TWO FACES OF BUSY OUTSIDE DIRECTORS

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Abstract

In this study, we examine how multiple directorships held by outside directors (busy outside directors) influence shareholder wealth in diversifying acquisitions. With a sample of 893 diversifying acquisitions from 1998 to 2004, we find a negative (positive) busy-director effect for diversifying acquisitions of public-targets (private-targets). Busy directors are negatively (positively) associated with the five-day cumulative abnormal returns in acquisitions involving public (private) targets, where merger-related agency problems are more likely. Our evidence support the notion that, in the case of diversifying acquisitions, increased managerial monitoring plays a more important role versus enhanced advising and business connection from busy directors.

Keywords: boards of directors, busy outside directors, diversifying acquisitions, agency problems

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1. Introduction

Multiple directorships held by an outside director signal the reputation and superior talent of this director (Fama (1980) and Fama and Jensen (1983)). Consistent with this argument, Ferris, Jagannathan, and Pritchard (2003) and Fich and Shivdasani (2006), among others, report that the likelihood for an outside director to obtain more board seats is related to the performance of the firm in which he or she serves on the board. However, Fich and Shivdasani (2006) report a negative association between firm performance and multiple directorships held by outside directors. They suggest that serving on numerous boards can result in overstretched directors and therefore contaminates the functioning of the board.

There are two competing arguments on the value of directorships held by outside directors. On the one hand, multiple directorships are indicative of the strong reputation and experience of a director. Outside directorships provide directors with access to learn different management skills or to establish business networks (Mace (1986)). Therefore these directors have a greater diversity of experience and consequently become valuable advisors to the firms in which they serve on the board. On the other hand, multiple board memberships force outside directors to serve less frequently on the board and as a result shirk their responsibilities in carefully monitoring the manager"s activities. Accordingly, the value of multiple directorships relies on a trade-off between ineffective monitoring and superior advising. While several studies report supporting evidence for either the costs (i.e. ineffective monitoring) or the benefits (i.e. valuable advising) of multiple directorships, under what circumstances do the costs dominate the benefits and vice versa?[11] Answers to this question can explain the inconsistent findings regarding the relationship between multiple directorships and shareholder wealth and, in addition, offer a comprehensive view for shareholders or regulators in evaluating the issue of limiting the number of directorships held by outside directors. However, this question has not been addressed as yet in the literature.

With a sample of 893 diversifying acquisitions involving both public and private targets from 1998 to 2004, we attempt to decompose the value of multiple directorships in this paper. In particular, we suggest that the benefits (costs) of multiple directorships are most pronounced when agency conflicts are low (high). Low agency conflicts indicate less need for monitoring. In other words, the costs from ineffective monitoring are reduced. In contrast, firms with high agency conflicts need effective monitoring from outside directors to protect shareholder wealth. Multiple board memberships can reduce the effectiveness of an outside director"s monitoring and therefore the potential benefits from valuable advising of multiple directorships becomes unclear.

Acquiring a public or private target could be driven by managerial motive such as hubris or empire building (Roll (1986) and Moeller, Schlingemann, and Stulz (2004)) of a bidding firm.[12] Publicly listed firms

[11] Ferris, Jagannathan, and Pritchard (2003), for example, find no evidence that multiple directorships held by directors causes these directors to shirk their responsibilities to serve on board committees. Harris and Shimizu (2004) report a positive association between multiple directorships and shareholder wealth. Fich and Shivdasani (2006) and Ahn, Jiraporn, and Kim (2008), in contrast, report a negative association.

[12] The choice between a public and a private target could also be related to the availability of target"s information (Chang (1998)), or

are generally larger, better known, and more prestigious than private firms. Merger-related agency problems are more likely in acquisitions of public firms than in acquisitions of private firms. Consequently, effective monitoring from outside directors, who play an important role in protecting the interests of shareholders, becomes more important in acquisitions of public targets. As diversifying acquisitions involve elevated levels of information asymmetry, the superior knowledge and experience from outside directors are particularly valuable in evaluating the target and in protecting shareholder wealth during acquisition. Therefore, multiple directorships enhance the knowledge and experience of an outside director but hamper the effectiveness of an outside director"s monitoring.

