

TABLE OF CONTENTS

ACKNOWLEDGMENTS	v
CHAPTER	Page
1. INTRODUCTION	1
Motivation.....	1
Research Questions	2
Empirical Findings.....	3
Structure of the Thesis	6
2. LITERATURE REVIEW	7
3. HYPOTHESIS DEVELOPMENT	11
4. DATA COLLECTION AND SUMMARY STATISTICS.....	17
Data Collection	17
Methodology	21
Descriptive Statistics.....	21
5. EMPIRICAL RESUTLS.....	23
Replication Results of Custódio and Metzger’s paper.....	23
Director Experience’s impact over acquisition performance	24
Heterogeneous Effect.....	26
6. CONCLUSION.....	29
APPENDIX	
A. TABLES OF RESULTS	31
B. DEFINITION OF VARIABLES.....	49
REFERENCE LIST	51

CHAPTER 1

INTRODUCTION

1.1 Motivation

The board of directors oversees the activities of the company and extensive research has been done about the board composition and director characteristics. Prior literature shows that the board of directors serves two main functions: advising and monitoring the senior management over the firm's operations. Moodie (2001, p. xv) shows that the 'directors also variously perceive their roles as being able to add value to the discussion and the decision-making process based on individual business experience, to a broader strategic interest in the influence of the organization on the community as a whole'. In a survey of directors by Demb and Neubauer (1992), directors also identify their most important tasks as setting strategies and operational directions and supervising the management. However, there are only few papers that analyze the effect of the board's personal characteristics and skills on acquisition decisions, although acquisition is an important part of a company's growth strategy and valuable to the firm's existing operations. A bad acquisition not only harms the work force of the company, but also destroys the value and credibility of the company; thus, the success of the acquisition is very important to the firms. According to 26th Annual Board of Directors Study conducted by Korn/Ferry

International (1999), the directors spend more time discussing acquisitions than other strategic issues. However, the effect of directors' experience in target's industry on acquisition performance has not yet been examined. Therefore, motivated by the importance of mergers and acquisitions as well as the directors' skills, in this paper, I examine the relationship between the experience of acquirer's directors and the acquisition performance.

1.2 Research Questions

In order to investigate the impact of acquirer's industry experience over the acquisition performance, I try to identify the relationship between the acquirer's industry experience and the acquirer's abnormal announcement returns as well as the combined announcement returns. Specifically, my questions are as follow: 1. Does the director's previous or current experience in the target's industry affect the acquirer's return? 2. Does the director's level of experience affect acquisition returns? 3. Does the effect of board of directors' experience in the target's industry on acquisition announcement returns differ for non-public targets? 4. Is the effect of the board of directors' experience in the target's industry on acquisition announcement returns different when the CEO is less experienced? 5. Does the effect of the board of directors' experience in the target's industry on acquisition announcement returns differ based on the reputation of the acquisition advisor?

1.3 Empirical Findings

This paper investigates how the stock market participants value the effects of director's experience in target industry over the acquisition. I construct a Director (including CEO)-firm matched panel that help me to track the employment history of US firms' directors. The final sample includes 2017 deals during the period 2000-2009, in which 530 deals are diversifying. Using this dataset, first I examine whether the directors' experience in target industry is related to acquisition announcement returns. The results show that the stock market reacts more favorably to diversifying mergers when the acquirer's inside directors previously worked in the target's industry. Interestingly, my results indicate that the outside directors' experience in target does not have the significant impact on the acquisition performance. This might be due to the fact that inside directors directly involve in business operations, so they are well informed about the acquisitions and thus are able to assist the CEO better during the acquisition process. To mitigate the concerns that the results might be driven by other factors, I control for firm characteristics such as firm size, profitability, leverage, growth potential; deal characteristics such as hostile or tender deals; and the firm's corporate governance structure such as board size, log of CEO tenure, and the percentage of outside directors. I also control for industry and year fixed effects. After controlling for the aforementioned variables and clustering errors at the firm level, I find that the acquirer's 7-days abnormal announcement return is higher (by 3.4%) if inside directors have target industry experience. The effect is even larger (4.4%) if the inside directors previously worked at top management level in the target's industry.

Second, I examine the size of this effect across different type of targets, because I expect that the effect of inside directors' experience is more important to private companies. Private companies tend to disclose less information, so information asymmetries are usually higher between these companies and potential acquirers. Therefore, I hypothesize that industry experience of the directors in target's industry might be more valuable when the targets are private (non-public) companies. Consistent to my expectation, I find that the effect of inside directors' experience in target's industry is significant only for non-public targets. I also analyze the combined abnormal return for the sub-sample of publicly listed targets. The results presented in Table 7 show that even though the coefficient estimated for inside directors' experience in target industry dummy is positive, it is not statistically significant. Thus I do not find evidence that experienced inside directors create more value in combined announcement return for public target companies. This result is consistent with the argument that the experience of the inside directors might be more valuable in private targets. Unfortunately, it is not possible to calculate combined announcement returns for private targets due to data limitations.

Third, I examine whether the effect is more pronounced if the CEO has no previous experience in the target's industry. Since inside directors work closely with the CEO, these skilled directors represent credible replacement for the CEO and can assist the CEO to make better decision. My findings indicate that inside directors' experience matters more when CEO does not have previous experience in the target's industry. Further, the

relationship between inside directors' experience and acquisition returns is stronger when inside directors' experience in the target industry has been at top-management level.

Fourth, I examine whether the effect of directors' experience on acquisition announcement returns varies if acquirers engage top-tier financial advisors. Investment bankers play an important role in acquisitions since managers of firms might rely on acquisition advisors' expertise and advice during business combination transactions. The results show that the impact of inside directors' experience on acquisition returns is only statistically significant when the firms do not engage top-tier financial advisors, which indicates that directors' experience matters more when top-tier advisors are not employed. Consistent with the findings discussed above, the effect of inside directors' experience is more pronounced when inside directors' experience is at the top management.

My findings contribute to a growing body of research on board of directors and mergers and acquisitions. My results contribute to the literature that examines the factors that affect the success of mergers and acquisitions. I also expand the findings from Custódio and Metzger (2010) that CEO's expertise in target industry affects the acquisition performance. Further, my study contributes to the literature on the role of inside directors in the firm by showing that inside directors can be valuable advisors during mergers and acquisitions.

1.4. Structure of the Thesis

This thesis is organized into six sections. Section 1 has given an introduction and overview as well as the motivation behind this study. Section 2 reviews the relevant literature related to the study. Section 3 describes the hypotheses related to directors' experience and acquisition performance. Section 4 describes the data collection and shows descriptive statistics. Section 5 reports the findings and discusses the results. The important concerns emerged from the findings and the replicate of prior research is also discussed in this section. Finally, Section 6 provides a summary of the findings, their implications, and a discussion of possible directions for future research.

CHAPTER 2

LITERATURE REVIEW

Previous research indicates that the board of directors plays an important part in monitoring and advising senior management (Armstrong, Guay, and Weber, 2010; Brickley and Zimmermann, 2010). Even though it is commonly assumed that these two functions are largely distinct and separable, Brickley and Zimmerman (2010) suggest that both roles occur simultaneously and complementarily. Singh and Schonlau (2009) also emphasize the importance of directors through their network. They document that board networks improve the board's monitoring and advising capabilities since better networked boards have access to more important information through their networks; thus potentially leading to better firm performance.

When it comes to the monitoring function of the directors, many researchers have argued that outside directors are independent; thus better able to monitor the management's behavior than inside directors. Several studies show that there is a negative relation between the proportion of outside directors on the board and accrual based earnings management, and positive relation with earning quality (Klein 2002; Krishnan 2005; Peasnell et al. 2005). However, Armstrong, Guay, and Weber (2010) find that there are

other factors contributing to good monitoring such as the skill and knowledge of the boards and that independence does not play the most critical part in monitoring role. Fama and Jensen (1983) find that since inside directors manage the firms and have an information advantage, they are not only the most influential directors but also educate outside directors on the firm's operations. Recent theoretical research has expanded to how inside directors enhance board monitoring (Raheja (2005)), board decision-making (Harris and Raviv (2008)), and shareholder wealth creation (Acharya, Myers, and Rajan (2009)). These research studies argue that inside directors are beneficial to enhancing the board's advisory and monitoring functions because inside directors are better-informed about the firm's investment projects. Recently, Chen, Cussatt, and Gunny (2012) also show that inside directors are better than outside directors in monitoring real activities manipulation because they are better informed and more engaged in firm's operations. Consistent with that view, Masulis and Mobbs (2011) show that firms that have board consisting of inside directors with outside directorships have better operating performance and higher market-to-book ratios, especially when board monitoring is more challenging. These results suggest that inside directors with outside directorships enhance board decisions at their own firms and improve board effectiveness. They also argue that inside directors with outside directorship can assess proposed M&A transactions more accurately since they are well informed about the transactions, leading to more profitable acquisitions. Based on these research papers, I hypothesize that there is an association between inside directors' skill and acquisition performance since inside directors are the most influential directors and their advice is very important to the firm's operations.

