

Corporate Governance and Acquirer Stock Returns: Evidence from the Banking Industry

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1. Introduction

Jensen and Meckling (1976) posit that the separation of ownership and control in corporations is the source of significant conflicts of interest between shareholders and management. To mitigate the agency conflicts, various mechanisms have been developed. The level of rights enjoyed by the shareholders reflects the corporate governance arrangements of a firm. Recent studies propose several indices based on individual firms' corporate governance provisions to quantitatively measure the extent of restrictions on shareholder rights, and the protection enjoyed by entrenched managers. Examples include GIM index by Gompers, Ishii and Metrick (2003) and BCF index by Bebchuk, Cohen and Ferrell (2009). The higher the indices, the more constrained are the shareholders' rights, and more entrenched are managers. Both studies document significantly negative relation between the corporate governance indices and firm value as well as long-run stock returns. Masulis, Wang and Xie (2007) further identify acquisitions as one of the possible channels through which value is destroyed in poorly governed firms.

Gompers, Ishii and Metrick (2003) originally use the corporate governance index (GIM index), constructed based on the 24 provisions published by IRRC, to measure the

“balance of power between shareholders and management” (p.109). They suggest that the higher the index score, the more tools the management has to resist shareholder activism and as a result, the more restricted the shareholders are with their ability to discipline management. Conversely, firms with low index score do not insulate management from the market of corporate control and allow shareholders and active investors to discipline management, when the firm is underperforming. Therefore, the GIM index serves as a proxy for the level of shareholder rights. To highlight this point, Gompers, Ishii and Metrick define the firms with low index score as democracy firms and those with high index score as dictatorship firms.

However, given the importance of market for corporate control in disciplining management, subsequent studies on corporate governance provisions focus exclusively on antitakeover provisions (ATP). In accordance with this premise Bebchuk, Cohen and Ferrell (2009) construct an entrenchment index (BCF index) composed of six out of the 24 provisions featured by the IRRC that are most effective in fending off hostile takeover bids – staggered board, limit to shareholder amendments of bylaws, supermajority approval requirement for mergers and charter amendments, poison pill and golden parachute. Masulis, Wang and Xie (2007) find that the BCF index has stronger indicative power on acquirer returns than that of GIM index to confirm this selection criterion. In particular, they single out the staggered board provision, shown by previous studies (Bebchuk, Coates and Subramanian (2002); Bebchuk and Cohen (2005)) as the most powerful antitakeover provision, and find it has significantly negative effect on acquirer returns.

Does the management-shareholder power balance set through the 24 IRRC corporate governance provisions matter to investors or only the ATP provisions impact stock returns? Unfortunately, these two layers of information conveyed by the corporate governance provisions are difficult to disentangle. For firms facing constant threats of hostile takeovers, the provisions’ antitakeover implication is more dominant and their balance of power effect has been largely ignored. In this paper, we choose the banking industry to re-examine the relations between the various corporate governance indices and firms’ performance. It has been well documented that because most of the banking

mergers require regulatory approvals¹, hostile takeovers are rare in the banking industry (Whidbee,1997; Brook et al., 2000; Adams and Mehran, 2003; Hagendorff et al., 2007). Our own sample further confirms this fact---none of the observations in our sample are hostile². In an environment absent of hostile takeover threats, we are able to test the linkage between market for corporate control, the antitakeover provisions and firm value from a different perspective. If the antitakeover arguments by Bebchuk, Cohen and Ferrell (2009) and Bebchuk and Cohen (2005) are true, the negative relations between the BCF index, staggered board and firm value should disappear in the banking industry. As a result, we can further test the balance of power effect of the corporate governance provisions without the interference of their antitakeover implications.

Among GIM, BCF and staggered board indices, the GIM index includes all 24 corporate governance provisions, and therefore is the most comprehensive measure of the power balance between shareholders and the management. If the power-balance effect of the governance provisions does matter to the investors, the relation between GIM index and stock returns should remain significant in the banking industry. Meanwhile, if the measures used in the BCF index and staggered board are causing the firms to perform poorly because of their powerful antitakeover effect, we should expect them to become much less important for banks. Finally, in order to further study the power balance effect, we single out the cumulative voting provision. Although it does not receive the same level of attention as staggered board in the corporate governance literature³, it is widely considered as a measure of investor protection (La Porta et al., 2002). Cumulative voting allows minority shareholders proportional representation on the board of directors. Firms with cumulative voting tend to be more democratic than those without. In this study, we intend to test if cumulative voting provision is priced by investors.

¹ See Section 18(C) of the Federal Deposit Insurance Act (12 U.S.C. [section] 1828(c))(the “Bank Merger Act”)

²Out of 677 observations in our sample, we are able to find the acquisition attitude records for 671 observations. Among them, 662 are friendly and the other 9 are not applicable.

³ In Bebchuck et al., 2008, they pointed out cumulative voting as the only provision outside the BCF index that received significant precatory resolutions between 2003 and 2004.

Since Masulis, Wang and Xie (2007) is the only study that compares the impact of GIM, BCF and staggered board indices on firm value for conventional firms, for comparison purposes, we follow their methodology and re-examine the relations between acquirer announcement-period abnormal returns and the corporate governance indices in the banking industry. We find that in the absence of market for corporate control, the GIM index and the cumulative voting provision are still strongly related to acquirer abnormal returns while the BCF index and the staggered board provision lose their significance. The differences between our findings and Masulis, Wang and Xie's results provide further insights into the dynamics between corporate governance provisions and firm value. Our findings confirm that the market for corporate control is the driving force behind the negative associations between the antitakeover indices and firm value. Furthermore, we provide evidence that suggests the corporate governance provisions have implications beyond antitakeover effect and that the balance of power effect of the corporate governance provisions does matter.

Our results hold after taking into consideration two acts approved in the 1990s that changed the landscape of banking industry: the Riegle-Neal interstate banking and efficiency act and the Gramm-Leach-Bliley act. These two acts lifted various restrictions on banks' M&A transactions and as a result, there was a significant increase in the banks' M&A activities around the time these acts were passed.

Our research contributes to the current literatures on corporate governance in the following two main aspects: first, by focusing on an industry absent of market for corporate control, we are able to examine the power balance effect of corporate governance provisions separate from their antitakeover effect. Second, we provide further evidence confirming the linkage between the market for corporate control, antitakeover provisions and stock returns.

The rest of this paper is organized as following: section I reviews the relevant literature and discusses our hypothesis. Section II describes the data. Section III presents the results of the empirical analysis. Section IV concludes.

2. Literature Review and Hypotheses

Gompers, Ishii and Metrick (2003) construct a governance index (GIM index) based on 24 corporate governance provisions and show that their index is negatively related to firm value. Since the GIM index is constructed by adding one point for each provision that is detrimental to shareholder rights, their findings suggest that the firms that allow more rights to shareholders perform better. Gompers, Ishii and Metrick suggest the GIM index measures the balance of power between shareholders and management. Higher values of the index signify more power to entrenched managers.

Bebchuk, Cohen, and Ferrell (2009) select six out of the 24 provisions in GIM index based on the provisions' antitakeover relevancy and propose an entrenchment index (BCF index). They find that the BCF index is monotonically negatively associated with firm value as well as stock returns. Meanwhile, they do not find any such association for the other 18 provisions in the GIM index, which they include an "other index" (OI). They conclude that the measures in the BCF index are fully responsible for the negative relation between corporate governance provisions and firm value documented by Gompers, Ishii and Metrick. Bebchuk, Coates, and Subramanian (2002) focus on the impact of the staggered board and point out the powerful antitakeover implications of staggered boards. Bebchuk and Cohen (2005) further establish the link between the presence of staggered board and the firm values. They list the long waiting time and prohibitively high acquisition cost as the two main impediments for hostile bidders to gain control of a company with staggered board.

Although the above studies establish negative relations between various corporate governance indices and firm value, they stop short of identifying possible channels through which poorly governed management destroy firm value. Masulis, Wang and Xie (2007) propose acquisitions as a possible channel. The authors study the relations between various corporate governance indices (GIM, BCF and staggered board) and acquisitions announcement-period abnormal stock returns (CARs). They find that bidding firms with higher index scores in GIM, BCF or with a staggered board experience significantly lower acquisition period CARs. They suggest that those firms are poorer

acquirers because their managers are entrenched by the antitakeover provisions and therefore are more likely to indulge in empire-building acquisitions.

Relatively few studies focus on cumulative voting. In an early study, Bhagat and Brickley (1984) find that the management-sponsored proposals which reduce the impact of cumulative voting lead to significantly negative stock reactions. Gordon (1994) argues for cumulative voting as well. He states that for many firms, cumulative voting mechanism provides a cost-effective avenue for activist institutions to put directors on the board and thus, enhances the quality, independence and accountability of the board. However, he reasons the impact of cumulative voting will depend on the firm's ownership concentration, the easiness with which its institutional shareholders can exit, and its competitive environment.

2. A. Corporate governance in the banking industry

In the corporate governance literature, studies on banking have special implications because of their regulatory environment. Adam and Mehran (2003) identify the characteristics of bank holding companies (BHC) that are different from those of manufacturing firms; most notably, the presence of regulation and high leverage. They argue that the uniqueness of banking industry can systematically affect its corporate governance mechanisms as well. To test this hypothesis, the authors compare summary statistics of several key corporate governance variables of BHC with those of the manufacturing firms. They find that on average BHCs have larger boards, higher percentage of outside directors, lower CEO and institutional ownership and rely less on incentive-based compensation such as stock options than manufacturing firms.