In the acquisition of private targets, where acquisition-related agency problems are less likely, while the costs of ineffective monitoring from outside directors with multiple directorships are diminished, the benefits from superior advising can be especially valuable. In contrast, for acquisition of public targets, the costs of ineffective monitoring from outside directors with multiple directors are severe, while the benefits of superior advising are reduced or hidden. Consistent with this notion, our results indicate that busy outside directors (i.e. outside directors with at least three directorships) are significantly and positively associated with shareholder wealth during diversifying acquisitions of private targets but negatively associated with shareholder wealth during diversifying acquisitions of public targets. These findings remain when alternative measures of agency conflicts, multiple directorships, and acquirer returns are applied. For Private-target acquirers, firms with a busy board obtain 1.68% (1.65%) higher CARs than acquirers without a busy board. This result indicates that a busy board is beneficial to shareholder wealth. As a contrast, for acquirers targeting public firms, the difference between CARs for acquirers with and without a busy board is insignificant in both mean and median, which are all negative. Thus the existence of a busy board has important implications for both investors and M&A arbitrageurs.

The remainder of this paper is organized as follows. Section 2 describes our sample selection process, data sources, and variables. Empirical results and robustness tests are reported in Section 3. Section 4 summarizes and concludes this paper.

2. The Sample and Variables

A. Sample Selection

We obtain a sample of diversifying acquisitions from the Securities Data Company"s (SDC) U.S. Mergers and Acquisitions Database. An acquisition is defined as diversifying if the target and the acquirer do not share a Fama-French industry. In addition, the sample meets the following criteria: (1) The announcement date is within the time frame from 1998 through 2004; (2) The acquirer controls less than 50% of the shares of the target at the announcement date and controls 100% of the shares after the transaction; (3) The deal value is equal to or greater than $1 million; and (4) Data on acquirer stock prices, accounting variables, and director information are available from CRSP, COMPUSTAT, and EDGAR data retrieval system. Using these criteria, we obtain a sample of 893 firm-year diversifying acquisitions. Within these 893 observations, 290 are public targets acquired by 190 firms and 603 are private targets acquired by 370 firms.

B. Key Variables

B.1. Board Characteristics

We apply two variables to capture multiple directorships held by outside directors: busy board indicator and the percentage of busy outside directors. Outside directors are directors without affiliation with the firm other than their directorships. Outside directors are defined as busy if they hold at least three directorships. Busy board indicator is 1 if 50% or more than 50% of outside directors are busy. These two measures eliminate the potential impact caused by outside directors with numerous seats. However, if individual directorship has its own value, these two measures may underestimate the relationship between shareholder wealth and multiple directorships. To address this issue, we employ the average directorships held by outside directors as an additional alternative measure for the multiple directorships in our robustness tests.

Percentage of outside directors is computed as the number of outside directors divided by the number of total directors on the board. Yermack (1996) reports an inverse association between board size and firm value. We use the number of directors on the board as a measure of board size. Morck, Shleifer, and Vishny (1988) find a linkage between management ownerships and firm value. Beasley (1996) in addition reports a relationship between outside director ownerships and likelihood of financial statement fraud. We add the percentage of shares held by outside directors into our analyses to control for these effects.

B.2 Abnormal Returns

We measure bidder announcement return by market model adjusted stock returns around initial acquisition announcements. We compute three-day and five-day cumulative abnormal returns (CARs) during the windows (-1, +1) and (-2, +2) encompassed by the event day, where event day 0 is the acquisition

target"s bargaining power (Ang and Kohers (2001)), among other factors. However, our sample indicates governance index (Gompers, Ishii, and Metrick (2003)) is positively and significantly correlated with target"s public status. Furthermore, in our robustness tests, we create two interactive terms, *percentage of busy outside directors*g index (<=Q1) and percentage of busy outside directors*g index (>=Q3)*, to capture the relationship between multiple directorships and shareholder wealth in firms with high and low agency conflicts measured by governance index. Similar to our findings in Table 3, busy outside directors are beneficial in firms with low agency conflicts.

announcement date. [13] We use the CRSP equal-weighted return as the market return and estimate the market model parameters over the period from event day -210 to event day -11.