Therefore, this paper fills the gap in the literature by analyzing the effect of inside directors' experience in target industry on the acquisition outcomes. The paper also contributes to the literature on the determinants of the M&A success. I expect that firms will conduct more successful acquisitions if the inside directors work previously in target's industry.

My research relates to the recent literature on the impact of CEO industry experience in mergers and acquisitions (Custódio and Metzger, (2010)). Custódio and Metzger (2010) show that the market participants react more favorably to diversifying acquisition when the CEO has experience in the target's industry. Specifically, they find that the announcement effect associated with diversifying mergers depends on whether the CEO has work experience in the target firms' industry. They show that acquirer's abnormal announcement returns are between two and three time larger if the CEO previously worked in target's industry, and that the experienced CEOs select better targets and negotiate better during the transactions. Since inside directors connect to the organization and work more closely with the CEO, I expect that the inside directors with target industry experience can assist the CEO better in making decisions. I extend Custódio and Metzger's (2010) analysis to the board of directors, whose industry experience is likely to play a crucial role in monitoring and advising the firm's acquisition decisions. There is little research about the effect of skills of directors on acquisitions with the exception of Mkrtchyan (2012). Mkrtchyan (2012) finds that boards' effectiveness in evaluating acquisition transactions is positively associated with the directors' prior experience in

acquisitions. Therefore, my findings provide further insights about the contribution of inside director's skills to the firm's performance.

CHAPTER 3

HYPOTHESIS DEVELOPMENT

1. Does the directors' previous or current experience in the target's industry affect the acquirer's return?

Usually the acquirer's stock price will see a short-term drop upon the announcement of an acquisition. The drop in the stock price can be due to the uncertainty of the transaction or premium paid for the target. Experienced directors might not only provide better monitoring, but also can offer superior counsel to the senior executives of the acquiring enterprises, allowing them to make better acquiring decisions. Indeed, directors have a fiduciary duty to assess the acquisitions proposed by management or financial advisors to serve the best interests of the shareholders (Koontz (1967), Weiss (1991)). As discussed by Schonlau and Singh (2009), better networked boards obtain more important information via their networks that helps them enhance both their monitoring and advising capacities and potentially identify better targets and negotiate more favorable terms. Moreover, Masulis and Mobbs (2011) also show that inside directors with outside directorship improve board decision-making and provide stronger board monitoring, reducing CEO entrenchment. Haunschild (1993) also shows that inside directors are more likely to influence firm's M&A activities than outside directors because they are also

managers and better-informed about the acquisitions. Therefore, I expect that the experience of inside directors in the target firm's industry is likely to be positively associated with the acquirer's announcement return since these directors not only work more closely with CEO and accumulate better knowledge from previous experience in target industry but might also have the networks in the target industry.

Hypothesis 1: The directors' experience in target's industry is positively associated with the acquisition acquirer's announcement return.

2. Does the director's level of experience matter in acquisitions?

Previous research shows that directors with high levels of relevant knowledge and experience can make better decisions (Kerr and Tindale (2004)). If the directors' work experience is at top-management level in the target industry, they have a superior ability to judge on drawbacks and opportunities of companies in this industry, and thus better assist the CEO in acquisitions. Therefore, I hypothesize that the positive effect of the directors' experience in the target's industry on the acquirer announcement returns is stronger when the directors' work experience is at the top management level. The top level includes positions such as CEO, CFO, COO, Chairman, President, Division CEO, Division CFO, Division Chairman, Division COO, Division President, Head of Division, Regional CEO, Regional CFO and Regional President.

Hypothesis 2: The positive effect of the board of directors' experience in the target's industry on acquisition announcement returns is more pronounced when the director's experience is at the top management level.

3. Does the effect of the board of directors' experience in the target's industry on acquisition announcement returns differ for private targets?

Private companies face fewer obligations to disclose information; thus, information asymmetries are arguably higher between the private targets and potential bidders. Prior research studies show that acquisitions of public targets are negatively associated with the announcement returns, while acquisitions of subsidiaries and cash deals generate positive announcement returns (Masulis et al. (2007), Moeller et al. (2004), Yermack (1996)).

Custódio and Metzger (2010) also find that CEO's experience in the target industry matters more if target is not a publicly traded company. Compared to firms without director experience in target's industry, I expect the firms with experienced directors to have relatively more information when making decisions and face lower information asymmetries if the target is private company. I, therefore, hypothesize that the industry experience of the directors in the target's industry is more valuable when the targets is non-public companies.

Hypothesis 3: The positive effect of the board of directors' experience in the target's industry on acquisition announcement returns is more pronounced for non-public targets.

4. Is the effect of the board of directors' experience in the target's industry on acquisition announcement returns different when the CEO is less experienced?

A high-quality CEO may try to attract experienced directors before the acquisitions, in which case the positive effect between an experienced board of directors and the acquisition performance may be more emphasized. As Custódio and Metzger (2010) shows, firms with CEOs that have experience in target's industry have higher acquisition announcement returns. Therefore, when the CEO has prior experience in the target's industry, the advising and counseling of the directors might not be that important. However, if the CEO does not have any experience in the target firm's industry, he might rely more on the industry expertise of the directors. Masulis and Mobbs (2011) also emphasize that inside directors with outside directorship are more common in firms with less powerful or entrenched CEOs. Therefore, I analyze the effect of board experience on acquisition announcement returns separately for subsamples of firms that have CEOs with and without experience in target's industry. I argue that the board of directors' experience in the target's industry might matter more when CEO has no experience in the target's industry.

Hypothesis 4: The positive effect of the board of directors' experience in the target's industry on acquisition announcement returns is more pronounced when CEO has little experience in the target's industry.

5. Does the effect of the board of directors' experience in the target's industry on acquisition announcement returns differ based on the reputation of the acquisition advisor?

Investment banks play a major role in mergers and acquisitions. Managers of firms seek the advice of investment bankers during the execution of business combination transactions. Acquisition advisors will assist in bid and firm valuations, strategies, financing activities and risk management (Bruner (2004)). Servaes and Zenner (1996) suggest that there are three reasons to engage a financial advisor in M&A. First, financial advisors can analyze acquisition costs at a lower cost. Second, financial advisors can help to reduce the degree of information asymmetry between targets and acquirers. Finally, acquisition advisors can also reduce agency costs between the acquirer's management and shareholders. Previous research also shows that investment banks affect acquisition returns. Benoua and Madura (2005) show that market participants respond more favorably to hi-tech deals advised by top-tier investment banks than those advised by mid or third-tier banks. Bao and Edmans (2011) also suggest that investment banks matter for M&A outcomes and that banks assist the acquirer to select targets with a better strategic fit and negotiate better terms. Moreover, Kale, Kini, and Ryan (2003) find that the reputation of bidder's advisor is positively associated with the absolute wealth gain and the share of the total takeover gain accruing to the bidder. Therefore, the directors' experience might matter more if the firm does not engage top-tier financial advisors. I, therefore, suggest the following hypothesis:

Hypothesis 5: The positive effect of the board of directors' experience in the target's industry on acquisition announcement returns is more pronounced when the acquirer does not engage top-tier financial advisors.

CHAPTER 4

DATA COLLECTION AND SUMMARY STATISTICS

4.1 Data Collection

The M&A data is obtained from Thomson Financial SDC Platinum database. I include all completed mergers and acquisitions in the US stock market during 2000 – 2009 period.