Hagendorff et al. (2007) summarize previous studies on the impact of mergers and acquisitions on the performance of banks. They show that for the period from 1971 to 1997, 6 out of 8 studies on M&A of US banks document negative abnormal returns while the remaining 2 studies don't report any results. The authors then consider the studies on the relations between several important governance variables and M&A performance of the banks. They report that CEO ownership is positively associated with merger

performance but the relation is nonlinear and turns negative when the ownership reaches 25%. Contrary to the well-documented non-linear, positive relation for unregulated firms (Byrd and Hickman, 1992), independent board members don't seem to contribute to merger performance in the banking industry despite their larger than average representation in bank boards (Subrahmanyam et al., 1997). In another study on managerial incentive, Mannick, Unal and Yang (2010) find that bank acquirers whose CEOs have greater pay-for-performance sensitivity experience significantly better announcement-period abnormal returns.

Booth, Cornett, and Tehranian (2002) study the substitution effect of regulation for internal monitoring mechanisms (CEO/Chair duality, managerial stock ownership and outside directors). They find that for highly regulated firms (*i.e.* utilities and banks), internal governance mechanisms are less important in controlling agency conflicts. John, Mehran and Qian (2010) find that regulators and debtholders play an important role in monitoring the risk choice of the banks.

2. B Hypotheses

In this study, we re-examine the relations between various corporate governance indices and acquirer announcement-period abnormal returns in the banking industry where market for corporate control is absent. Given the arguments proposed by Bebchuk, Cohen and Ferrell (2009) and Bebchuk and Cohen (2005) that the negative associations between BCF and staggered board indices and firm value are primarily due to the antitakeover provisions, we hypothesize that such association should not be prevalent in the banking industry. If so, a natural question that arises is whether the original balance of power argument proposed by Gompers, Ishii and Metrick (2003) prevails. GIM suggest that the 24 corporate governance provisions on an aggregate level indicate the balance of power between management and shareholders and this information is priced by the investors. The balance of power argument should continue to be valid in the banking industry. If balance of power message is indeed priced by the investors, there should be a significantly negative association between the GIM index and bank acquirer

announcement-period abnormal returns. To further test the balance of power argument, we single out cumulative voting provision. As an important indicator of shareholder rights, the presence of cumulative voting should contribute positively to firm values. Since Masulis, Wang and Xie (2007) is the only study we can find that compares the effects of BCF index, GIM index and staggered board, we decide to follow their methodology and study the effects of corporate governance indices on bank acquirer announcement-period abnormal returns. We propose our main hypotheses as follows:

Antitakeover irrelevance hypothesis: the previously documented negative relations between BCF and staggered board indices and firm values are caused by their antitakeover effect. In the banking industry with no hostile takeover threats, both indices become irrelevant to banks' performance.

Balance of power effect hypothesis: corporate governance provisions collectively reflect the balance of power between shareholders and management. Banks distributing more rights to their shareholders are better managed than those distributing fewer rights. The GIM and cumulative voting indices as indicators of balance of power between shareholders and management should significantly relate to bank acquirers' performance.

3. Sample Selection

We obtain M&A data in the banking industry from SDC Platinum. The original dataset from SDC contains 3185 acquisitions from January 1, 1991 to December 31, 2008 made by commercial banks (acquirers with SIC codes 6021, 6022 and 6712). We exclude observations for which we are not able to obtain accounting data from COMPUSTAT and return data from CRSP; this reduces our sample by 903 acquisitions. Note that the original sample includes also acquisitions by private banks; therefore the first screening stage eliminates private acquirers. We calculate announcement-period abnormal returns using Eventus. We are not able to calculate announcement returns for 73 acquisitions, which reduces our sample to 2209 deals. Since our paper focuses on the impact of the corporate governance provisions on wealth effects in the banking industry, we require that corporate governance data obtained from RiskMetrics is available for all acquirers in the sample. This reduces our sample to 957 acquisitions. Note that since RiskMetrics

only covers larger firms, our results are relevant for larger banks. Masulis, Wang and Xie (2007) study and many others using RiskMetrics data suffer from a similar bias. Finally, we impose the following selection criteria: a. the acquisition is completed; b, the acquirer controls less than 50% prior to the acquisition announcement date and 100% after; c. the deal value is more than \$1 million and is at least 1% of the acquirer's market value of equity (280 acquisitions are excluded). This leaves us with a final sample of 677 acquisitions by 120 commercial banks.

CEO compensation and ownership data are gathered from ExecuComp; board characteristics information is obtained from RiskMetrics. All accounting and executive compensation data for the acquirers is obtained for the fiscal year prior to announcement date. For governance-provision related variables, we follow the convention and obtain data from the IRRC-publication year prior to the announcement date. We calculate the BCF index by summing up the 6 antitakeover provisions used by Bebchuk et al. (2009) -- - staggered board, poison pill, golden parachutes, limit to amend bylaws, limit to amend charter, and supermajority to approve a merger. We calculate all the other variable values based on the appendix on variable definitions of Masulis, Wang and Xie (2007) . We obtain M&A in the banking industry from SDC Platinum and identify 677 acquisitions made by 120 commercial banks (SIC code 6021, 6022) from January 1, 1991 to December 31, 2006 that meet the following criteria: a. the acquisition is completed; b, the acquirer controls less than 50% prior to the acquisition announcement date and 100% after; c. the deal value is more than \$1 million and is at least 1% of the acquirer's market value of equity; d. the acquirers have annual financial information available from CRSP and COMPUSTAT and governance information available from IRRC. It is worth noting that we follow the data selection criteria by Masulis, Wang and Xie (2007) to ensure the possible differences in our findings are not due to the sample selection procedure.

We obtain data on financial statement from COMPUSTAT and on stock price and trading volume from CRSP. We obtain data on the individual corporate governance provisions, the GIM index score, and board composition from RiskMetrics. Data on CEO compensation and ownership are gathered from ExecuComp. All datasets are matched by CUSIP number and announcement date. Except for the governance-provision related

datasets, we use the fiscal year prior to announcement date as the matching year. For governance-provision related datasets, we follow the convention and use the IRRC-publication year prior to the announcement date as the matching year. We calculate the BCF index by summing up the 6 antitakeover provisions chosen by Bebchuk et al. (2009) --- *staggered board, poison pill, golden parachutes, limit to amend bylaws, limit to amend charter, and supermajority to approve a merger*. Variable definitions are provided in Appendix 1.

Table 1 lists the distribution of the sample by years of the initial announcements. The highest number of acquisitions occurred in 1994, the year congress passed the Riegle-Neal Interstate Banking and Branching Efficiency act allowing interstate banking practice. However, the acquirer size and deal size did not pick up until 1997. The lag was possibly caused by the fact many states allowed interstate banking shortly after the passage of Riegle -Neal act but many large nationwide bank acquisitions took place after the act's effective date. Another landmark year in banking industry was 1999, when Gramm-Leach-Bliley act was enacted. This act allows combination of commercial banks, investment banks and insurance companies. Acquirer size experienced a large increase that year and reached the highest levels in 2000, reflecting that big banks move quickly to take advantage of the deregulation⁴. The period from 1999 to 2000 coincided with the M&A "bubble" period reported in Masulis, Wang and Xie (2007) . So it is difficult to disentangle Gramm-Leach-Bliley Effect from overall M&A boom. But evidently affected by the general trend, bank acquisition activities in 2001 took a big dip before recovering in 2002.

4. Empirical Analyses and Results

A. Acquirer's Returns

For comparison purposes, we follow Masulis, Wang and Xie (2007) methodology closely. We use short-term event-study methodology to measure shareholder reaction to

⁴ Studies on Gramm-Leach act have found larger banks stand to gain more than smaller banks. (Lee and Tompkins (2000); Barth et al. (2000); Akhigbe and Whyte (2001))

initial acquisition announcements. The cumulative abnormal returns (CARs) are calculated over a 5-day period from (-2, 2) with day 0 as the announcement date and are adjusted by equal-weighted market returns. The market returns are estimated over 200-day period from day -210 to day -11. The first column of Panel A of Table 2 reports mean CARs of -0.91% for the whole sample, significantly different from zero at 1% level, which is 1.125% lower than the 0.215% acquirer CARs reported by Masulis, Wang and Xie (2007). This result is consistent with past literature on acquirer returns in US banking industry summarized by Hagendorff et al. (2007). They tabulate eight studies on announcement returns to bidding banks in US covering period from year 1972 to 1997, none of which reports positive returns. They attribute the massive acquisition-related shareholder wealth destruction in the banking industry to agency costs. Column 2 to column 4 of Panel A break down the CARs by methods of payment. Cash-financed deals generate slightly positive mean CARs of 0.24%, which is significantly higher than the mean CARs of -1.14% by the stock-financed deals. The difference is 1.38% or \$103 million if we multiply the 1.38% by the mean market value of acquirers in our sample. Such difference is in accordance with the documented general trend and can be attributed to the fact that stock-financed deals are more likely to be initiated by acquirers whose shares are over-valued.