B.3 Control Variables

As cumulative abnormal returns (CARs) can be affected by several factors, we control for acquirer and deal characteristics in our analyses. Firm size for example has been found to relate to acquirer returns (Moeller, Schlingemann, and Stulz (2004)). We measure firm size by market capitalization as well as total assets. Tobin"s q can affect shareholder wealth during acquisitions (Lang, Stulz, and Walkling (1991) and Moeller, Schlingemann, and Stulz (2004)). We calculate Tobin"s q as market value of assets over book value of assets. Leverage and free cash flow are related to managerial motivation (Jensen (1986)). We calculate leverage as a firm"s book value of long-term and short-term debts over market value of total assets. Free cash flow is calculated as operating income before depreciation minus interest expenses, income taxes, and capital expenditures scaled by book value of total assets. All these variables are measured at the year-end prior to the acquisition announcement.

Acquirer"s pre-announcement stock price run-up potentially affects acquirer"s return during acquisitions (see e.g., Masulis, Wang, and Xie (2006)). We measure it as acquirer"s buy-and-hold abnormal return during the period (-210, -11) with the CRSP value-weighted market index as the benchmark. Method of payment (Myers and Majluf (1984) and Travlos (1987)), and relative deal size (Asquith, Bruner, and Mullins (1983) and Moeller, Schlingemann, and Stulz (2004)) have been found to relate to shareholder wealth during acquisitions. We measure relative deal size as deal value over bidder"s market capitalization at the year-end prior to announcement date. Finally, we include an intrastate indicator in our analyses. It is 1 if acquiring and target firms are within the same state and 0 otherwise. The acquirer and target within the same state potentially suffer less information asymmetry and therefore affect acquirer"s return during acquisitions.

3. Empirical Results

A. Univariate Tests

A.1 Summary Statistics

Table 1 reports summary statistics for the full sample and for the 2 sub-samples based on the public status of the targets. Studies, such as Chang (1998), Ang and Kohers (2001), and Fuller, Netter, and Stagemoller (2002), report that the acquirers of private targets gain while the acquirers of public targets do not gain or even suffer a loss. The average three-day (five-day) cumulative abnormal return (CAR) is -0.65% (-0.34%) for the full sample. However, the CARs for acquirers targeting private firms are 0.04% and 0.45%, while they are -2.09% and -1.97% for acquirers targeting public firms. The differences are statistically significant at the 1% level. This evidence confirms the findings from earlier studies.

[Insert Table 1 about here]

There are also significant differences, as expected, in the board characteristics between the two sub-samples. Public-target group has a mean 33% of busy outside directors versus 28% for the private-target group. The difference of 5% is significant at the 1% level. Public-Target group also has significantly higher average directorship for outside directors. These firms have larger boards, but lower outside director ownership. Interestingly, there is no significant difference in the percentage of outside directors between the two groups. In other words, the percentage composition of the board does not differ (but a higher percentage of the outside directors for the public-target acquiring firms are busy). It is of significance that board differences are seen in the characteristics of the directorship of the outside directors.

In terms of acquirer characteristics, firms acquiring public targets are substantially larger (about 37% higher in market capitalization and 238% higher in total assets), use more leverage, and have lower growth opportunity (as seen in lower Tobin"s q). There is no significant difference in free cash flow or pre-announcement stock run-up. When we compare deal characteristics, we observe more across-state deals, and larger relative deal size for the Public-target group.

A.2 Busy Board and Announcement Returns

In Panel A of Table 2, we separate our sample into acquiring firms with and without a busy board. While both the mean and median five-day CARs for firms with busy board are positive, they are both negative for non-busy board firms. The difference in mean is insignificant, while the difference in median is significant at the 10% level, indicating, albeit weakly, that there is potentially a busy board effect. However, as discussed earlier, there is strong theoretical argument for the notion that busy outside directors play different roles in acquiring firms involving target"s different public status.