My final sample consists of the deals with the following criteria:

- Shares Acquired: In order to consistent with previous studies such as Custodio and Metzger (2010), Masulis, Wang, and Xie (2007), Moeller et al. (2004), I only include transactions that the share of the acquirer in the target firm has to be below 50% before and above 50% after the transaction
- Transactions Size: Following Harford (2005), the transaction value of the merger has to be at least US\$50 million.
- Region: The acquirer and the target firm are both US corporations and the acquirer is listed on the US stock exchanges.
- Price and Accounting Data: The stock price and accounting data must be available in CRSP (Center for Research in Security Prices) and in COMPUSTAT the year before the merger.
- Types of the deal: I exclude buybacks, recapitalizations and exchange offers.

- Financial firms and utilities are excluded as these firms tend to have different corporate governance structures than non-regulated firms.

I merge the SDC data with financial and accounting information from CRSP and COMPUSTAT using LPERMNO in COMPUSTAT and PERMNO in CRSP. After that, I match the 6-digit CUSIP provided by SDC with the first six digits of CRSP's historical CUSIP for the month end preceding the announcement date (NCUSIP). In the end, I collect 2,017 deals after merging SDC, COMPUSTAT and CRSP.

Director's Experience data: I collect director employment history from BoardEx. I use this information to construct an employment history for each director, consisting of the position/job description and the companies they have worked for as well as the start and end dates of each position. To determine the directors' industry experience, I assign a four-digit SIC code to each company a director in our sample has worked for throughout his employment history. For publicly listed companies that the director previously worked for, I collect the four-digit SICs using COMPUSTAT database. For private and outside the US companies, I search for four-digit SIC code in such databases as Manta, LexisNexis, and Google. Based on the four-digit SIC codes, I assign every company to the respective Fama-French 12-Industries (FF12) classification industry.

I then use the above Fama-French 12 industry classification to construct the director industry experience. I define the measure of industry experience as follows: for a given

deal and a given target's industry, I consider the director as having experience in the target's industry if he worked in the same Fama-French-12 industry before joining the acquiring firm. This measure includes all roles and positions. I omit any firms in the construction if I could not find the industry classification for those companies. I set *Director_Experience* variable to 1 if the directors have worked for at least one company in the target firm's industry, and zero otherwise. I also define a measure of top-level experience (*TOP_Director Experience*) that is equal to 1 if the directors worked in at least one company in the target's industry as a top manager, and zero otherwise. Top manager positions/roles include CEO, CFO, COO, Chairman, President, Division CEO, Division CFO, Division Chairman, Division COO, Division President, Head of Division, Regional CEO, Regional CFO and Regional President. I define *CEO Experience* variable equal to 1 if the CEO has worked for at least one company in that industry, and *Top_CEO Experience* variable equal to 1 if CEO's experience is at the top-level management. Next, I differentiate between outside and inside directors and construct four other variables: a dummy variable for whether the inside directors have experience in the target industry (*Inside Director_Experience*), a dummy variable for whether outside directors have experience in the target industry (*Outside Director Experience*), a dummy variable for whether the inside directors' experience is at top-level management (*TOP- Inside Director Experience*), and a dummy variable for whether the outside directors' experience is at top-level management (*TOP- Outside Director Experience*)

I also construct the following control variables. I classify a merger to be *diversifying* (dummy 0-1) if acquirer and target differ in their Fama-French 12-Industries (FF12) classification. Public target, private target and subsidiary target are dummies that classify the public status of the target company. I set *Top-tier Acquirer's Advisor* variable equal to 1 if the acquirer engages any top-tier investment banks as its financial advisor during the transactions. Following Golubov, Petmezas and Travlos (2010), 8 top-tier advisors ranking by transaction value include Credit Suisse First Boston, Goldman Sachs, Lazard, Lehman Brothers, Merrill Lynch, JP Morgan, Morgan Stanley, and Citi/Salomon Smith Barney. I also measure the relative size of acquirer and target as the ratio of the deal value to the market capitalization of the acquirer. The percentage of outside directors, the natural logarithm of CEO tenure, and board size are also included in the analysis. From COMPUSTAT, I collect the *acquirer's total assets*, *market-to-book asset ratio*, the ratio of *earnings before interest and taxes to total assets*, and the ratio of *debt-to-assets*. I also include a *young company* dummy variable, which is equal to 1 if the age of the company is smaller than 5 years. Description of the variables is provided in the Appendix.

Acquirer's acquisition performance: My main measure of acquisition performance is the acquirer's cumulative abnormal returns. Using one-factor market model, the cumulative abnormal returns are calculated as the cumulative excess returns over an event window from three days prior to three day after the announcement date of the deal. The market model is estimated over a 225-day estimation window ending 30 days before the acquisition announcement. Data on stock returns are obtained from CRSP.

4.2 Methodology

In this paper, I adopt the methodology outlined by a recent research work about the impact of CEO industry experience in M&As (Custódio and Metzger, 2010). In that paper, they propose the following regression equation:

$$CAR_i = \alpha_1 + \alpha_2 Exper_i * div_i + \alpha_3 div_i + \alpha_4 X_i + \alpha_5 Y_i + \varepsilon_i$$

in which:

- CAR_i is the cumulative abnormal returns of merger i .
- div_i is a dummy that is equal to 1 if the transaction i is diversifying (using Fama-French 12 classification).
- $Exper_i$ is the acquirer's experience in the target's industry.
- X and Y are deal and company related controls.

Following that paper, I also include year and industry dummies in all of my regressions since mergers are clustered within industries. I expect the coefficients of interaction terms between diversifying mergers and experience to be positive because the directors' experience in the target's industry might be beneficial for diversifying deals.

4.3 Descriptive Statistics

Table 1 in Appendix A is used to describe my final dataset. As mentioned above, my director dataset consists of 2017 deals, in which 26.28% deals are considered diversifying acquisitions during the period 2000-2009. After removing the CEO from inside directors, I have a total of 691 M&A deals for inside directors. As Panel A of Table 1 shows, the fraction of diversifying acquisitions is quite steady during the periods (approximate 25%

of M&A deals are diversifying). Panel B shows that the average of acquirer's firm size is \$8,480 million. The average fraction of deal size to acquirer's market value prior to mergers is 27%. The percentage of public targets in the sample is 31%, and around 83% of the directors are outside directors. Panel C shows that out of all diversifying acquisitions, about 18% of the CEOs worked in the industry of the target before joining the acquiring company, in which 9% of the CEO experience is at the top management level. Moreover, 16% of the inside directors has previous experience in the target industry but only 5% of inside directors previously worked at top-level positions. 64% of outside directors has target industry experience, and 42% of directors have top-level target industry experience. Turning to statistics for acquisition announcement return, the mean of seven-day acquisitions announcement return is around 0.41% while the mean of combined value-weighted bidder-target acquisitions announcement return is 1.09%.

Table 2 describes key variables across two sub-samples: diversifying acquisition with and without top-level experience. After using t-test to compare the mean of variables in two sub-samples, I find that experienced inside directors perform better than inexperienced inside directors (5%) even though average CARs are only weakly different from each other (significant at 10% level). Besides, firms with experienced inside directors tend to have lower profitability (10% lower) and compete with more bidders (18% higher competing bidders). However, this test is only univariate and the results may be caused by omitted variables, which affect both industry experience and the announcement return.

CHAPTER 5

EMPIRICAL RESULTS

5.1 Replication Results of Custodio and Metzger's paper.

I follow Custodio and Metzger (2010) to construct CEO experience and other variables. However, my sample (from 2000-2009) is smaller than Custodio and Metzger's sample (from 1990-2008), and I also control for some different variables. Another difference in my replication is that I use 7-days cumulative abnormal return to acquirers while Custodio and Metzger use 3-days CAR. Even so, my replication results are still consistent with the results shown in their paper. Table 4 reports the relationship between CEO Experience in target industry and acquirer's 7-day abnormal announcement return. The results show that the acquirer's abnormal announcement returns are larger (2.1%) if the CEO previously worked in target's industry, and the effect is larger (2.6%) if the CEO Experience is at top management level. These results suggest that CEOs with target industry experience perform better in diversifying mergers and acquisitions than CEOs without experience, and the size of this effect depends partly on the level of experience.