Panel B of Table 2 summarizes CARs by target ownership status. The acquisitions of publicly-owned targets generate -1.42% mean CARs while the acquisitions of privately-owned targets generate -0.15% CARs. The difference is about -1.28%, significant at 1% level. Again, this is consistent with the results recorded by the general studies. The argument is that privately-owned targets come with a liquidity discount and therefore are cheaper for the acquirers. Finally, we further divide the targets in our sample into five categories based on their SIC codes: commercial banks (SIC codes: 6021, 6022, 6029, 6081 and 6712), insurance firms or investment banks (SIC codes: 6211, 6282, 6289, 6311, 6331, 6371 ,6726, 6733, 6794 and 6799), savings institution (SIC codes: 6035 and 6036), other financial firms (SIC codes within the 6000 range but not covered by the listed financial firm categories), and non-financial firms (SIC codes not within 6000 range). Panel C of Table 2 reports acquirer CARs by target

industries. As shown by the number of observations, commercial banks most often target commercial banks---470 of 677 observations target at commercial banks. These acquisitions appear to perform the poorest among the five categories of targets, providing evidence that there might be some diversification gains for banks acquiring non-bank targets. However, the gains are very limited and in a relative manner since none of 5 categories of targets generate significantly positive average CARs.

B. *Corporate Governance Indices and Acquirer's Returns*

The variables of interest in this study are GIM and BCF governance indexes, staggered board and cumulative voting. The first three variables are frequently discussed in studies of corporate governance provisions. The last one has been studied less often. However, since one of the main purposes of this paper is to test if banks distributing more rights to their shareholders are better acquirers and the presence of cumulative voting represents a bank's attitude towards minority shareholders, we decide to include it as a separate index.

Panel A of Table 3 reports mean and median scores of the indices and their correlations with acquirers CARs. Compared with Masulis, Wang and Xie (2007) , who report scores of three indices: GIM, BCF and staggered board, the values of the indices in our sample are slightly higher. Minnick, Unal and Yang (2010) find a similar pattern. They attribute size as the possible cause since banks are in general larger than non-financial firms and size and the corporate governance indices are positively correlated (Masulis, Wang and Xie (2007)). A more important difference between our results and the findings by Masulis, Wang and Xie (2007) is that except for GIM index, the other two indices appear to have no significant associations with acquirers CARs. Given the lack of hostile takeover threats in the banking industry, we argue that the absence of correlations between the BCF and staggered board indices and CARs in the banking industry provide evidence to the linkages between market for corporate control and those two indices as predicted by *Antitakeover irrelevance hypothesis* . Moreover, consistent with *Balance of power effect hypothesis*, the correlation between GIM index and acquirer CARs remains

significantly negative, indicating that more democratic bank acquirers create more wealth or at least destroy less value for their shareholders by means of internal governance even without the presence of market for corporate control. To further test the *Balance of power effect hypothesis*, we take a look at another important provision related to shareholder-right protection: cumulative voting. As expected, although only a small percentage of banks have cumulative voting (17%), this provision is strongly and positively⁵ associated with acquirers CARs.

Panel B of Table 3 reports the results of univariate analysis using the portfolio approach. Our portfolio classification schemes are the same as those used by Masulis, Wang and Xie (2007) . For GIM index, we apply two classification schemes: one to compare the CARs of the portfolios at the extreme ends of GIM index while the other studies its median effect. For the first scheme, we assign banks with GIM score of 5 or less into the Democracy portfolio and with 14 or more into the Dictatorship portfolio. For the second scheme, we use score 9 as the cut-off point to assign the bank acquirers. For BCF index, Democracy portfolio consist of banks with BCF score of 2 or less and Dictatorship portfolio consist of banks with BCF score of 3 or more. The results are similar to the findings of correlation analysis: banks in GIM-democracy portfolio perform better than their peers in GIM-dictatorship portfolio under both schemes and the difference is more pronounced at the extreme ends while there is no significant difference in performance between BCF-democracy group and BCF-dictatorship group. Again, those finding are consistent with our *balance of power effect hypothesis* and *antitakeover irrelevance hypothesis*.

C. Acquirer's Characteristics

Panel B of Table 4 summarizes acquirer characteristics. Compared to the levels reported by Masulis, Wang and Xie (2007) , on average, our bank acquirers are larger by

⁵ Unlike other provisions, cumulative voting and secret ballot are consider beneficial to shareholders and in the GIM and BCF calculation, the authors add one point to the index value when there is an absence of cumulative voting or secret ballot.

asset size (\$36,769 million versus \$9,005 million), more leveraged (82% versus 15%), and have lower Tobin's Q (1.1 versus 1.98). These different characteristics between banks and other firms have been documented in prior banking studies including Adam and Mehran (2003), and Hagendorff et al. (2007). Indeed, these authors note that such differences provide the justification for separate investigation of corporate governance of banks. Panel C reports deal characteristics. Again, the deal characteristics of our sample are notably different from those reported by Masulis, Wang and Xie (2007) : deals of our sample are smaller (7.32% versus 16%), more likely to be a public company (60% versus 33%) and less likely to be financed by cash (17% versus 46%). Given that all of these features have been shown by prior researchers to significantly affect acquirer returns (Moeller, Schlingemann, and Stulz (2004); Chang (1998); Fuller, Netter, and Stegemoller (2002)), it is important for us to control for them in the multi-variate regression analysis.

5. *Regression Results*

A. *Baseline Regression*

Table 6 reports baseline results of regressing bank acquirers CARs on the four indices controlling for the bidder and deal characteristics and target industries. All four regressions are adjusted for year fixed effects and acquirer clustering. Among the four indices, BCF, GIM and staggered board have negative coefficients while coefficient of cumulative voting is positive. Those signs are in line with our expectations about the impacts of the indices on the firm value. More importantly, in terms of statistical significance, with values of coefficient estimates of -0.0008 (t-statistic 0.77) and -0.0035 (t-statistic 0.87), BCF and staggered board are not significantly related to acquirer CARs. The lack of significance in the BCF and staggered board indices contrasts with the findings by Masulis, Wang and Xie (2007) who report both indices to be highly significant and confirms our *antitakeover irrelevance hypothesis*. However, coefficients of the GIM and cumulative voting indices remain significant, providing evidence for our *Balance of power effect hypothesis*. In particular, the coefficient estimate for GIM index is -0.0012 with t-statistic of 2.12. To measure the economic significance of the different

impact of GIM and BCF index, we calculate change in acquirer CARs as a result of one standard deviation increase in each index. We find that one standard deviation increase in GIM index (BCF index) lowers acquirer returns by about 0.294% (0.102%), suggesting the impact of GIM index on acquirer returns is about 3 times greater than that of the BCF index. Note that Masulis, Wang and Xie (2007) find the effect of BCF is about 1.5 times stronger than that of GIM index. We believe the reverse effects between the two indices are the consequence of the combination of *Balance of power effect hypothesis* and *antitakeover irrelevance hypothesis*. Finally, the coefficient of cumulative voting is estimated at 0.0091 (t-statistic 2.23), indicating banks with cumulative voting generate 0.91% higher acquisition announcement returns than those without cumulative voting. This value represents the highest return difference brought about by a single provision among the four indices, providing further evidence that banks distributing more rights to shareholders perform better.

Next, we examine the impact of control variables. For acquirer characteristics, leverage is the only significant variable, suggesting debtholders play an important role in monitoring bank management, which is consistent with the argument proposed by John, Mehran and Qian (2010). The positive sign of the coefficient estimate of Tobin's q is consistent with the positive relation between Tobin's q and acquirer returns documented by Lang, Stulz and Walking (1991) and Servaes (1991). The relation between relative deal size and acquirer returns is negative. According to Moeller, Schlingemann, and Stulz (2004), relative deal size only negatively affects acquirer returns for large acquirers. Since our summary statistic shows that the bank acquirers on average are much larger than acquirers in overall industries, this result is in line with the evidence presented by Moeller, Schlingemann, and Stulz (2004). In terms of deal characteristics, we classify the deals into four categories based on methods of payments and target ownership status: stock-financed public target acquisitions, cash-financed public target acquisitions, stock-financed private target acquisitions and cash-financed private target acquisitions. To avoid perfect multicollinearity, we omit stock-financed public target acquisitions from the regression. The coefficients of the other three deal categories are all positive, suggesting stock-financed public target acquisitions are responsible for the overall

negative stock returns for the bank acquirers. Ordering the coefficient estimates of the three deal categories from lowest to highest, we find cash-financed private deals generate highest returns for the acquirer shareholders, followed by stock-financed private deals, and lastly cash-financed public deals. This finding corroborates the relation documented in extant literature on the effects of method of payments and target ownership status on acquirer returns ((Chang (1998), Fuller, Netter, and Stegemoller (2002)). Finally, we control for the target industries. We divide the target industries into four categories: investment banks or insurance firms, savings and loan institutions, other financial firms, and non-financial firms. Only the acquisitions of investment banks or insurance firms are significantly and positively associated with bank acquirers CARs, indicating gain from economies of scale for commercial banks acquiring investment banks or insurance firms.