[Insert Table 2 about Here]

As shown on Panel B of Table 2, acquirers targeting private firms have higher mean CARs than acquirers targeting public firms regardless of the existence of a busy board. However, the difference is relatively large in acquirers with a busy board, implying that a busy board has a strong but opposite impact on acquirer returns depending on target"s

[13] For a random sample of 500 acquisitions from 1990 to 2000, Fuller, Netter, and Stegemoller (2002) find that the announcement dates provided by SDC are correct for 92.6% of the sample and are off by no more than two trading days for the remainder. Thus, using a five-day window over event days (-2, +2) captures most, if not all, of the announcement effect.

public status. Focusing on the Private-target acquirers, firms with a busy board obtain 1.68% (1.65%) higher CARs than acquirers without a busy board. This result indicates that a busy board is beneficial to shareholder wealth. As a contrast, for acquirers targeting public firms, the difference between CARs for acquirers with and without a busy board is insignificant in both mean and median, which are all negative. Apparently, the superior knowledge and experience from busy outside directors with multiple directorships fail to enhance shareholder wealth of acquirers involving public targets, while they do enhance shareholder wealth for private-target acquirers. We do not find significantly lower CARs due to ineffective monitoring for acquirers with a busy board targeting public firms. We note that the group without a busy board potentially could include acquirers with some busy outside directors. As a result, we fail to observe the impact caused by ineffective monitoring documented by Fich and Shivdasani (2006) and others.

B. Multivariate Analyses

In Table 3, we incorporate variables related to acquirer returns and discussed in previous section into regressions. For the full sample, the coefficients for both busy board and the percentage of busy outside directors are insignificant. However, when acquisitions are separated by target‟s public status, we observe clear differences between the two sub-samples. Acquirers targeting private firms obtain additional 2.51% in five-day CARs if they have a busy board and obtain about additional 0.05% in five-day CARs if their percentage of busy outside directors increases by 1%. For acquirers targeting public firms, they lose 2.59% in five-day CARs if they have a busy board and lose about 0.07% in five-day CARs if their percentage of busy outside directors increases by 1%. The coefficients for both busy board and the percentage of busy outside directors indicate multiple directorships play important but opposite roles during diversifying acquisitions for acquirers targeting private firms versus acquirers targeting public firms.

[Insert Table 3 about Here]

Coefficients for both busy board and the percentage of busy outside directors are all significant at least at 5% level in regression (3), (4), (5) and (6), suggesting busy outside directors are beneficial (costly) to acquirers of private (public) targets. If the choice between target‟s public statuses is related to managerial motivation, the results in Table 3 indicate that superior knowledge and experience from outside directors with multiple directorships enhance shareholder wealth when firms acquire a private target where managerial oversight is a less critical issue. On the contrary, the benefits from superior advising are reduced or even dominated by the costs of ineffective monitoring when firms acquire public targets where board oversight is critical.

The opposite signs for coefficients of percentage of outside directors indicate outside directors in general could be either beneficial or costly as well. For firms acquiring private (public) targets, one percent increases in the percentage of outside directors reduces (increases) five-day CARs by about 0.07% (0.11%). If directorships signal reputation, knowledge, and experience, outside directors with less than three directorships could be effective monitors. However, fewer or no outside directorships may limit their opportunity to learn experience or to provide additional service to the board through their business connection. Therefore, if advising is desired and managerial oversight is less important, the monitoring function from these non-busy outside directors does not necessarily enhance shareholder wealth. Their limited skills in advising may not enhance shareholder wealth. As a result, we observe a negative (positive) association between the percentage of outside directors and acquirer‟s CARs of private (public) targets. Our results indicate an interesting picture: while generic outside directors have a negative valuation effect, busy outside directors have a positive valuation effect in diversifying acquisition of private targets. Acquisitions of public targets exhibit the exact opposite pattern. In terms of control variables, several of them are insignificant in our regression results. However, similar to previous studies, CARs are sensitive to payment method and target‟s public status. In particular, CARs drop about 3.3% for acquirers targeting public firms and choosing stock payment. CARs are also negatively associated to the relative deal size in all sample acquisitions or acquisitions involving public targets, consistent with Moeller, Schlingemann, and Stulz (2004). This finding indicates increased empire-building and managerial hubris (Roll (1986) and Moeller, Schlingemann, and Stulz (2004)) at larger firms. For acquirer‟s pre-announcement stock price run-up, we also observe negative coefficient similar to Masulis, Wang, and Xie (2006). Finally, our results indicate that acquisitions in which acquirers and targets are located in the same state are positively associated with CARs, but this association is only significant for acquisitions involving public targets.