5.2 Director Experience's impact over acquisition performance

In order to test the relationship between director industry experience and acquisition performance, I use acquirer's 7-day cumulative abnormal returns, which reflect the market reaction to the mergers and acquisitions. Although I expect that the director's experience is positively associated with the acquirer's 7-day cumulative abnormal returns, it turns out that only the inside director's experience matters in the acquisitions. This is consistent with Haunschild (1993) which suggests that inside directors are more likely to influence firm's M&A activities than outside directors since the inside directors are better informed about the acquisitions, and they also work more closely with the CEOs. They may evaluate the information more quickly and efficiently since they can better differentiate the important information. As Table 5 shows, after controlling for other variables such as deal or firm characteristics, the coefficient estimate of inside directors' experience- diversifying interacted term is positive (3.4%) and significant at 5% level, indicating that inside directors' experience in target industry is associated with short-run acquisition performance. The controls in the cross-sectional analysis have the expected sign; however, the coefficients for most of the controls are not statistically significant, except for the public status of the targets and diversifying acquisition.

Table 6 shows that the coefficient estimate on inside directors' top-level experience is higher (4.4%) and significant at 10% level, indicating that positive effect of the board of directors' experience in the target's industry on acquisition announcement returns is more pronounced when the directors' experience in the target's industry is at the top

management level. Similarly, the controls in the cross-sectional analysis have the expected sign but except for public status of targets, other controls are not statistically significant different from zero.

Table 7 reports the effects of inside directors' experience on combined announcement returns. Directors with experience in target's industry may be better able to select suitable targets, thus assist the CEO in selecting the better, more synergistic target, resulting in better acquisitions for the firm. In order to measure the effect of industry experience on target selection, I test the relationship between industry experience and combined announcement return, which represents the market's assessment of the total merger gains. I expect that the combined announcement return be positively related to the board industry expertise, suggesting that experienced directors assist CEO to select a better target. About 31% of the targets in the sample are public companies; therefore, I can conduct this analysis for only a small subsample of firms. I collect prices and data on the market capitalization of the target from CRSP. I then compute the combined announcement return using the market-cap weighted average of abnormal announcement returns of acquirer and target. However, interestingly, I do not find any significant relationship between directors' experience in target's industry and combined announcement return. Table 7 shows that although the coefficient estimates for the interaction variables are positive, they are not statistically significant from zero, which may be due to significantly smaller sample size.

In summary, the main findings in my paper are as follows: First, the bidders perform better if the inside directors previously worked in target's industry. Second, the effect of inside director experience is larger if the experience is more extensive. These results support the view from the paper by Masulis and Mobbs (2011) that important differences exist among inside directors.

5.3 Heterogeneous Effect

5.3.1 Public Status

Access to information is one of the reasons why industry experience increases the firm's bargaining ability. With the industry experience, inside directors might be able to help CEO to estimate the value of the transaction more accurately. Therefore, I expect that the inside directors' industry experience will be more valuable if information asymmetry in the transaction is more severe. Private and subsidiary targets disclose less information than public targets, so information asymmetry is likely to be higher. As Table 8 shows, the abnormal announcement return is 4.6% higher and only significant if the inside directors have target industry experience and the target is a private company. Column (4) of the table shows that the abnormal return is still 4.6% higher if the inside directors' experience is at top-management level and the target is private company. This result supports my hypothesis that the effect of inside directors' experience on acquisitions is more pronounced for non-public targets. Even though the coefficient estimates for *Inside Director Experience * diversifying* for public targets are also positive in both column (1)

and (2), they are not significant, indicating that the effect of inside directors' experience is much smaller for public targets where the information is widely accessible.

5.3.2 CEO Experience in Target's Industry

One of the factors that might affect the relationship between inside directors' experience and announcement returns is CEO's experience in the target's industry. I expect the effect of inside directors' experience to be more important if the CEOs do not have experience in the target's industry. Therefore, I repeat the analysis for two sub-samples: one for firms whose CEO has experience in target's industry, and the other for firms whose CEO does not have experience in target's industry. I present the results of this analysis in Table 9. As Table 9 shows, there are 184 deals in which CEO has experience and 383 deals in which CEO does not have experience in target's industry. The coefficient estimate for the inside directors' expertise is only significant if the CEOs do not have previous experience in target's industry. The results indicate that the announcement returns are 5.6% larger for diversifying acquisitions when the inside directors have experience in target's industry and CEO does not have experience in the target's industry. Moreover, the coefficient estimate for the inside directors' experience is even higher (6.8%) if the experience is at the top-management level. These results not only support my hypothesis about the board experience serving as a substitute for CEO's skill but they also provide additional support to the hypothesis that top-management level experience matters more than general experience.

5.3.3 Investment Banking Advisers

To ensure that the results are not driven by the quality of financial advisors, I analyze the effects of inside directors' experience on announcement returns for two sub-samples: one with acquisitions advised by top-tier financial advisors, and the other with acquisitions that are not advised by top-tier financial advisors. I expect that the directors' experience will matter more if the firms do not engage top-tier financial advisors. The results of this analysis are presented in Table 10. The coefficient estimate for inside directors' expertise is statistically and economically significant only when the bidders do not engage top-tier financial advisors. The results indicate that announcement returns are 4.2% higher for diversified acquisitions if the inside directors have experience in target's industry and the firms does not employ a top-tier financial advisors. Moreover, the coefficient estimate of inside directors' experience is even larger (6.5%) if the inside directors worked at top-management level in the target's industry. The results provide support for my hypothesis about the board experience serving as a substitute for investment banks' advice. They also support my hypothesis that the size of effect partly depends on the level of the experience.

CHAPTER 6

CONCLUSION

In this study, first, I reinvestigate the relationship between CEO experience in the target industry and the market reaction to the mergers and acquisitions. Based on that, I expand my paper to whether directors with experience in target industry have any impact over the acquisition performance. Consistent with my prediction, the abnormal announcement returns to acquirers are positively related to the inside directors' experience. Interestingly, I do not find any evidence of the effect of outside directors' experience on acquisition announcement returns. The results provide additional support to the arguments of Meyerinck, Oesch, and Schmid (2013) that investors value the industry experience of an inside director more highly than that of an outside director. The results of my analyses indicate that investors react significantly more positively to the diversifying mergers and acquisitions if the inside directors previously worked in the target industry. Robustness tests on CEO Experience, public status of targets, and the quality of investment bankers also provide additional support to my findings.

There are several limitations of this study. First, I was not able to find four-digit SIC codes for all private and overseas companies, so the results might be driven by these

omitted companies. Second, the SIC codes are not consistent in some databases, causing confusion during data collection. Even for public companies, SIC codes in COMPUSTAT are sometimes different from those in CRSP or SEC EDGAR for the same companies. Lastly, because announcement returns only reflect the reaction of the market participants, we should also expand the paper to long-run returns. To the extent that inside directors' experience helps the company select better, more synergistic targets, I expect a positive relationship between inside directors' experience in target's industry and long-run acquisition performance of diversifying acquisitions.

APPENDIX A

TABLES OF RESULTS

Table1: Summary Statistics

Part A: display the distribution of all acquisitions and diversifying ones over time

Part B illustrates deal and firm characteristics.

Part C shows the fraction of diversifying acquisition where the bidding directors and CEO have experience in the industry of target

Part D shows the acquisition performance

Year	All Mergers	Diversifying Mergers	Fraction	
Part A: Mergers				
2000-2004	923	222.00	24.05%	
2005-2009	1,094	308.00	28.15%	
2000-2009	2,017	530.00	26.28%	
	Observations	Mean	Median	Std. deviation
Part B: Control Variables				
Acquirer's Firm Size (in million)	2,017	8,480.37	1,721.06	23,002.27
MV Equity	2,017	16,645.18	2,262.41	44,355.26
MV Assets	2,017	21,324.12	3,432.60	53,245.23
Transaction Value	2,017	809.28	190.00	3,255.74
M/B	2,017	3.07	1.90	5.79
Leverage	2,017	0.41	0.40	0.25
Profitability	2,017	0.09	0.09	0.11
Public target	2,017	0.31	-	0.46
Private Target	2,017	0.38	-	0.49
Subsidiary target	2,017	0.30	-	0.45
Relative deal size	2,017	0.27	0.10	0.52
Hostile deal	2,017	0.00	-	0.05
Tender deal	2,017	0.07	-	0.25
Percentage financed by cash	2,017	0.69	1.00	0.40
Percentage of Outside Directors	2,017	0.83	0.88	0.17
Board Size	2,017	6.87	8.00	3.89
CEO Tenure	2,017	1.24	1.34	1.18
Part C: Merger and Industry Experience (Fraction of diversifying acquisition)				
CEO Experience	379	0.18	-	0.38

