements – Saxonhouse (1976) Estimation by OLS (cont'd)

	(1)	(2)	(3)	(4)
	CAR(-1,0)	CAR(-1,1)	CAR(-7,7)	CAR(-1,30)
Banker Dummies				
Unaffiliated Banker-Director	-0.0014	-0.0023	-0.0026	-0.0013
	(0.558)	(0.399)	(0.656)	(0.847)
Affiliated Banker-Director	0.0035	0.0028	0.0063	-0.0080
	(0.351)	(0.467)	(0.380)	(0.354)
Investment Banker-Director	-0.0062**	-0.0063	-0.0035	0.0115
	(0.032)	(0.132)	(0.774)	(0.496)
Control Variables				
Size	-0.0022***	-0.0020*	-0.0052**	-0.0038
	(0.035)	(0.104)	(0.033)	(0.257)
Total Debt / Assets	0.0095	0.0245**	0.0435**	0.0133
	(0.309)	(0.023)	(0.054)	(0.659)
Market-to-Book Ratio	-0.0001	0.0010	0.0000	0.0003
	(0.902)	(0.366)	(0.995)	(0.927)
Cash-only Payment	0.0017	0.0052*	0.0061	0.0053
	(0.496)	(0.070)	(0.257)	(0.403)
Diversifying Acquisition	-0.0023	-0.0032	-0.0159***	-0.0130**
	(0.282)	(0.222)	(0.002)	(0.052)
Stock Return	0.0078***	0.0111**	0.0490***	0.0445***
	(0.069)	(0.022)	(0.000)	(0.001)
Governance Index	-0.0008*	-0.0005	-0.0025**	-0.0018
	(0.100)	(0.382)	(0.043)	(0.294)
Executive Ownership	0.0008**	0.0011***	-0.0001	0.0016*
	(0.052)	(0.012)	(0.929)	(0.028)
Board Size	0.0039	-0.0005	0.0100	-0.0163
	(0.510)	(0.933)	(0.505)	(0.419)
Ratio of Independent Directors	-0.0047	0.0127	0.0373	-0.0274
	(0.681)	(0.383)	(0.212)	(0.540)
Constant	0.0119	0.0100	0.0279	0.1305***
	(0.452)	(0.572)	(0.467)	(0.014)
Year Indicator Variables	Yes	Yes	Yes	Yes
Industry Indicator Variables	Yes	Yes	Yes	Yes
Observations	840	840	840	840
Prob > F	0.0031	0.0339	0.0000	0.0000
R-squared	0.0532	0.0610	0.1020	0.0877

*, **, *** denote significance at the 10 percent, 5 percent and 1 percent level respectively.

Table 10. Commercial bank executive presence on the board of directors and shareholder wealth effects of acquisition announcements – Saxonhouse (1976) Estimation by Instrumental Variables

The table analyzes the shareholder wealth effects of an acquisition announcement in the presence of a commercial bank executive on the board of directors of an acquiring company. The dependent variable is the cumulative abnormal returns over the defined event window. An "unaffiliated banker-director" is an executive of a bank with no outstanding loan relationship with the company during the previous five years. An "affiliated banker-director" is defined as an executive of a bank that has extended at least one loan to the company over the previous five years as a sole lender, or a lead arranger in a syndicate. Size is measured by the net sales. Market-to-Book Ratio is the sum of market value of common stock, liquidating value of preferred stock and book value of total debt to the book value of the total assets. Financial Slack is the sum of cash and marketable securities. Total Debt is long-term debt plus short-term debt (debt in current liabilities). Prior Stock Market Performance is the stock return measured over the year preceding the acquisition decision. Stock Return Volatility is measured by the standard deviation of monthly stock returns over the previous three years. Diversifying Acquisition refers to the mergers in which the two-digit SIC code for a target company is different from that of an acquiring company. Acquirer Managerial Ownership is the percentage of common stock owned by the management of the company. Board size is the logarithm of number of directors on board of directors. Insiders include company employees (CEO, CFO, etc.), former employees, relatives of the employees, founders of the company, and relatives of founders that serve on the board. All variables are averaged over the previous three years. All estimations include industry effects (48 Fama-French industry dummies) and year effects and are clustered at firm level. P-values are in parentheses.

Table 10. Commercial bank executive presence on the board of directors and shareholder wealth effects of acquisition announcements – Saxonhouse (1976) Estimation by Instrumental Variables (cont'd)

	(1)	(2)	(3)	(4)
	CAR(-1,0)	CAR(-1,1)	CAR(-7,7)	CAR(-1,30)
Banker Dummies				
Unaffiliated Banker-Director	0.0053	0.0020	0.0099	0.0624
	(0.701)	(0.912)	(0.768)	(0.215)
Affiliated Banker-Director	0.0563***	0.0890***	0.1527***	0.2142**
	(0.018)	(0.008)	(0.008)	(0.02)
Investment Banker-Director	0.0222	0.0275	0.0977	0.0569
	(0.351)	(0.355)	(0.137)	(0.478)
Control Variables				
Size	-0.0024	-0.0022	-0.0054	-0.0023
	(0.139)	(0.310)	(0.129)	(0.679)
Total Debt / Assets	0.0252*	0.0497***	0.0899***	0.0459
	(0.095)	(0.010)	(0.011)	(0.350)
Market-to-Book Ratio	0.0018	0.0037**	0.0052	0.0084
	(0.183)	(0.035)	(0.136)	(0.117)
Cash-only Payment	-0.0014	-0.0038	-0.0030	-0.0038
	(0.641)	(0.735)	(0.704)	(0.735)
Diversifying Acquisition	-0.0052	-0.0258	-0.0248	-0.0258
	(0.095)	(0.016)	(0.003)	(0.016)
Stock Return	0.0062	0.0087	0.0465***	0.0310*
	(0.213)	(0.148)	(0.000)	(0.064)
Governance Index	0.0001	0.0009	-0.0003	0.0018
	(0.919)	(0.286)	(0.872)	(0.405)
Executive Ownership	0.0007	0.0010*	-0.0004	0.0012
	(0.161)	(0.103)	(0.735)	(0.459)
Board Size	-0.0094	-0.0218*	-0.0262	-0.0827**
	(0.312)	(0.089)	(0.254)	(0.022)
Ratio of Independent Directors	-0.0281	-0.0215	-0.0172	-0.1579**
	(0.194)	(0.438)	(0.754)	(0.029)
Constant	0.0181	0.0234	0.0380	0.1896**
	(0.392)	(0.400)	(0.495)	(0.017)
Year Indicator Variables	Yes	Yes	Yes	Yes
Industry Indicator Variables	Yes	Yes	Yes)	Yes
Observations	840	840	840	840
Prob > F	0.2923	0.1503	0.0003	0.0003

*, **, *** denote significance at the 10 percent, 5 percent and 1 percent level respectively.