B. *Controlling for Board Characteristics*

The results of the baseline regression are consistent with our *antitakeover irrelevance hypothesis* and *Balance of power effect hypothesis*. However, to ensure they are not caused by governance variables such as board characteristics and CEO characteristics, we include those variables in our regression analysis. Table 7 reports the regression results controlling for board characteristics. Since our director data from RiskMetrics only date back to 1996, our sample size decreases from 677 to 320. Despite that, our previous findings of the relations between the four corporate governance indices and bank acquirer CARs continue to hold, indicating that they are robust with respect to board characteristics. None of the board characteristics variables are significant. Adam and Mehran (2003) argue that in the banking industry, regulators as outside monitors strongly influence board size and composition. As a result, the importance of board the percentage of independent board members has a negative albeit insignificant sign, echoing the findings of Subrahmanyam et al. (1997), who document a similar relation between acquirer returns and percentage of outside directors in the banking industry. In terms of acquirer and deal characteristics, we find that in this subsample, the signs remain the same but their magnitudes become stronger, especially for Tobin's q and relative deal

size. As shown in table 1, from 1997 (the year Riegle-Neal act became effective) onward, both deal size and acquirer size increase notably. Since by Moeller, Schlingemann, and Stulz (2004), relative deal size only negatively affects acquirer returns for large acquirers, we consider the greater impact of acquirer and deal characteristics in this later period may be attributable to the size effect. Finally, with respect to target industries, the coefficient estimates of the target category of investment banks or insurance firms are no longer significant but remain positive. Another target category with positive coefficient estimates is the savings institution, which is significant in three out of the four regressions. According to Curry and Shibut (2000), the clean-up of the savings and loan institution crisis was nearly completed in the year-end of 1995. Since the sub-sample used in this regression starts in year 1996, the significantly positive coefficient estimates might reflect the improvements in quality of the savings and loan institution targets after the clean-up.

C. *Controlling for CEO Characteristics*

Table 8 presents regression estimates controlling for CEO characteristics. In this set of regressions, we choose CEO age as the proxy for CEO experience, CEO equity-based compensation (percentage of value of annual stock options and restricted stock grants over total compensation), CEO ownership (number of shares owned over year-end shares outstanding) and CEO ownership-square (the squared term of CEO ownership) as the proxy for CEO incentive and finally, the three-year operating income growth rate as the proxy for management quality. We obtain CEO compensation and ownership data from ExeComp, which starts from year 1992. Due to data restrictions, our sample size decreases further to 161 observations.

As shown in Table 8, the coefficient estimates of the four corporate governance indices continue to have the same signs and statistical significances as in the previous regressions, indicating our *antitakeover irrelevance hypothesis* and *Balance of power effect hypothesis* are still valid after considering CEO incentive and performance characteristics. Notice that none of the CEO characteristics variables are significant. The

insignificant coefficient estimates of CEO equity-based compensation and CEO ownership are in line with the findings by Masulis, Wang and Xie (2007) , who point out in footnote 22 that Qiu (2006) also finds the relation between acquirer CARs and equity-based compensation to be insignificant. Another point worth noting about the CEO ownership is that its relation with acquirer CARs appears to be quadratic: the coefficient estimates of the CEO ownership are positive and of the square term of the CEO ownership are negative, which is consistent with the findings by Hughes et al. (2003). Among all other controlling variables, only the coefficient estimates of cash-financed public-target deal type remains significant in all 4 regressions. However, the signs of the coefficient estimates stay unchanged from the previous regressions and their magnitudes are approximately the same, suggesting the reductions in the significance level are mainly due to the decreased sample size.

6. Controlling for Riegle-Neal Act and Gramm-Leach-Bliley Act

There are two acts in the 1990s that changed the overall landscape of banking industry: Riegle-Neal interstate banking and efficiency act and Gramm-Leach-Bliley act. Riegle-Neal act allows interstate bank mergers and acquisition. Under this act, banks are able to operate and compete at national level. It was passed by congress in 1994 and went fully effective nationwide in 1997. Gramm-Leach-Bliley act was enacted in 1999 and removes the barriers of mergers among commercial banks, investment banks and insurance firms. The effects of these two acts are evident from Table 1. 1994, the year congress passed the Riegle-Neal act, witnessed the highest number of acquisitions. However, both the acquirer size and deal size didn't pick up until 1997. Then acquirer size experienced another significant jump in 1999 and reached the largest in 2000. Given the significant changes in acquirer and deal size following the two acts, it is necessary to control for them in our analysis. The results are presented in Panel A (for Riegle-Neal Act) and Panel B (for Gramm-Leach-Bliley Act) of Table 10. In both Panels, the magnitude, sign and statistical significance of the coefficient estimates of the four corporate governance indices remain the unchanged---the coefficient estimates of the

GIM index are significantly negative, of the BCF index and the staggered board provision are negative but not significant, and of the cumulative voting provision are significantly positive, suggesting our *balance of power effect hypothesis* and *antitakeover irrelevance hypothesis* are robust to those two acts. With respect to the effects of the two acts, the passage of the Riegle-Neal Act contributes positively albeit insignificantly to acquirer returns while that of the Gramm-Leach-Bliley Act is significantly and negatively associated with acquirer returns.

7. Robustness Tests

So far, our analysis has shown that in the banking industry where market for corporate control is absent, the antitakeover implications of the corporate governance provisions do not matter while the balance of power message reflected by those provisions remains. However, our analysis up to this point has treated the BCF and GIM indexes as separate indices and ignored the fact that the BCF index is comprised of six provisions that are also in the GIM index. In this section, we intend to examine the additional explanatory power of the GIM index on top of the six provisions within the BCF index. For this purpose, in this section, we include the O index in the regression analysis alongside the BCF index as well as the provisions within the BCF index. The O index was first introduced by Bebchuk, Cohen and Farrel (2008). It is the sum of all the other eighteen provisions not included in the BCF index. BCF (2009) find that after controlling for the BCF index, the O index has no significant association with stock returns. However, a possible explanation of this finding is that due to the high correlation between the BCF index and the GIM index (0.74 in BCF (2009), and 0.67 in our sample) and the strong antitakeover implication of the BCF index in the unregulated industries, the power balance effect of the GIM index has largely been overshadowed. In the banking industry where antitakeover is not a major concern while balance of power effect still matters, we should expect to see the additional explanatory power of the O index if both of our *balance of power effect hypothesis* and *antitakeover irrelevance hypothesis* hold. In addition, BCF (2009) find that each of the 6 provisions within the BCF index is significantly and negatively associated with the firm value. However, under our

antitakeover irrelevance hypothesis for the banking industry, those provisions should lose their significance level.

The results of our analysis with regard to the O index and provisions within the BCF index are presented in Table 10. In Panel A, we report the regression results of the O index on acquirer CARs controlling for the BCF index or each provision within the BCF index. In Panel B, we report the results of the CARs - O index regression controlling for each provision within the BCF index and the BCF index minus the provision chosen. In all the regressions, we further control for the acquirer and deal characteristics and the target industries but omit the results here for brevity. As expected, in all sets of regressions, the coefficient estimates of the O index are significantly negative, suggesting the GIM index does explain significantly more variations in bank acquirers CARs than the BCF index. Consistent with our previous findings, the coefficient estimates of the BCF index and the staggered board provision are negative but not significant. The coefficient estimate of another powerful antitakeover provision -- poison pill -- is not significant, nor is the limit to amend charter provision, or the supermajority to approve a merger provision. Another provision -- limit to amend bylaw -- is significantly positive. The only provision that is significantly negative is the golden parachutes but only marginally at 10% level. Those estimates are in stark contrast to the findings by BCF (2008), who find all the provisions within the BCF index to be significantly negative at 5% level at least, and further confirms our *antitakeover irrelevance hypothesis*.

8. Long-Run Abnormal Returns for Long and Short Investment Strategy

GIM (2003) report a significant abnormal return of 71 basis points per month for the investment strategy of longing democracy portfolio and shorting dictatorship portfolio. This important finding provides evidence that democracy portfolio significantly outperforms dictatorship portfolio and lays the ground for the subsequent studies of corporate governance indices. BCF (2009) conduct a series of similar analysis and find that longing portfolio of firms with low BCF scores and shorting portfolio of firms with

high scores results in abnormal returns ranging from 1.16 basis points to 25 basis points per month with different portfolio construction schemes.

We conduct the same long and short investment analysis of the two portfolios for the financial firms (SIC code 6000 to 6999). We expand our sample to all financial firms due to two reasons: first, the sample size of commercial banks is too small to conduct such analysis. Second, because vast majority of the financial institutions such as banks, insurance firms and REITs are subject to strict regulations that require regulatory approval of M&A transactions, there are no hostile takeover threats for those firms. The basic setup to test our hypotheses is still valid. The time period of our study is from 1990 to 1999, the same period studied by GIM (2003) and BCF (2009).

For GIM index, we constructed the democracy and dictatorship portfolio using two schemes. For the first scheme, we follow GIM (2003) and group firms with GIM score below or equal to 5 into the democracy portfolio and those with GIM score equal to or above 14 into dictatorship portfolio. For the second scheme, we use the middle point as the cut-off point and group firms with GIM score below or equal 9 into democracy portfolio and those with GIM score equal or above 10 into dictatorship portfolio. The result is reported by Panel A of Table 11. The average monthly return differences of longing democracy portfolio and shorting dictatorship portfolio are reported in the first column. For the portfolios constructed at the extreme ends, the return difference is 35.5 basis points per month or 4.26 percent per year. Although it is not statistical significant, its economic significance is strong. When the portfolios are constructed at the middle point, the average return difference reduces to 15 basis points per month or 1.8 percent a year. The abnormal returns are reported in the second column. The abnormal return is the alpha of regressing the monthly return differences on Fama-French three factors and the momentum factor. The abnormal return for the extreme-end portfolio is 31.3 basis points, which is much less than the 71 basis points reported by GIM (2003). This reduction in the abnormal returns can be caused by the lack of market for corporate control for the financial firms. As indicated by BCF (2009), a major reason for the performance difference between the democracy portfolio and dictatorship portfolio is the management entrenchment effect of the dictatorship portfolio. For financial firms in the absence of

market for corporate control, it is reasonable to expect such performance gap to decrease significantly. However, the management entrenchment effect aside, the democracy portfolio still outperforms the dictatorship portfolio. This finding is consistent with the *balance of power effect hypothesis*.