CEO Top-level Experience	379	0.09	-	0.28
Inside Director Experience	183	0.16	-	0.37
Inside Director Top-level Experience	183	0.05	-	0.23
Outside Director Experience	517	0.63	1.00	0.48
Outside Director Top-level Experience	517	0.42	-	0.49
Director Experience	530	0.62	1.00	0.49
Director Top-level Experience	530	0.41	-	0.49
Part D: Acquisition Performance				
Premium 4 weeks	541	0.44	0.35	0.31
Acquirer 7-days CAR (in %)	2,017	0.41	0.29	8.72
Combined value-weighted acquirer and target 7-day CAR (in %)	547	1.14	0.83	7.64

Table 2: Descriptive Analysis: Univariate Analysis

Table 2 contrasts diversifying acquisitions where inside directors do not have top-level experience in the target's industry with diversifying acquisitions of top-level experienced inside directors using t-test. *Acquirer's Profitability* is measured as the ratio of earnings before interest rate and tax to total assets. *Acquirer's Firm size* is measured as log of total assets. *Acquirer's Leverage* is measured as the ratio of total asset to total debt. *Acquirer's M/B asset* is measured as the ratio of market value of asset to book value of asset. *CEO Tenure* is measured as the log of CEO tenure. Other variables are described in Appendix.

	No Experience	With Experience	Difference
CAR	0.00	0.05	-0.05*
Log (Relative Size)	-2.51	-1.35	-1.16**
Non-public target	0.71	0.50	0.21
Percentage financed by cash	0.71	0.69	0.02
Competing bidders	0.02	0.03	- 0.18**
Hostile Deal	0.01	0.00	0.01
Tender Deal	0.08	0.10	-0.02
Young company	0.17	0.40	-0.23*
Acquirer's Firm Size	7.51	6.83	0.69
Acquirer's Profitability	0.10	0.00	0.10**
Acquirer's Leverage	0.44	0.49	0.05
Acquirer's M/B Asset	3.31	2.14	1.16
CEO Tenure	1.40	1.38	0.02
Board Size	8.52	8.20	0.32
Percentage of Outside director	0.68	0.72	-0.04

*** p<0.01, **p<0.05, *p<0.1

Table 3: Correlation

This table presents pairwise correlations among key variables with diversifying acquisitions. Correlations are significant at 5% level or below are in bold. *Inside_Experience* is dummy equal to 1 if inside director previously worked in target's industry. *Top_Inside_Experience* is dummy equal to 1 if the experience is at top-management level. % outside directors is the percentage of outside directors on board. All other variables are defined in the Appendix.

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1 Inside_Experience	1																
2 Top_Inside_Experience	0.54	1															
3 CAR	0.11	0.12	1														
4 Log(Relative Size)	-0.01	0.16	0.16	1													
5 Non-public target	-0.15	-0.10	0.11	-0.13	1												
6 Young company	0.10	0.14	0.05	0.15	0.02	1											
7 Competing Bidder	0.17	0.23	0.06	-0.05	-0.17	0.02	1										
8 Hostile Deal	-0.05	-0.03	-0.01	0.07	-0.10	-0.03	-0.01	1									
9 Tender Deal	0.09	0.02	-0.10	-0.07	-0.45	-0.05	0.09	0.23	1								
10 Board Size	0.07	-0.02	-0.07	-0.08	-0.09	-0.16	0.05	0.03	0.10	1							
11 % outside director	0.11	0.04	-0.04	-0.08	0.01	-0.06	-0.08	-0.02	0.05	-0.06	1						
12 CEO Tenure	-0.07	0.00	0.04	0.11	-0.03	-0.14	0.03	0.03	0.02	0.44	-0.17	1					
13 Percentage of cash	0.00	-0.01	0.06	-0.18	0.14	-0.11	0.02	-0.13	0.09	0.06	0.09	-0.01	1				
14 Acquirer's Profitability	-0.03	-0.16	-0.12	-0.15	-0.03	-0.12	-0.06	-0.01	0.08	0.09	-0.03	0.03	0.21	1			
15 Acquirer's Firm Size	0.05	-0.09	-0.19	-0.61	-0.21	-0.23	0.00	0.06	0.15	0.15	0.14	-0.16	0.08	0.11	1		
16 Acquirer's Leverage	-0.08	0.04	-0.01	0.03	-0.05	0.11	0.01	0.00	-0.02	0.03	-0.02	-0.04	-0.06	0.24	0.09	1	
17 Acquirer's M/B Asset	-0.01	-0.03	-0.06	-0.13	0.04	0.18	0.01	-0.01	-0.01	-0.04	-0.07	0.00	-0.19	-0.14	-0.15	0.02	1

Table 4: CEO Experience in Target's Industry- Effect on Diversification

This table shows the relationship between CEO experience in target industry and acquisition announcement return. The dependent variable is 7-day acquirer's abnormal announcement return. *CEO Experience* is a dummy that equal to 1 if the CEO previously worked in the target industry before joining the acquirer. *TOP- CEO Experience* is a dummy that equal to 1 if the target industry experience is at top-management level. Bidder and deal characteristics as well as year and industry fixed effect are controlled in the regression. *p*-values based on robust standard errors clustered at the firm level are in brackets. *, **, and *** denotes significance at 0.01, 0.05 and 0.1 levels, respectively.

VARIABLES: CAR (-3,3)	(1)	(2)
CEO Experience * diversifying	0.021** [0.045]	
TOP - CEO Experience * diversifying		0.026* [0.087]
Diversifying	-0.009* [0.097]	-0.008 [0.152]
log(relative size)	0.003 [0.194]	0.003 [0.227]
Private and Subsidiary Target	0.033*** [0.000]	0.033*** [0.000]
Percentage financed by Cash	0.021*** [0.003]	0.021*** [0.003]
Hostile Dummy	-0.002 [0.947]	0.009 [0.795]
Two-tier Dummy	-0.025 [0.589]	-0.025 [0.590]
Tender Dummy	0.025** [0.011]	0.025** [0.011]
Competing Bidders	0.008 [0.653]	0.008 [0.662]
Young Company	0.006 [0.368]	0.006 [0.351]
CEO Tenure	0.004** [0.050]	0.004** [0.048]
Board Size	0.002* [0.100]	0.002* [0.093]
Percentage of Outside Directors	-0.009 [0.582]	-0.010 [0.541]
Acquirer's Profitability	0.026 [0.374]	0.027 [0.361]
Acquirer's Firm Size	-0.004* [0.059]	-0.005* [0.056]
Acquirer's Leverage	0.004	0.004

Acquirer's Market-Book Value	[0.629] -0.001*	[0.651] -0.001*
Constant	[0.097] -0.016	[0.083] -0.015
Year and Industry Dummy	[0.537] Y	[0.555] Y
Observations	1,486	1,486
R-squared	0.089	0.089
<hr/>		
Robust pval in brackets		
*** p<0.01, ** p<0.05, * p<0.1		

Table 5: Acquirer's Announcement Return – Any Experience

This table shows the relationship between director experience in target industry and acquisition announcement return. The dependent variable is 7-day acquirer's abnormal announcement return. *Director Experience* is a dummy that equal to 1 if the directors previously worked in the target industry before joining the acquirer. *Inside Director Experience* is a dummy variable that equal to 1 if the inside directors previously worked in the target industry before joining the acquirer. *Outside Director Experience* is a dummy that equal to 1 if the outside directors previously worked in the target industry before joining the acquirer. Bidder and deal characteristics as well as year and industry fixed effect are controlled in the regression. *p*-values based on robust standard errors clustered at the firm level are in brackets. *, **, and *** denotes significance at 0.01, 0.05 and 0.1 levels, respectively.