C. Robustness Tests

To verify whether our findings remain consistent, we provide regression results as shown in Table 4 with alternative measures of agency conflicts, busy outside directors, cumulative abnormal returns, and diversification acquisitions. In Panel A, we employ governance index (Gompers, Ishii, and Metrick (2003)) to proxy for the degree of agency conflicts. In particular, we define acquirers with governance index within the highest (lowest) 25% as firms with high (low) agency conflicts. Similar to the results in Table 3, busy outside directors are positively (negatively) associated with five-day CARs in firms with low (high) agency conflicts. Although the association is only significant for acquirers suffering less agency conflicts, this evidence indicates the benefits of multiple directorships.

[Insert Table 4 about Here]

In Panel B, we apply the average number of directorships held by outside directors to proxy for busy outside directors. Although this measure can be biased by numerous directorships held by outside directors, it allows us to analyze whether individual directorship has its own value. Our results indicate that if the average directorships held by outside directors increased by one additional directorships, five-day CARs around diversifying acquisitions will increase (decrease) by about 1.12% (1.82%) for acquisitions of private (public) targets. This evidence not only supports our results in Table 3 but also suggests the value of advising increases with the number of directorships held by an outside director. In Panel C, we replace five-day CARs by three-day CARs (-1, 1). In Panel D, we use the CRSP value-weighted return as the market return to estimate the market model parameters. Since acquirers may have several acquisitions within a short time, it potentially biases the calculation of market model parameters. Therefore, in Panel E, we eliminate acquirers with more than one acquisition within a year. Finally, in Panel F, we define a diversifying acquisition as an acquisition in which acquirer and target do not share the same 2-digit SIC code. Once again, similar results are obtained.

4. Summary and Conclusions

This paper provides direct empirical evidence to document the benefits as well as the costs of multiple directorships (busy directors). Our findings provide strong and robust evidence that the association between shareholder wealth and outside directors with multiple directorships depends on the trade-off between valuable advising and ineffective monitoring from these directors. In particular, if managerial oversight is required to protect shareholder wealth, as likely in the case of an acquisition of a public target, the costs from ineffective monitoring dominates the benefits from valuable advising of outside directors with multiple directorships. The negative association between busy outside directors and shareholder wealth is observed. On the contrary, if benefits from valuable advising and extensive business association are more important, as in the case of an acquisition of a private target, such benefits may reduce or even dominate the costs from ineffective monitoring and therefore enhance shareholder wealth. This paper shed a clear light in the opposite roles played by busy outside directors in relation to diversifying acquisitions of public versus private targets. These results have important implications for investors as well as M&A arbitrageurs.

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Table 1. Summary Statistics

The sample consists of 893 diversifying acquisitions from 1998 to 2004. Among these diversifying acquisitions, 290 (603) are public (private) targets acquired by 190 (370) firms. Diversifying acquisitions are acquisitions in which acquirers and targets do not share a Fama-French industry. CAR (-1, 1) and CAR (-2, 2) are three-day and five-day cumulative abnormal returns in percentage points calculated using the market model. The market model parameters are estimated using the return data for the period (-210, -11). Outside directors are directors without affiliation with the firm other than their directorships. Outside directors are defined busy if they hold at least three directorships. If 50% or more than 50% of outside directors are busy, the board is defined as a busy board. Average directorships of outside directors is calculated as the total number of directorships held by outside directors divided by the number of outside directors. Board size measures the number of directors, including inside, outside, and gray directors. Outside director ownership is the percentage of shares held by outside directors. Market capitalization, measured in millions, is calculated as the number of shares outstanding multiplied by the stock price at the year end prior to the announcement date. Acquirer"s pre-announcement stock price run-up is acquirer"s buy-and-hold abnormal return during the period (-210, -11) with the CRSP value-weighted market index as the benchmark. Free cash flow is calculated as operating income before depreciation minus interest expenses, income taxes, and capital expenditures scaled by book value of total assets. Leverage is the book value of long-term debts and short-term debts over market value of total assets. Tobin"s q is market value of assets over book value of assets. All-cash deal, intrastate and public status are dummy variables. All-cash deal is 1 for purely cash-financed deals and 0 otherwise. Intrastate is 1 if acquirer and target firms are in the same state and 0 otherwise. Public status is 1 if target is a public firm and 0 if target is a private firm. Relative deal size is deal value over acquirer"s market capitalization. *, **, and *** stand for statistical significance based on two-sided tests at the 10%, 5%, and 1% level, respectively.