Panel B of Table 11 reports the return differences and abnormal returns for longing democracy portfolio and shorting dictatorship portfolio constructed based on BCF index. Following BCF (2009), I construct the two portfolios using 5 schemes from extreme ends to the middle point. In scheme 1, we group firms with BCF index 0 into the democracy portfolio and firms with BCF index 5 or 6 into dictatorship portfolio. In scheme 2, we group firms with BCF index 0 into the democracy portfolio and firms with BCF index 4, 5, 6 into dictatorship portfolio. In scheme 3, we group firms with BCF index 0 or 1 into democracy portfolio and those with index 4, 5 and 6 into dictatorship portfolio. In scheme 4, we group firms with BCF index 0 or 1 into democracy portfolio and those with index between 3 and 6 into dictatorship portfolio. At last, in scheme 5, we group firms with BCF index between 1 to 2 into democracy portfolio and those with BCF index between 3 and 6 into dictatorship portfolio. The first finding of note is that except for scheme 4, the abnormal returns using the 5 construction schemes are all negative, indicating that using BCF index, the democracy portfolio underperforms the dictatorship portfolio in most of the cases. In addition, unlike BCF (2008), there is no clear pattern in abnormal returns from scheme 1 to scheme 5 in our analysis. To summarize, consistent with *our antitakeover irrelevance hypothesis*, in the absence of an active market for corporate control, the BCF index can no longer indicate firms' performance in the financial industries.

9. Conclusion

By re-examining the relations between various corporate governance indices and measures (GIM, BCF, staggered board and cumulative voting) and acquirer announcement-period abnormal stock returns in the banking industry where market for corporate control is absent, we find that acquirer returns are significantly and negatively

associated with the GIM index, significantly and positively associated with the cumulative voting provision, and have no association with the BCF index and the staggered board provision. Our results are notably different from the findings of previous studies for conventional firms, such as Masulis, Wang and Xie (2007) and Bebchuk, Cohen, and Ferrell (2009) and confirm the linkage between market for corporate control, the BCF index and the staggered board provision and firm value. Furthermore, our findings suggest that the corporate governance provisions have implications beyond antitakeover defenses and their management-shareholder power balance message is priced by the investors.

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Table 1: Summary Statistics of a Sample of 677 Bank M&As during 1991-2006 by Years

Table 1 reports the number of M&As in our sample by year. The sample consists of 677 acquisitions by 120 bank acquirers from 1991 to 2006. All deals are listed in the SDC Platinum. Variable definitions are in the Appendix.

Year	Number of Acquisitions	Percentage of Sample	Mean Acquirer Market Value of Equity (\$mil) (Median)	Mean Deal Value(\$mil) (Median)	Mean Relative Size (Median)
1991	29	4.28	2013.66 (873.70)	299.67 (32.00)	0.1209 (0.0268)
1992	41	6.06	1988.16 (1167.59)	82.21 (45.05)	0.0597 (0.0225)
1993	74	10.93	2092.33 (1299.74)	84.84 (44.71)	0.0505 (0.0335)
1994	91	13.44	2684.60 (1461.57)	116.30 (48.82)	0.0668 (0.0250)
1995	41	6.06	2349.23 (1541.78)	289.95 (35.35)	0.0921 (0.0341)
1996	34	5.02	2400.63 (1441.04)	152.44 (45.45)	0.0772 (0.0352)
1997	53	7.83	5859.47 (2711.31)	433.78 (81.19)	0.0866 (0.0240)
1998	61	9.01	6589.07 (4936.56)	385.13 (118.86)	0.063 (0.023)
1999	44	6.50	11968.91 (5374.89)	275.64 (165.01)	0.0532 (0.0306)
2000	34	5.02	22790.80 (8615.94)	1580.66 (163.29)	0.0603 (0.0308)
2001	20	2.95	14627.35 (8015.76)	196.97 (120.06)	0.0365 (0.0251)
2002	16	2.36	19713.35 (1570.65)	443.40 (66.97)	0.0496 (0.0120)
2003	26	3.84	14150.23 (2404.38)	2264.59 (221.06)	0.108 (0.067)
2004	42	6.20	14341.93 (2397.31)	1999.72 (138.71)	0.076 (0.046)
2005	32	4.73	14272.07 (2731.95)	1430.69 (154.97)	0.0762 (0.0514)
2006	39	5.76	8148.58 (2329.64)	686.24 (160.07)	0.1166 (0.0570)
Total	677	100	7509.18 (2359.64)	568.38 (81.00)	0.0732 (0.0310)

Table 2: Announcement Abnormal Returns in a Sample of 677 Bank M&As during 1991-2006

Table 2 breaks down acquire returns by category. Panel A summarizes the acquirer returns by method of payments. Panel B summarizes the acquirer returns by target ownership status. Panel C summarizes the acquirer returns by target industry. Variable definitions are in the Appendix. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Panel A: CARs by Method of Payments

		Whole Sample	All Cash	Stock	Cash-Stock Diff.
CAR	Mean	-0.0091***	0.0024	-0.0114***	0.0138***
(-2,2)	Median	-0.0074***	-0.0027	-0.0083***	0.0056**
Number of obs.		677	113	564	

Panel B: CARs by Target Ownership Status

		Public Target	Private Target	Pub.-Pri. Diff
CAR	Mean	-0.0142***	-0.0015	-0.0128***
(-2,2)	Median	-0.0076***	-0.0032	-0.0082***
Number of obs.		403	274	

Panel C: CARs by Target Industries

		Comm. Banks	Savings Inst.	Insurance/ Inv. Banks	Other Financ.	Non-Financials
CARs	Mean	-0.0104***	-0.0080***	0.0071	-0.0143**	-0.0045
(-2,2)	Median	-0.0114***	-0.0074***	-0.0006	-0.0232*	-0.0047
Number of obs.		470	145	34	21	7

Table 3: Univariate analysis on Corporate Governance Indices and CARs in a Sample of 677 Bank M&As during 1991-2006

Panel A reports the correlation coefficients between corporate governance indices and acquirer returns. Panel B compares the differences in acquirer returns between dictatorship portfolio and democracy portfolio. Variable definitions are in the Appendix. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Panel A: Correlation Analysis			
	Mean	Median	Correlation with CAR
GIM	9.83	10	-0.09**
BCF	2.65	3	-0.05
Staggered Board	0.78	1	-0.05
Cumulative Voting	0.17	0	0.11***

Panel B: Portfolio Difference in CARs					
		Democracy	Dictatorship	Diff.	Test in Diff.
GIM Classification (I) (Democracy: Index<=5 Dictatorship: Index>=14)	Mean	0.0064	-0.0157***	0.0221	2.68***
	Median	0.0074	-0.0097**	0.0171	1.06**
	Number of Obs.	17	33		
GIM Classification (II) (Democracy: Index<=9 Dictatorship: Index>=10)	Mean	-0.0057**	-0.0120***	0.0064	2.21**
	Median	-0.0049**	-0.0091***	0.0042	1.72*
	Number of Obs.	318	359		
BCF Classification (Democracy: Index<=2 Dictatorship: Index>=3)	Mean	-0.0069***	-0.0108***	0.0039	1.36
	Median	-0.0058***	-0.0084***	0.0026	1.12
	Number of Obs.	300	377		

Table 4: Summary Statistics of Regression Variables in a Sample of 677 Bank M&As during 1991-2006

Panel A reports the summary statistics for CAR and corporate governance indices. Panel B reports the summary statistics for acquirer characteristics. Panel C reports the summary statistics for deal characteristics. Variable definitions are in the Appendix.