VARIABLES: CAR (-3,3)	(1)	(2)	(3)
Director Experience * diversifying	-0.001 [0.857]		
Inside Director Experience * diversifying		0.034** [0.030]	
Outside Director Experience * diversifying			-0.001 [0.947]
Diversifying	-0.004 [0.587]	-0.016* [0.069]	-0.005 [0.497]
Log (Relative size)	0.002 [0.405]	0.005 [0.161]	0.001 [0.455]
Private and Subsidiary Target	0.028*** [0.000]	0.032*** [0.001]	0.028*** [0.000]
Percentage financed by Cash	0.018*** [0.003]	0.014 [0.162]	0.021*** [0.001]
Hostile Dummy	-0.015 [0.576]	-0.041 [0.106]	-0.013 [0.615]
Two-tier Dummy	-0.028 [0.416]	-0.060 [0.117]	-0.027 [0.447]
Tender Dummy	0.013* [0.080]	0.015 [0.238]	0.013 [0.103]
Competing Bidders	0.005 [0.779]	0.017 [0.541]	0.005 [0.747]
Young Company	0.001 [0.832]	0.004 [0.694]	0.002 [0.722]
CEO Tenure	0.002 [0.319]	0.000 [0.904]	0.003 [0.209]
Board Size	-0.000 [0.701]	-0.001 [0.363]	-0.000 [0.917]
Percentage of Outside Directors	-0.014	0.002	-0.001

	[0.227]	[0.915]	[0.964]
Acquirer's Profitability	0.017	0.047	0.016
	[0.524]	[0.365]	[0.552]
Acquirer's Firm Size	-0.003*	-0.000	-0.004*
	[0.094]	[0.917]	[0.071]
Acquirer's Leverage	0.008	-0.001	0.009
	[0.372]	[0.975]	[0.354]
Acquirer's Market-Book Value	-0.001*	0.000	-0.001*
	[0.060]	[0.955]	[0.080]
Constant	0.007	-0.012	-0.007
	[0.744]	[0.711]	[0.799]
Year and Industry Dummy	Y	Y	Y
Observations	2,017	691	1,969
R-squared	0.070	0.077	0.071
Robust p-val in brackets			
*** p<0.01, ** p<0.05, * p<0.1			

Table 6: Acquirer's Announcement Return – TOP LEVEL Experience

This table shows the relationship between director's top-level experience in target industry and acquisition announcement return. The dependent variable is 7-day acquirer's abnormal announcement return. *TOP- Director Experience* is a dummy that equal to 1 if the directors' target industry experience is at top-management level. *TOP- Inside Director Experience* is a dummy that equal to 1 if inside directors' target industry experience is at top-management level. *TOP- Outside Director Experience* is a dummy that equal to 1 if the outside directors' target industry experience is at top-management level. Bidder and deal characteristics as well as year and industry fixed effect are controlled in the regression. *p*-values based on robust standard errors clustered at the firm level are in brackets. *, **, and *** denotes significance at 0.01, 0.05 and 0.1 levels, respectively.

VARIABLES: CAR (-3,3)	(1)	(2)	(3)
TOP- Director Experience * diversifying	0.000 [0.970]		
TOP- Inside Director Experience * diversifying		0.044* [0.084]	
TOP- Outside Director Experience * diversifying			0.000 [0.988]
Diversifying	-0.005 [0.424]	-0.013 [0.132]	-0.005 [0.388]
Log (Relative Size)	0.002 [0.404]	0.005 [0.167]	0.001 [0.455]
Private and Subsidiary Target	0.028*** [0.000]	0.032*** [0.001]	0.028*** [0.000]
Percentage financed by Cash	0.018*** [0.003]	0.013 [0.173]	0.021*** [0.001]
Hostile Dummy	-0.015 [0.578]	-0.044* [0.078]	-0.013 [0.615]
Two-tier Dummy	-0.028 [0.417]	-0.059 [0.121]	-0.027 [0.448]
Tender Dummy	0.013* [0.081]	0.016 [0.204]	0.013 [0.103]
Competing Bidders	0.005 [0.774]	0.016 [0.551]	0.006 [0.745]
Young Company	0.001 [0.837]	0.004 [0.673]	0.002 [0.724]
CEO Tenure	0.002 [0.318]	0.000 [0.959]	0.003 [0.209]
Board Size	-0.000	-0.001	-0.000

	[0.669]	[0.371]	[0.904]
Percentage of Outside Directors	-0.014	0.003	-0.001
	[0.222]	[0.868]	[0.961]
Acquirer's Profitability	0.017	0.050	0.016
	[0.522]	[0.332]	[0.552]
Acquirer's Firm Size	-0.003*	-0.000	-0.004*
	[0.094]	[0.951]	[0.071]
Acquirer's Leverage	0.008	-0.002	0.009
	[0.378]	[0.916]	[0.357]
Acquirer's Market-Book Value	-0.001*	0.000	-0.001*
	[0.061]	[0.935]	[0.080]
Constant	0.007	-0.013	-0.007
	[0.731]	[0.683]	[0.802]
Year and Industry Dummy	Y	Y	Y
Observations	2,017	691	1,969
R-squared	0.070	0.075	0.071
Robust p-val in brackets			
*** p<0.01, ** p<0.05, * p<0.1			

Table 7: Combined Abnormal Announcement Returns

This table shows the relationship between director's experience in target industry and combined acquisition announcement return. The dependent variable is 7-day combined abnormal announcement return, which is calculated using weights based on the market values of acquirers and targets prior to the acquisition announcement. *Inside Director Experience* is a dummy variable that is equal to 1 if the inside directors previously worked in the target industry before joining the acquirer. *TOP- Inside Director Experience* is a dummy that is equal to 1 if inside directors' target industry experience is at top-management level. Bidder and deal characteristics as well as year and industry fixed effect are controlled in the regression. *p*-values based on robust standard errors clustered at the firm level are in brackets. *, **, and *** denotes significance at 0.01, 0.05 and 0.1 levels, respectively.

VARIABLES: Combined CAR (-3,3)	(1)	(2)
Inside Director Experience * diversifying	0.001 [0.956]	
TOP Inside Director Experience * diversifying		0.026 [0.266]
Log (Relative Size)	0.002 [0.717]	0.002 [0.740]
Diversifying	-0.007 [0.655]	-0.009 [0.505]
Percentage financed by Cash	0.024 [0.154]	0.024 [0.159]
Hostile Dummy	0.032 [0.274]	0.034 [0.234]
Two-tier Dummy	0.084 [0.208]	0.085 [0.200]
Tender Dummy	0.012 [0.404]	0.012 [0.407]
Competing bidders	-0.029* [0.082]	-0.031* [0.064]
Young Company	-0.038* [0.069]	-0.039* [0.066]
CEO Tenure	0.001 [0.901]	0.001 [0.877]
Board Size	-0.001 [0.756]	-0.001 [0.788]
Percentage of Outside Directors	0.034 [0.320]	0.033 [0.330]
Acquirer's Profitability	0.022 [0.774]	0.023 [0.762]
Acquirer's Firm Size	-0.006	-0.006

	[0.233]	[0.226]
Acquirer's Leverage	-0.012	-0.013
	[0.737]	[0.717]
Acquirer's Market-Book Value	-0.007	-0.007
	[0.141]	[0.145]
Constant	0.080*	0.078*
	[0.082]	[0.093]
Year and Industry Dummy	Y	Y
Observations	191	191
R-squared	0.246	0.248
<hr/>		
Robust p-val in brackets		
*** p<0.01, ** p<0.05, * p<0.1		

Table 8: Target's Public Status Robustness Test

This table shows the relationship between director's top-level experience in target industry and acquisition announcement return varies with the public status of targets. The dependent variable is 7-day acquirer's abnormal announcement return. Model (1) and (2) include acquisitions in which the target is public. Model (3) and (4) include the acquisitions in which the target is private or subsidiary. *Inside Director Experience* is a dummy variable that equal to 1 if the inside directors previously worked in the target industry before joining the acquirer. *TOP- Inside Director Experience* is a dummy that equal to 1 if inside directors' target industry experience is at top-management level. Bidder and deal characteristics as well as year and industry fixed effect are controlled in the regression. *p*-values based on robust standard errors clustered at the firm level are in brackets. *, **, and *** denotes significance at 0.01, 0.05 and 0.1 levels, respectively.