Variable	Full Sample	Public target (1)	Private target (2)	Difference (1) – (2)	t statistics
Abnormal returns:					
CAR (-1, 1)	-0.65	-2.09	0.04	-2.13***	-4.19
CAR (-2, 2)	-0.34	-1.97	0.45	-2.42***	-3.91
Board characteristics:					
Percentage of busy outside directors	0.30	0.33	0.28	0.05***	2.81
Percentage of outside directors	0.66	0.65	0.66	-0.01	-0.61
Average directorships of outside directors	2.11	2.24	2.05	0.19***	3.37
Board size	9.46	10.4	9.00	1.40***	6.60
Outside director ownership	0.83	0.62	0.92	-0.30*	-1.92
Acquirer characteristics:					
Acquirer's market capitalization	23949	29311	21370	7941**	1.97
Acquirer's pre-announcement stock price run-up	0.25	0.19	0.28	-0.09	-1.43
Free cash flow	0.08	0.08	0.08	0.00	-0.47
Leverage	0.13	0.15	0.12	0.03**	2.51
Total assets	13565	25982	7676	18306***	4.86
Tobin's q	2.31	1.90	2.51	-0.61***	-2.78
Deal characteristics:					
All-cash deal (dummy)	0.27	0.30	0.25	0.05	1.62
Intrastate	0.24	0.19	0.26	-0.07**	-2.55
Relative deal size	0.10	0.16	0.06	0.10***	7.72

Table 2. Announcement Abnormal Returns and Busy Board

Table 2 presents the CAR (-2, 2) of each group with and without a busy board. A board is defined as busy if 50% or more than 50% of outside directors hold at least three directorships. The sample consists of 893 diversifying acquisitions from 1998 to 2004. Among these diversifying acquisitions, 290 (603) are public (private) targets acquired by 190 (370) firms. Diversifying acquisitions are acquisitions in which acquirers and targets do not share a Fama-French industry. CAR (-2, 2) is five-day cumulative abnormal return in percentage points calculated using the market model. The market model parameters are estimated using the return data for the period (-210, -11). *, **, and *** stand for statistical significance based on two-sided tests at the 10%, 5%, and 1% level, respectively.

		Busyboard (1)	Non-busyboard (2)	Difference (1) - (2)	t/z statistics
Panel A: All sample					
All sample	Mean	0.26	-0.57	0.83	1.27
	Median	0.73	-0.53	1.26*	1.76
	N	249	644		
Panel B: Comparison by target's public status					
Public target	Mean (1)	-2.27	-1.84	-0.43	0.40

	Median (2)	-0.74	-1.43	0.69	0.30
	N	90	200		
Private target	Mean (3)	1.69	0.01	1.68**	2.09
	Median (4)	1.60	-0.05	1.65**	2.27
	N	159	444		
Difference	(1) – (3)	-3.96***[1]	-1.85**		
	(2) – (4)	-2.34***[1]	-1.38**[2]		
t statistics		3.30	2.56		
z statistics		3.20	3.11		