Panel A: Summary Statistics for CAR and Corporate Governance Indices

Variable	Mean	S.D.	Q1	Median	Q3
CAR (%)	-0.91	3.71	-2.81	-0.73	1.07
GIM index	9.83	2.45	8	10	12
BCF index	2.65	1.27	2	3	4
Staggered Board	0.78	0.42	1	1	1
Cumulative Voting	0.17	0.38	0	0	0

Panel B: Acquirer Characteristics

Variable	Mean	S.D.	Q1	Median	Q3
Total Assets(\$mil)	36,769.12	93,344	6,660.28	13,185.10	30,906.40
Market Value of Equity(\$mil)	7509.18	20,355.91	1,175.71	2359.59	5,639.59
Tobin's Q	1.10	0.10	1.04	1.07	1.15
Free Cash Flow(%)	2.31	0.47	2.01	2.30	2.55
Leverage (%)	82	7	78	83	88
Stock Price Run-up(%)	8.08	22.46	-6.03	5.98	19.97

Panel C: Deal Characteristics

Variable	Mean	S.D.	Q1	Median	Q3
Relative Deal Size (%)	7.32	12.21	1.23	3.10	8.18
Public (Dummy)	0.60	0.49	0	1	1
Private (Dummy)	0.40	0.49	0	0	1
All Cash (Dummy)	0.17	0.37	0	0	0
Some Stock (Dummy)	0.83	0.37	1	1	1

Table 5: Pairwise Correlation Statistics of Regression Variables in a Sample of 677 Bank M&As during 1991-2006

Table 5 presents correlation matrix. The sample consists of 677 acquisitions by 120 bank acquirers from 1991 to 2006. All deals are listed in the SDC Platinum. Variable definitions are in the Appendix. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

	CAR(-2,2)	GINDEX	BCF	CBOARD	CUMVOTE	firmsize	tobinQ	FCF	leverage	RunUp	OperGrth	R_N	G_L	allcash	Stock	private	public	RelDealSz	duality	BdSz	IndepPer	CEOOwn	CEOAGE	CEOEtyComp	
CAR(-2,2)	1																								
GINDEX	-0.09**	1																							
BCF	-0.05	0.67***	1																						
CBOARD	-0.05	0.53***	0.60***	1																					
CUMVOTE	0.11***	-0.29***	-0.06	0.09**	1																				
firmsize	-0.02	-0.10**	-0.19***	-0.20***	-0.14***	1																			
tobinQ	-0.06	-0.09**	0.03	0.11***	0.14***	0.12***	1																		
FCF	-0.06	0.	0.04	-0.05	0.02	0.11***	0.37***	1																	
leverage	0.08**	0.09**	0.03	-0.04	-0.07*	-0.28***	-0.93***	-0.37***	1																
RunUp	-0.02	-0.05	-0.05	-0.01	-0.03	-0.04	-0.12***	-0.17***	0.15***	1															
OperGrth	0.03	-0.04	0.00	-0.01	0.00	0.01	0.02	0.02	-0.02	-0.03	1														
R_N	-0.05	-0.07*	0.09**	0.09**	-0.12***	0.20***	0.59***	-0.02	-0.63***	-0.11***	0.00	1													
G_L	-0.018	-0.08**	0.07*	-0.00	-0.17***	0.20***	0.21***	-0.17***	-0.30***	-0.09**	-0.00	0.66***	1												
allcash	0.14***	-0.03	-0.06*	-0.12***	-0.04	0.08**	-0.08**	-0.07*	0.09**	-0.00	0.00	-0.01	0.07*	1											
Stock	-0.14***	0.03	0.06*	0.12***	0.04	-0.08**	0.08**	0.07*	-0.09**	0.00	-0.00	0.01	-0.07*	-1	1										
private	0.17***	0.01	0.03	0.06	0.08**	-0.20***	-0.09**	-0.06	0.11***	-0.02	0.03	-0.11***	-0.08*	0.15***	-0.15***	1									
public	-0.17***	-0.01	-0.03	-0.06	-0.08**	0.20***	0.09**	0.06	-0.11***	0.02	-0.03	0.11***	0.08*	-0.15***	0.15***	-1	1								
RelDealSz	-0.17***	0.02	0.01	-0.02	-0.06*	-0.03	-0.12***	-0.09**	0.07*	0.00	0.01	0.00	0.03	-0.15***	0.15***	-0.29***	0.29***	1							
duality	0.02	0.05	0.15***	-0.02	-0.08	0.08	-0.20***	-0.07	0.21***	-0.04	-0.06	0.00	0.07	0.02	-0.02	-0.07	0.07	0.09	1						
BdSz	-0.09	-0.16***	-0.14**	-0.11**	-0.04	0.27***	0.28***	0.31***	-0.32***	-0.04	0.07	0.06	0.02	-0.06	0.06	-0.11**	0.11**	-0.05	-0.08	1					
IndepPer	-0.00	-0.17***	-0.22***	-0.15***	0.19***	0.15***	-0.03002	-0.04	0.05	-0.05	0.06	0.05	0.09	0.03	-0.03	-0.14***	0.14***	-0.04	0.02	0.10*	1				
CEOOwn	0.03	0.03	0.03	0.03	-0.02	-0.36***	-0.11	-0.21***	0.18**	-0.00	-0.11	.	-0.04	0.06	-0.06	0.04	-0.04	0.06	-0.17**	-0.33***	-0.08	1			
CEOAGE	0.03	0.11**	0.04	-0.17***	-0.02	0.21***	-0.19***	-0.07	0.13**	-0.06	0.00	0.06	0.20	0.02	-0.02	-0.11**	0.11**	0.08	0.35***	0.02	0.04	-0.05	1		
CEOEtyComp	-0.04	-0.00	0.04	0.00	-0.01	0.18***	0.35***	0.18***	-0.38***	-0.17***	0.14***	0.35***	0.16***	0.04	-0.04	-0.17***	0.17***	0.03	0.09	0.14**	0.14**	0.07	0.13**	1	

Table 6: Initial OLS Regression Statistics of Determinants of Acquirer Announcement Abnormal Returns

OLS regressions determining the 5-day cumulative announcement return (CAR (-2,2)) in 677 bank M&As during 1991-2006. Standard errors are adjusted for heteroskedasticity and acquirer clustering. All models control for year fixed effects; the coefficients on year dummies are suppressed for brevity. T-statistics are reported in the parentheses. Variable definitions are in the Appendix. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)	(4)
Dependent Variable	CAR (-2,2)	CAR (-2,2)	CAR (-2,2)	CAR (-2,2)
GIM Index	-0.0012** (-2.12)			
BCF Index		-0.0008 (-0.77)		
Staggered Board			-0.0035 (-0.87)	
Cumulative Voting				0.0091** (2.23)
Acquirer Characteristics				
Firm size	0.0005 (0.32)	0.0006 (0.37)	0.0006 (0.37)	0.0009 (0.57)
Tobin's Q	0.0596 (1.34)	0.0659 (1.47)	0.0701 (1.48)	0.0426 (0.93)
FCF	-0.3303 (-1.01)	-0.3325 (-0.98)	-0.3878 (-1.16)	-0.2460 (-0.78)
Leverage	0.0841* (1.66)	0.0892* (1.72)	0.0905* (1.71)	0.0774 (1.58)
Runup	-0.0112 (-1.44)	-0.0111 (-1.42)	-0.0110 (-1.41)	-0.0091 (-1.17)
Deal Characteristics				
RelDealSz	-0.0367 (-1.50)	-0.0365 (-1.48)	-0.0365 (-1.49)	-0.0361 (-1.46)
Cash*Private	0.0152*** (3.15)	0.0155*** (3.12)	0.0153*** (3.21)	0.0151*** (3.25)
Cash*Public	0.0075 (1.25)	0.0077 (1.29)	0.0077 (1.28)	0.0085 (1.45)
Stock*Private	0.0074*** (3.06)	0.0077*** (3.12)	0.0080*** (3.29)	0.0073*** (2.96)
Target Industries				
Ins_Inv	0.0150* (1.75)	0.0146* (1.70)	0.0143* (1.71)	0.0148* (1.77)
Savings_Inst	0.0013 (0.36)	0.0016 (0.41)	0.0018 (0.47)	0.0010 (0.28)
OtherFinancial	-0.0064 (-0.93)	-0.0066 (-0.96)	-0.0068 (-0.98)	-0.0066 (-0.94)
NonFinancial	-0.0037 (-0.18)	-0.0051 (-0.24)	-0.0059 (-0.27)	-0.0045 (-0.22)
Constant	-0.1182 (-1.35)	-0.1387 (-1.56)	-0.1431 (-1.55)	-0.1141 (-1.30)
Observations	677	677	677	677
Adjusted R-squared	0.050	0.045	0.045	0.051

Table 7: OLS Regression Statistics of Determinants of Acquirer Announcement Abnormal Returns Including Controls for Board Characteristics

OLS regressions determining the 5-day cumulative announcement return (CAR (-2,2)) in 677 bank M&As during 1991-2006. Standard errors are adjusted for heteroskedasticity and acquirer clustering. All models control for year fixed effects; the coefficients on year dummies are suppressed for brevity. T-statistics are reported in the parentheses. Variable definitions are in the Appendix. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Dependent Variable	(1) CAR (-2,2)	(2) CAR (-2,2)	(3) CAR (-2,2)	(4) CAR (-2,2)
GIM Index	-0.0021** (-2.17)			
BCF Index		-0.0026 (-1.48)		
Staggered Board			-0.0143 (-1.62)	
Cumulative Voting				0.0228** (2.64)
Board Characteristics				
Duality	0.0013 (0.33)	0.0019 (0.46)	0.0011 (0.27)	0.0007 (0.15)
BdSz	-0.0009 (-1.43)	-0.0008 (-1.43)	-0.0007 (-1.32)	-0.0005 (-0.92)
IndepPerc	-0.0163 (-1.03)	-0.0156 (-0.9)	-0.0176 (-1.04)	-0.0233 (-1.40)
Acquirer Characteristics				
FirmSize	0.0035 (1.51)	0.0034 (1.40)	0.0034 (1.41)	0.0040* (1.71)
Tobin's Q	0.1320** (2.39)	0.1380** (2.39)	0.1732** (2.46)	0.0663 (1.17)
FCF	-0.7966 (-1.45)	-0.6786 (-1.17)	-1.0540* (-1.67)	-0.4991 (-0.96)
Leverage	0.1890** (1.66)	0.1948** (2.30)	0.2292** (2.51)	0.1518* (2.00)
Runup	-0.0190 (-1.38)	-0.0188 (-1.34)	-0.0184 (-1.33)	-0.0155 (-1.15)
Deal Characteristics				
RelDealSz	-0.0644*** (-3.24)	-0.0645*** (-3.17)	-0.0630*** (-3.04)	-0.0654*** (-3.15)
Cash*Private	0.0254** (2.56)	0.0250** (2.44)	0.0255** (2.59)	0.0233** (2.56)
Cash*Public	0.0197** (2.12)	0.0199** (2.09)	0.0213** (2.23)	0.0208** (2.08)
Stock*Private	0.0056 (1.22)	0.0062 (1.36)	0.0069 (1.48)	0.0072 (1.65)
Target industries				
Ins_Inv	0.0137 (1.07)	0.0129 (1.02)	0.0116 (0.95)	0.0127 (1.02)
Savings_Inst	0.0108* (1.84)	0.0109* (1.82)	0.0123** (2.05)	0.0085 (1.46)
OtherFinancial	-0.0063 (-0.45)	-0.0066 (-0.48)	-0.0069 (-0.51)	-0.0095 (-0.62)
NonFinancial	0.0027 (0.12)	0.0002 (0.01)	-0.0004 (-0.02)	0.0002 (0.01)
Constant	-0.2796**	-0.3072**	-0.3623**	-0.2122*