	Public Target		Non-Public Targets	
VARIABLE: CAR (-3,3)	(1)	(2)	(3)	(4)
Inside Director Experience * diversifying	0.006 [0.760]		0.046*** [0.006]	
TOP-Inside Director Experience * diversifying		0.014 [0.545]		0.046** [0.022]
Diversifying	-0.007 [0.692]	-0.007 [0.650]	-0.016 [0.121]	-0.012 [0.243]
Log (Relative Size)	-0.003 [0.493]	-0.004 [0.482]	0.009* [0.092]	0.008 [0.106]
Percentage financed by Cash	0.027 [0.125]	0.027 [0.133]	0.002 [0.893]	0.002 [0.900]
Hostile Deal	-0.019 [0.313]	-0.019 [0.290]		
Tender Deal	0.009 [0.470]	0.009 [0.461]	-0.343*** [0.000]	-0.341*** [0.000]
Two-tier Deal	-0.009 [0.855]	-0.008 [0.859]		
Competing Bidders	-0.013 [0.502]	-0.013 [0.493]	0.185*** [0.001]	0.183*** [0.001]
Young Company	-0.024 [0.217]	-0.025 [0.213]	0.009 [0.452]	0.010 [0.367]
CEO Tenure	0.006 [0.202]	0.005 [0.209]	-0.002 [0.534]	-0.002 [0.512]
Board Size	-0.004* [0.071]	-0.004* [0.073]	-0.000 [0.996]	-0.000 [0.995]
Percentage of outside directors	0.023 [0.452]	0.023 [0.443]	-0.004 [0.867]	-0.003 [0.913]
Acquirer's Profitability	0.032	0.033	0.083	0.086

	[0.652]	[0.639]	[0.196]	[0.191]
Acquirer's Firm Size	0.002	0.002	-0.003	-0.003
	[0.736]	[0.739]	[0.606]	[0.606]
Acquirer's Leverage	-0.031	-0.031	-0.005	-0.006
	[0.414]	[0.405]	[0.852]	[0.815]
Acquirer's Market-Book Asset	-0.005*	-0.005*	-0.000	-0.000
	[0.072]	[0.074]	[0.753]	[0.713]
Constant	-0.018	-0.019	0.047	0.047
	[0.692]	[0.675]	[0.243]	[0.243]
Year and Industry Dummy	Y	Y	Y	Y
Observations	223	223	468	468
R-squared	0.219	0.219	0.101	0.096

Robust pval in brackets

*** p<0.01, ** p<0.05, * p<0.1

Table 9: CEO Experience Robustness Test

This table shows the relationship between director's top-level experience in target industry and acquisition announcement return varies with CEO Experience in target industry. The dependent variable is 7-day acquirer's abnormal announcement return. Model (1) and (2) include the acquisitions in which CEO has no previous experience in target industry. Model (3) and (4) include acquisitions in which CEO has previously worked in target industry. *Inside Director Experience* is a dummy variable that is equal to 1 if the inside directors previously worked in the target industry before joining the acquirer. *TOP- Inside Director Experience* is a dummy that is equal to 1 if inside directors' target industry experience is at top-management level. Bidder and deal characteristics as well as year and industry fixed effect are controlled in the regression. *p*-values based on robust standard errors clustered at the firm level are in brackets. *, **, and *** denotes significance at 0.01, 0.05 and 0.1 levels, respectively.

VARIABLES: CAR (-3,3)	Low CEO Experience		High CEO Experience	
	(1)	(2)	(3)	(4)
Inside Director-Experience * diversifying	0.056*** [0.005]		0.025 [0.448]	
TOP-Inside Director Experience * diversifying		0.068* [0.080]		0.029 [0.319]
Log (Relative Size)	0.006 [0.225]	0.006 [0.196]	0.002 [0.780]	0.002 [0.808]
Diversifying	-0.035*** [0.003]	-0.031*** [0.005]	0.012 [0.657]	0.015 [0.554]
Private and Subsidiary Targets	0.036** [0.010]	0.035** [0.013]	0.026 [0.187]	0.026 [0.183]
Percentage financed by Cash	0.030** [0.047]	0.029* [0.055]	0.019 [0.375]	0.019 [0.381]
Young Company	0.011 [0.440]	0.012 [0.428]	-0.002 [0.913]	-0.002 [0.914]
Competing Bidders	0.085** [0.016]	0.082** [0.014]	-0.056 [0.210]	-0.060 [0.187]
Hostile Dummy			-0.070 [0.111]	-0.071 [0.113]
Tender Dummy	0.025 [0.193]	0.025 [0.186]	0.009 [0.707]	0.009 [0.699]
Two-tier Dummy	-0.085 [0.155]	-0.083 [0.160]		
Board Size	-0.000 [0.956]	-0.000 [0.891]	-0.002 [0.578]	-0.002 [0.565]
Percentage of Outside Directors	0.035 [0.531]	0.031 [0.583]	0.092 [0.325]	0.097 [0.304]
CEO Tenure	0.000 [0.980]	0.000 [0.994]	0.007 [0.303]	0.007 [0.301]

Acquirer's Profitability	0.052	0.056	0.141	0.142
	[0.429]	[0.401]	[0.104]	[0.111]
Acquirer's Firm Size	-0.004	-0.004	0.002	0.002
	[0.391]	[0.473]	[0.791]	[0.791]
Acquirer's Leverage	-0.002	-0.003	0.050	0.047
	[0.943]	[0.903]	[0.176]	[0.227]
Acquirer's Market-Book Value	-0.001	-0.001	0.001	0.001
	[0.536]	[0.554]	[0.312]	[0.316]
Constant	-0.031	-0.026	-0.157	-0.159
	[0.559]	[0.625]	[0.133]	[0.125]
Year and Industry Dummy	Y	Y	Y	Y
Observations	383	383	184	184
R-squared	0.144	0.139	0.191	0.190
Robust pval in brackets				
*** p<0.01, ** p<0.05, * p<0.1				

Table 10: Top-tier Advisors Robustness Test

This table shows the relationship between director's top-level experience in target industry and acquisition announcement return varies with the quality of financial advisors. The dependent variable is 7-day acquirer's abnormal announcement return. Model (1) and (2) include acquisitions in which the acquirer does not engage top-tier advisors. Model (3) and (4) include the acquisitions in which the acquirer engages top-tier advisors. *Inside Director Experience* is a dummy variable that is equal to 1 if the inside directors previously worked in the target industry before joining the acquirer. *TOP- Inside Director Experience* is a dummy that is equal to 1 if inside directors' target industry experience is at top-management level. Bidder and deal characteristics as well as year and industry fixed effect are controlled in the regression. *p*-values based on robust standard errors clustered at the firm level are in brackets. *, **, and *** denotes significance at 0.01, 0.05 and 0.1 levels, respectively.

	No Top-tier Advisors		Top-tier Advisors	
VARIABLES: CAR (-3,3)	(1)	(2)	(3)	(4)
Inside Directors Experience * diversifying	0.042** [0.023]		0.020 [0.547]	
TOP-Inside Directors Experience * diversifying		0.065** [0.026]		-0.028 [0.472]
Diversifying	-0.023** [0.016]	-0.020** [0.035]	0.003 [0.894]	0.013 [0.521]
Log (Relative Size)	0.007* [0.083]	0.006 [0.112]	-0.005 [0.553]	-0.005 [0.567]
Private and Subsidiary Targets	0.036*** [0.002]	0.035*** [0.002]	0.015 [0.501]	0.014 [0.562]
Percentage financed by Cash	0.013 [0.298]	0.013 [0.297]	0.026 [0.178]	0.029 [0.154]
Hostile Dummy	-0.051* [0.097]	-0.053* [0.078]		
Two-tier Dummy	-0.142*** [0.002]	-0.140*** [0.001]	0.012 [0.767]	0.014 [0.746]
Tender Dummy	0.027 [0.101]	0.029* [0.078]	-0.022 [0.469]	-0.019 [0.517]
Competing Bidders	0.053 [0.161]	0.054 [0.114]	-0.017 [0.741]	-0.014 [0.786]
Young Company	0.003 [0.779]	0.003 [0.756]	-0.010 [0.741]	-0.005 [0.875]
CEO Tenure	-0.001 [0.760]	-0.001 [0.668]	0.008 [0.404]	0.008 [0.384]
Board Size	-0.001 [0.431]	-0.001 [0.460]	-0.004 [0.502]	-0.005 [0.410]
Percentage of Outside Experience	-0.000 [0.994]	0.000 [0.983]	0.016 [0.825]	0.024 [0.732]