Table 3. Busy Outside Directors and Acquirer Returns in Acquiring Firms

The sample consists of 893 diversifying acquisitions from 1998 to 2004. Among these diversifying acquisitions, 290 (603) are public (private) targets acquired by 190 (370) firms. Diversifying acquisitions are acquisitions in which acquirers and targets do not share a Fama-French industry. The dependent variable is the acquirer"s five-day (-2, 2) cumulative abnormal return in percentage points calculated using the market model. The market model parameters are estimated using the return data for the period (-210, -11). Outside directors are directors without affiliation with the firm other than their directorships. Outside directors are defined busy if they hold at least three directorships. If 50% or more than 50% of outside directors are busy, the board is defined as a busy board. Board size measures the number of directors. Outside director ownership is the percentage of shares held by outside directors. Acquirer"s pre-announcement stock price run-up is acquirer"s buy-and-hold abnormal return during the period (-210, -11) with the CRSP value-weighted market index as the benchmark. Free cash flow is calculated as operating income before depreciation minus interest expenses, income taxes, and capital expenditures scaled by book value of total assets. Leverage is the book value of long-term debts and short-term debts over market value of total assets. Tobin"s q is market value of assets over book value of assets. All-cash deal, stock deal, intrastate, and public status are dummy variables. All-cash deal is 1 for purely cash-financed deals and 0 otherwise. Stock deal is 1 for deals at least partially stock-financed and 0 otherwise. Intrastate is 1 if acquirer and target firms are in the same state and 0 otherwise. Public status is 1 if target is a public firm and 0 if target is a private firm. Relative deal size is deal value over acquirer"s market capitalization. Market capitalization, measured in millions, is calculated as the number of shares outstanding multiplied by the stock price at the year end prior to the announcement date. The *t*-statistics is reported in parenthesis. *, **, and *** stand for statistical significance based on two-sided tests at the 10%, 5%, and 1% level, respectively.

Variable	All sample		Public target		Private target	
	(1)	(2)	(3)	(4)	(5)	(6)
Busy board	0.803		-2.590**		2.510***	
	(1.09)		(-2.19)		(2.70)	
Percentage of busy outside directors		1.020		-6.766***		4.927***
		(0.76)		(-3.12)		(2.93)
Percentage of outside directors	-0.994	-1.153	8.994***	10.95***	-6.467***	-7.429***
	(-0.55)	(-0.62)	(3.05)	(3.61)	(-2.86)	(-3.23)
Log (board size)	0.558	0.480	3.188	2.951	0.080	-0.327
	(0.44)	(0.38)	(1.39)	(1.30)	(0.05)	(-0.22)
Outside director ownership	-0.022	-0.027	-0.160	-0.139	-0.040	-0.062
	(-0.16)	(-0.19)	(-0.71)	(-0.62)	(-0.22)	(-0.34)
Acquirer's pre-announcement stock price run-up	-1.261***	-1.253***	-2.860***	-3.038***	-0.830**	-0.799*
	(-3.33)	(-3.31)	(-3.32)	(-3.55)	(-1.99)	(-1.91)
Free cash flow	5.273	5.074	-3.084	-1.221	4.870	4.606
	(1.24)	(1.19)	(-0.30)	(-0.12)	(1.04)	(0.99)
Leverage	0.367	0.455	-1.801	-2.688	-2.163	-2.030
	(0.14)	(0.17)	(-0.39)	(-0.59)	(-0.63)	(-0.60)
Log (total asset)	-0.174	-0.168	-0.156	-0.005	-0.223	-0.312
	(-0.67)	(-0.64)	(-0.36)	(-0.01)	(-0.69)	(-0.95)
Tobin's q	0.011	0.027	0.434	0.417	-0.119	-0.080
	(0.09)	(0.22)	(1.44)	(1.41)	(-0.88)	(-0.59)
Intrastate	1.022	1.044	2.672*	2.561*	0.499	0.506
	(1.36)	(1.39)	(1.75)	(1.69)	(0.58)	(0.59)
Relative deal size	-3.612**	-3.587**	-5.803***	-5.747***	2.812	3.233
	(-2.05)	(-2.03)	(-2.67)	(-2.68)	(0.89)	(1.03)
All-cash deal			1.513	1.480	0.966	1.016
			(1.24)	(1.23)	(1.07)	(1.12)
Public*Stock deal	-3.080***	-3.114***				
	(-2.75)	(-2.78)				
Public*All-cash deal	-0.476	-0.478				
	(-0.38)	(-0.38)				
Private*Stock deal	-0.524	-0.552				
	(-0.59)	(-0.62)				
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes
R^2	0.07	0.07	0.22	0.24	0.06	0.06