	(-2.19)	(-2.31)	(-2.47)	(-1.70)
Observations	320	320	320	320
Adjusted R-squared	0.093	0.085	0.09	0.10

Table 8: OLS Regression Statistics of Determinants of Acquirer Announcement Abnormal Returns Including Controls for CEO Characteristics

OLS regressions determining the 5-day cumulative announcement return (CAR (-2,2)) in 677 bank M&As during 1991-2006. Standard errors are adjusted for heteroskedasticity and acquirer clustering. All models control for year fixed effects; the coefficients on year dummies are suppressed for brevity. T-statistics are reported in the parentheses. Variable definitions are in the Appendix. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Dependent Variable	(1) CAR (-2,2)	(2) CAR (-2,2)	(3) CAR (-2,2)	(4) CAR (-2,2)
GIM Index	-0.0029** (-2.03)			
BCF Index		-0.0041 (-1.55)		
Staggered Board			-0.0294 (-1.63)	
Cumulative Voting				0.0397** (2.27)
CEO Characteristics				
CEOAGE	0.0006 (0.85)	0.0002 (0.33)	0.0001 (0.17)	0.0001 (0.21)
CEOEqtyComp	-0.0024 (-0.14)	-0.0071 (-0.4)	0.0023 (0.13)	-0.0072 (-0.44)
CEO_Ownership	0.3330 (0.80)	0.4073 (0.97)	0.0637 (0.11)	0.4590 (1.06)
CEO_Ownership2	-2.6688 (-0.69)	-3.3382 (-0.85)	-0.4848 (-0.09)	-3.3271 (-0.78)
OprtGrth	-0.0065 (-1.30)	-0.0051 (-0.93)	-0.0042 (-0.85)	-0.0022 (-0.47)
Acquirer Characteristics				
Firmsize	0.0049 (1.24)	0.0049 (1.17)	0.0046 (1.13)	0.0083** (2.17)
Tobin's Q	0.1521* (1.79)	0.1477 (1.65)	0.2448* (1.99)	0.0606 (0.73)
FCF	-1.4850 (-1.32)	-1.2023 (-1.09)	-2.3445 (-1.46)	-1.1356 (-1.11)
Leverage	0.1236 (0.99)	0.1157 (0.86)	0.2299 (1.56)	0.0991 (0.78)
Runup	-0.0341 (-1.4)	-0.0375 (-1.5)	-0.0342 (-1.45)	-0.0326 (-1.37)
Deal Characteristics				
RelDealSz	-0.0549 (-1.18)	-0.0525 (-1.11)	-0.0412 (-0.84)	-0.0518 (-1.14)
Cash*Private	0.0243 (1.54)	0.0230 (1.46)	0.0282* (1.70)	0.0251 (1.64)
Cash*Public	0.0256** (2.3)	0.0262** (2.27)	0.0270** (2.30)	0.0284** (2.35)
Stock*Private	-0.0026 (-0.25)	-0.0003 (-0.03)	0.0005 (0.04)	0.0022 (0.22)
Target industries				
Ins_Inv	0.0328 (0.96)	0.0319 (0.93)	0.0295 (1.00)	0.0302 (0.97)
Savings_Inst	0.0115 (1.51)	0.0112 (1.45)	0.0141* (1.92)	0.0094 (1.17)
OtherFinancial	-0.0074 (-0.81)	-0.0096 (-1.05)	-0.0146 (-1.40)	-0.0118 (-1.11)
NonFinancial	-0.0154	-0.0168	-0.0202	-0.0183

	(-0.51)	(-0.55)	(-0.68)	(-0.69)
Constant	-0.2977	-0.2870	-0.4450*	-0.2259
	(-1.44)	(-1.28)	(-1.84)	(-1.01)
Observations	161	161	161	161
Adjusted R-squared	0.077	0.064	0.095	0.105508186

Table 9, Panel A: OLS Regression Statistics of Determinants of Acquirer Announcement Abnormal Returns Controlling for the Effect of the Riegle-Neal Act

OLS regressions determining the 5-day cumulative announcement return (CAR (-2,2)) in 677 bank M&As during 1991-2006. Standard errors are adjusted for heteroskedasticity and acquirer clustering. All models control for year fixed effects; the coefficients on year dummies are suppressed for brevity. T-statistics are reported in the parentheses. Variable definitions are in the Appendix. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Dependent Variable	(1)	(2)	(3)	(4)
	CAR (-2,2)	CAR (-2,2)	CAR (-2,2)	CAR (-2,2)
GIM Index	-0.0011** (-2.04)			
BCF Index		-0.0008 (-0.72)		
Staggered Board			-0.0034 (-0.85)	
Cumulative Voting				0.0091** (2.25)
Effect of the Riegle-Neal Act				
Riegle-Neal	0.0174 (1.57)	0.0182 (1.63)	0.0182 (1.62)	0.0184 (1.64)
Acquirer Characteristics				
Firmsize	0.0004 (0.27)	0.0005 (0.31)	0.0005 (0.31)	0.0008 (0.52)
Tobin's Q	0.0557 (1.25)	0.0615 (1.37)	0.0657 (1.39)	0.0383 (0.83)
FCF	-0.3220 (-0.98)	-0.3246 (-0.95)	-0.3772 (-1.12)	-0.2357 (-0.74)
Leverage	0.0775 (1.55)	0.0820 (1.61)	0.0836 (1.61)	0.0706 (1.45)
Runup	-0.0108 (-1.39)	-0.0106 (-1.36)	-0.0106 (-1.35)	-0.0087 (-1.11)
Deal Characteristics				
RelDealSz	-0.0364 (-1.49)	-0.0362 (-1.47)	-0.0362 (-1.47)	-0.0358 (-1.45)
Cash*Private	0.0150*** (3.09)	0.0152*** (3.05)	0.0151*** (3.14)	0.0148*** (3.18)
Cash*Public	0.0076 (1.27)	0.0078 (1.31)	0.0077 (1.29)	0.0086 (1.46)
Stock*Private	0.0074*** (3.06)	0.0077*** (3.19)	0.0080*** (3.27)	0.0073*** (2.95)
Target industries				
Ins_Inv	0.0147* (1.71)	0.0143* (1.66)	0.0140* (1.66)	0.0145* (1.73)
Savings_Inst	0.0016 (0.43)	0.0019 (0.49)	0.0021 (0.55)	0.0013 (0.36)
OtherFinancial	-0.0060 (-0.88)	-0.0062 (-0.91)	-0.0064 (-0.93)	-0.0061 (-0.89)
NonFinancial	0.0001 (0.01)	-0.0010 (-0.04)	-0.0017 (-0.07)	-0.0003 (-0.01)
Constant	-0.1083 (-1.24)	-0.1274 (-1.44)	-0.1319 (-1.44)	-0.1032 (-1.18)
Observations	677	677	677	677
Adjusted R-squared	.0517	.0470	.0477	.0539

Table 9, Panel B: OLS Regression Statistics of Determinants of Acquirer Announcement Abnormal Returns Controlling for the Effect of the Gramm-Leach-Bliley Act