Acquirer's Profitability	0.038	0.044	0.064	0.050
	[0.497]	[0.438]	[0.612]	[0.687]
Acquirer's Firm Size	0.001	0.001	-0.004	-0.004
	[0.809]	[0.875]	[0.669]	[0.677]
Acquirer's Leverage	-0.021	-0.022	0.076	0.074
	[0.429]	[0.401]	[0.162]	[0.175]
Acquirer's Market to Book Value	0.000	0.000	-0.001	-0.002
	[0.658]	[0.658]	[0.640]	[0.615]
Constant	-0.001	0.001	-0.042	-0.038
	[0.984]	[0.979]	[0.586]	[0.638]
Year and Industry Dummies	Y	Y	Y	Y
Observations	557	557	134	134
R-squared	0.090	0.089	0.199	0.199

Robust pval in brackets

*** p<0.01, ** p<0.05, * p<0.1

APPENDIX B

DEFINITION OF VARIABLES

Variable	Definition
<i>Panel A: Industry Experience</i>	
<i>CEO_Experience</i>	Dummy equal to 1 if CEO has experience in target's industry; 0 otherwise
<i>TOP- CEO Experience</i>	Dummy equal to 1 if CEO worked in a TOP position in the target's industry
<i>Inside Director Experience</i>	Dummy equal to 1 if Inside Director (excluding CEO) has experience in target's industry
<i>TOP- Inside Director Experience</i>	Dummy equal to 1 if Inside directors (excluding CEO) worked in a TOP position in the target's industry
<i>Outside Director Experience</i>	Dummy equal to 1 if Outside Directors have experience in target's industry
<i>TOP Outside Director Experience</i>	Dummy equal to 1 if Outside Directors worked in a TOP position in the target's industry
<i>Director Experience</i>	Dummy equal to 1 if Directors (including inside and outside directors) have experience in target's industry
<i>TOP Director Experience</i>	Dummy equal to 1 if Directors (including inside and outside directors) worked in a TOP position in the target's industry
<i>Panel B: Deal specific controls</i>	
<i>Top-tier Acquirer Advisor</i>	Dummy equal to 1 if the acquirer firm engaged top-tier advisors
<i>Young Company</i>	Dummy equal to 1 if the acquirer firm is a young company (age <5)
<i>Competing Bidder</i>	Dummy equal to 1 if there is competing bidders

<i>Diversifying</i>	Dummy equal to 1 if acquirer and target differ in their Fama-French 12-Industries (FF12) classification.
<i>Hostile Deal</i>	Dummy equal to 1 if the deal is hostile
<i>Tender Deal</i>	Dummy equal to 1 if the deal is tender
<i>Two-tier Deal</i>	Dummy equal to 1 if the deal is two-tier
<i>Log (Relative Size)</i>	Log of the transaction value of the deal divided by the market capitalization of the acquirer.
<i>Panel C: Firm- specific controls</i>	
<i>Acquirer's Profitability</i>	Operating Income/ Total Asset
<i>Market-to-Book</i>	Market value asset/Book value asset
<i>Acquirer's Firm Size</i>	Natural logarithm of total assets
<i>Acquirer's Leverage</i>	Total Asset/Total Liability
<i>Percentage of outside director</i>	Percentage of outside director on board
<i>CEO Tenure</i>	Natural logarithm of CEO tenure
<i>Board Size</i>	Number of directors on board

REFERENCES

ARMSTRONG, C.S, GUAY, W.R and WEBER, J.P. The Role of Information and Financial Reporting in Corporate Governance and Debt Contracting, 2010

ACHARYUA, V.V., MYERS, C.S., RAJAN, G.R. The internal governance of firms. Working papers, 2009.

BENOUA, G., and MADURA, J. High-tech acquisitions, firm specific characteristics, and the role of investment banking advisors. Journal of High Technology Management Research, 2005.

BRICKLEY, J. and ZIMMERMAN, J.L. Corporate Governance Myths: Comments on Armstrong, Guay, and Weber. 2010

BRUNER, R.F. Applied Mergers and Acquisitions. Hoboken, New Jersey: John Wiley & Son, Inc., 2004

BAO, J. and ALEX, E. Do investment banks matter for M&A returns? Review of Financial Studies 24, 228602315, 2011.

CHEN, J.Z., CUSSATT, M., GUNNY, A. K. Can Inside Directors be Effective Monitors? Working paper, 2012

CUSTODIA, C., and METZGER, D. The Value of CEOs' Industry Expertise - Evidence from Mergers & Acquisitions. 2010.

DEMB, A., and NEUBAUER, F.-F. The Corporate Board, Oxford: Oxford University Press, 1992.

FAMA F., JENSEN, M. Separation of ownership and control. Journal of Law and Economics 26, 301-325, 1983

MOLLER, S.B., SCHINGLEMANN, F.P, STULZ, R.M. Wealth destruction on a massive scale? A study of acquiring-firm returns in the recent merger wave. *Journal of Finance* 2005; 60; 757-782, 2005

GOLUBOV, A., PETMEZAS, D., and TRAVLOS, N. It Pays to Pay Your Investment Banker: New Evidence on the Role of Financial Advisors in M&As. 2010

HARFORD, J. What drives merger waves? *Journal of Financial Economics*, 2005.

HAMBRICK, D. and ABRAHAMSON, E. Assessing managerial discretion across industries: a multi-method approach. *Academy of Management Journal*, 38:1428–1441, 1995.

HARRIS, M., RAVIV, A. A theory of board control and size. *Review of Financial Studies* 21, 1797-1832, 2008

HAUNSCHILD, P.R. Interorganizational imitation: the impact of interlocks on corporate acquisition activity. *Administrative Science Quarterly*, 28, 564-92, 1993.

KALE, J., KINI, O., and RYAN, H. Financial Advisors and Shareholder Wealth Gains in Corporate Takeovers, *Journal of Financial & Quantitative Analysis* 38, 475-501, 2003.

KERR N.L., and TINDALE R.S. Group performance and decision making, *Annual Review of Psychology* 55, 623-655, 2004.

KLEIN, A. Audit committee, board of director characteristics, and earnings management. *Journal of Accounting and Economics* 33, 375-400, 2002

KOONTZ, H. The board of directors and effective management. McGraw Hill, New York, 1967.

KORN/FERRY INTERNATIONAL: 26th Annual Board of Director Survey, 1999

KRISHNAN, J. Audit committee quality and internal control: an empirical analysis. *The Accounting Review* 80, 649-675, 2005

MASULIS, W.R., WANG, C., XIE F. Corporate governance and acquirer returns. *Journal of Finance* 62, 1851-1889, 2007

MASULIS, W. R., MOBBS, S. Are all inside directors the same?. Working paper, 2011

MEYERINCK, F.V., OESCH, D., & SCHMID, M.M. Is Director Industry Experience Valuable? Working Paper, 2013.

MKRTCHYAN, A. The effect of Director Expertise on Acquisition Performance. Job market paper, 2012.

MOELLER, S.B., FREDERIK P.S., and STULZ, M.R. Firm size and the gains from acquisitions, *Journal of Financial Economics* 73, 201-228, 2004.

MOODIE, A.-M. The Twenty-first Century Board: Selection, Performance and Succession. Sydney, Australian Institute of Company Directors, 2001.

PEASNELL, K.V., POPE, P.F., YOUNG, S. Board monitoring and earnings management: Do outside directors influence abnormal accruals? *Journal of Business Finance & Accounting* 32: 1311-1346, 2005

RAHEJA, C.F. Determinants of board size and composition: a theory of corporate boards. *Journal of Financial and Quantitative Analysis* 40, 283-306, 2005

SERVAES, H. & ZENNER, M. The Role of Investment Banks in Acquisitions. *Review of Financial Studies*, Society for Financial Studies, 1996.

SCHONLAU, R. and SINGH, P. Board Networks and Merger Performance. *Tepper School of Business Paper* 449, 2009

WEISS, E. The board of directors, management and corporate takeovers: Opportunities and pitfalls, in: Arnold W. Sametz, ed: The battle for Corporate Control (Business One Irwin, Homewood, IL). 1991.

YERMACK, D.L. Higher market valuation of companies with a small board of directors. *Journal of Financial Economics* 40, 185-212, 1996