Table 4. Alternative Measures of Multiple Directorships, Returns, and Diversifying Acquisitions

Table 4 applies alternative measures of agency conflicts, multiple directorships, cumulative abnormal returns, and diversifying acquisitions into the same regressions in Table 3. In Panel A, governance index (Gompers, Ishii, and Metrick (2003)) is applied to capture firms with high agency conflicts (i.e. governance index >= Q3) and low agency conflicts (i.e. governance index <= Q1). In Panel B, busy board indicator and percentage of busy outside directors are replaced by the average directorships held by outside directors. It is calculated as the total number of directorships held by outside directors divided by the number of outside directors. Panel C uses three-day cumulative abnormal return as the dependent variable. Panel D uses the CRSP value-weighted return as the market return. In Panel E, acquirers with multiple acquisitions within a year are excluded. In Panel F, a diversifying acquisition is defined as an acquisition in which acquirer and target do not share the same 2-digit SIC code. Description of additional variables is provided in Table 5. The *t*-statistics is reported in parenthesis. *, **, and *** stand for statistical significance based on two-sided tests at the 10%, 5%, and 1% level, respectively.

Variable	All sample		Public target		Private target	
Panel A: Governance index (Gompers, Ishii, and Metrick (2003))to proxy agency conflicts						
Percentage of busy outside directors	-0.633		-5.414*		1.753	
	(-0.38)		(-1.89)		(0.86)	
Percentage of busy outside directors	3.608*		2.813		4.872*	
* governance index (<=Q1)	(1.76)		(0.77)		(1.89)	
Percentage of busy outside directors	-1.594		-5.022		-1.176	
* governance index (>=Q3)	(-0.75)		(-1.29)		(-0.45)	
Additional variables	Yes		Yes		Yes	
R^2	0.09		0.21		0.09	
Panel B: Average directorships held by outside directors						
Average directorships of outside	0.183		-1.823**		1.118**	
Directors	(0.42)		(-2.54)		(2.04)	
Additional variables	Yes		Yes		Yes	
R^2	0.07		0.19		0.05	
Panel C: CAR (-1, 1)						
Busy board	0.425		-1.979*		1.707**	
	(0.69)		(-1.77)		(2.29)	
Percentage of busy outside directors		-0.263		-5.265**		2.399*
		(-0.23)		(-2.55)		(1.77)
Additional variables	Yes	Yes	Yes	Yes	Yes	Yes
R^2	0.09	0.09	0.19	0.21	0.04	0.04
Panel D: Value-weighted CAR (-2, 2)						
Busy board	0.437		-2.779**		2.045**	
	(0.60)		(-2.37)		(2.19)	
Percentage of busy outside directors		0.104		-7.127***		3.692**
		(0.08)		(-3.31)		(2.19)
Additional variables	Yes	Yes	Yes	Yes	Yes	Yes
R^2	0.07	0.07	0.23	0.25	0.05	0.05
Panel E: Exclude multiple acquisitions						
Busy board	0.872		-2.574		2.703**	
	(0.85)		(-1.62)		(2.01)	
Percentage of busy outside directors		0.720		-7.079**		4.573*
		(0.37)		(-2.18)		(1.94)
Additional variables	Yes	Yes	Yes	Yes	Yes	Yes
R^2	0.14	0.14	0.33	0.34	0.13	0.13
Panel F: 2-digit SIC code						
Busy board	1.017		-1.651		2.572***	
	(1.41)		(-1.44)		(2.76)	
Percentage of busy outside directors		1.184		-4.947**		4.798**
		(0.90)		(-2.37)		(2.84)
Additional variables	Yes	Yes	Yes	Yes	Yes	Yes
R^2	0.07	0.07	0.19	0.20	0.06	0.06