OLS regressions determining the 5-day cumulative announcement return (CAR (-2,2)) in 677 bank M&As during 1991-2006. Standard errors are adjusted for heteroskedasticity and acquirer clustering. All models control for year fixed effects; the coefficients on year dummies are suppressed for brevity. T-statistics are reported in the parentheses. Variable definitions are in the Appendix. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Dependent Variable	(1) CAR (-2,2)	(2) CAR (-2,2)	(3) CAR (-2,2)	(4) CAR (-2,2)
GIM Index	-0.0013** (-2.33)			
BCF Index		-0.0009 (-0.82)		
Staggered Board			-0.0038 (-0.95)	
Cumulative Voting				0.0088** (2.17)
Effect of the Gramm-Leach-Bliley Act				
Gramm-Leach-Bliley	-0.0551** (-2.07)	-0.0530* (-1.96)	-0.0535** (-2.02)	-0.0520* (-1.95)
Acquirer Characteristics				
Firmsize	0.0008 (0.50)	0.0009 (0.54)	0.0009 (0.54)	0.0012 (0.74)
Tobin's Q	0.0500 (1.11)	0.0572 (1.25)	0.0619 (1.29)	0.0344 (0.74)
FCF	-0.2797 (-0.83)	-0.2853 (-0.81)	-0.3442 (-1.00)	-0.2060 (-0.63)
Leverage	0.0764 (1.51)	0.0820 (1.58)	0.0839 (1.58)	0.0701 (1.43)
Runup	-0.0107 (-1.41)	-0.0106 (-1.38)	-0.0105 (-1.37)	-0.0087 (-1.15)
Deal Characteristics				
RelDealSz	-0.0371 (-1.52)	-0.0369 (-1.50)	-0.0369 (-1.50)	-0.0365 (-1.48)
Cash*Private	0.0163*** (3.47)	0.0165*** (3.41)	0.0164*** (3.52)	0.0161*** (3.58)
Cash*Public	0.0075 (1.23)	0.0077 (1.28)	0.0077 (1.26)	0.0086 (1.43)
Stock*Private	0.0081*** (3.52)	0.0084*** (3.68)	0.0087*** (3.80)	0.0081*** (3.40)
Target industries				
Ins_Inv	0.0140 (1.63)	0.0137 (1.58)	0.0133 (1.58)	0.0138 (1.65)
Savings_Inst	0.0010 (0.27)	0.0012 (0.34)	0.0015 (0.40)	0.0007 (0.20)
OtherFinancial	-0.0071 (-1.02)	-0.0073 (-1.04)	-0.0075 (-1.07)	-0.0072 (-1.03)
NonFinancial	-0.0041 (-0.19)	-0.0056 (-0.27)	-0.0064 (-0.30)	-0.0051 (-0.25)
Constant	-0.1048 (-1.20)	-0.1274 (-1.43)	-0.1326 (-1.43)	-0.1031 (-1.17)
Observations	677	677	677	677

Adjusted R-squared	.0628	.0567	.0576	.0630
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Table 10, Panel A: OLS Regression Statistics of Determinants of Acquirer Announcement Abnormal Returns Controlling for the Effect the BCF Index and its Provisions and the O index

OLS regressions determining the 5-day cumulative announcement return (CAR (-2,2)) in 677 bank M&As during 1991-2006. Standard errors are adjusted for heteroskedasticity and acquirer clustering. Only coefficient estimates of variables of interest are displayed. The coefficients of independent variables other than the variables of interest are the same as in Table 6. All models control for year fixed effects; the coefficients on year dummies are suppressed for brevity. T-statistics are reported in the parentheses. . Variable definitions are in the Appendix. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Dependent Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	CAR (-2,2)	CAR (-2,2)	CAR (-2,2)	CAR (-2,2)	CAR (-2,2)	CAR (-2,2)	CAR (-2,2)
O index	-0.0016** (-2.51)	-0.0016** (-2.25)	-0.0017** (-2.52)	-0.0016** (-2.52)	-0.0021*** (-3.09)	-0.0017** (-2.51)	-0.0017** (-2.49)
BCF Index	-0.0002 (-0.23)						
Staggered Board		-0.0009 (-0.21)					
Poison Pill			0.0003 (0.12)				
Golden Parachutes				-0.0057* (-1.72)			
Limit to Amend Bylaws					0.0054* (1.72)		
Limit to Amend Charter						0.0009 (0.18)	
Supermajority							0.0000 (-0.01)
Observations	677	677	677	677	677	677	677
Adjusted R-squared	0.0491	0.0492	0.0491	0.0533	0.0517	0.0491	0.0491

Table 10, Panel B : OLS Regression Statistics of Determinants of Acquirer Announcement Abnormal Returns Controlling for the Effect the BCF Index and its Provisions Separately and the O index

OLS regressions determining the 5-day cumulative announcement return (CAR (-2,2)) in 677 bank M&As during 1991-2006. BCF Index-the provision represents the BCF Index excluding staggered board in model 1, poison pill in model 2, golden parachute in model 3 , limit to amend bylaws in model 4, limit to amend charter in model 5 and the supermajority provision in model 6. Standard errors are adjusted for heteroskedasticity and acquirer clustering. Only coefficient estimates of variables of interest are displayed. The coefficients of independent variables other than the variables of interest are the same as in Table 6. All models control for year fixed effects; the coefficients on year dummies are suppressed for brevity. T-statistics are reported in the parentheses. Variable definitions are in the Appendix. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Dependent Variable	(1) Car2	(2) Car2	(3) Car2	(4) Car2	(5) Car2	(6) Car2
O index	-0.0016** (-2.26)	-0.0016** (-2.41)	-0.0018*** (-2.76)	-0.0020*** (-3.12)	-0.0016** (-2.51)	-0.0016** (-2.33)
BCF Index-the provision	-0.0001 (-0.11)	-0.0005 (-0.37)	0.0011 (1.01)	-0.0010 (-0.85)	-0.0003 (-0.31)	-0.0003 (-0.23)
Staggered Board	-0.0008 (-0.18)					
Poison Pill		0.0006 (0.19)				
Golden Parachutes			-0.0062* (-1.83)			
Limit to Amend Bylaws				0.0056* (1.80)		
Limit to Amend Charter					0.0011 (0.22)	
Supermajority						0.0002 (0.05)
Observations	677	677	677	677	677	677
Adjusted R-squared	0.0477	0.0478	0.0527	0.051	0.0477	0.0477

Table11, Panel A: Monthly Return Difference for Longing Democracy Portfolio and Shorting Dictatorship Portfolio by GIM Index

Table 11 reports the return differences and abnormal returns of longing democracy portfolio and shorting dictatorship portfolio following the methodology in Gomper, Ishii and Metrick (2003). The return difference is the raw return generated from the buying the democracy portfolio and selling the dictatorship portfolio. The abnormal return is the alpha of regressing the return difference on market, size, book-to-market, and momentum factors. In Panel A, the democracy portfolio and dictatorship portfolio are grouped based on the GIM index. GIM index is defined in the Appendix. T-statistics are reported in the parentheses.

Long-Short Portfolio	Return Differences (%)	Abnormal Returns (%)
Index 0-5 minus Index 14-24	0.355 (1.30)	0.313 (1.12)
Index 0-9 minus Index 10-24	0.150 (1.09)	0.083 (0.56)

Table11, Panel B: Monthly Return Difference for Longing Democracy Portfolio and Shorting Dictatorship Portfolio by BCF Index

Table 11 reports the return differences and abnormal returns of longing democracy portfolio and shorting dictatorship portfolio following the methodology in Gomper, Ishii and Metrick(2003). The return difference is the raw return generated from the buying the democracy portfolio and selling the dictatorship portfolio. The abnormal return is the alpha of regressing the return difference on market, size, book-to-market, and momentum factors. In Panel B, the democracy portfolio and dictatorship portfolio are grouped based on the BCF index. BCF index is defined in the Appendix. T-statistics are reported in the parentheses.

Long-Short Portfolio	Return Differences (%)	Abnormal Returns (%)
Index 0 minus Index 5-6	-0.104 (-0.20)	-0.312 (-0.61)
Index 0 minus Index 4-5-6	0.035 (0.13)	-0.122 (-0.42)
Index 0-1 minus Index 4-5-6	-0.016 (-0.07)	-0.217 (-0.86)
Index 0-1 minus Index 3-4-5-6	0.003 (0.01)	0.033 (0.17)
Index 0-1-2 minus Index 3-4-5-6	0.010 (0.05)	-0.122 (-0.42)

Appendix 1: Variable Definitions

Variable	Description
CAR (-2,2)	Acquirer's 5-day cumulative abnormal return where day 0 is the acquisition's announcement date
GIM index	GIM Index, constructed based on Gompers, Ishii, Metrick (2003)
BCF index	BCF index, constructed based on Bebchuk, Cohen and Ferrell (2009)
O index	Other Provisions Index, constructed based on Bebchuk, Cohen and Ferrell (2009)
Staggered board	An indicator variable equal to one, if the acquirer has staggered board and zero otherwise. Under staggered board provision directors are divided into multiple classes. Only one class of directors stands for re-election each year.
Cumulative voting	An indicator variable equal to one, if the acquirer has cumulative voting provision and zero otherwise. Under cumulative voting, total number of votes is the product of number of shares and number of directors on board.
Poison pill	An indicator variable equal to one, if the acquirer has poison pill provision and zero otherwise. Poison pill provides the target's shareholders other than the bidder the right to purchase the target or bidder's stock at a steep discount.
Golden parachute	An indicator variable equal to one, if the acquirer has golden parachute provision and zero otherwise. Golden parachute provides severance package to the senior executives in the event of termination following a change of control.
Limit to amend bylaw/charter	An indicator variable equal to one, if the acquirer has limit to amend bylaws/charter and zero otherwise. Limit to amend bylaws restricts shareholders' ability to amend the company's bylaws/charter.
Supermajority	An indicator variable equal to one, if the acquirer has supermajority provision and zero otherwise. Supermajority requires supermajority of shareholders to approve a merger.
Market value of equity	Number of shares outstanding times stock price at the 11 th trading day prior to the announcement date
Firm size	Natural logarithm of total assets (data6)
Tobin's Q	Market value of assets divided by book value of assets $((\text{data6} - \text{data60} + \text{data25} * \text{data199}) / \text{data6})$
FCF	Free cash flow, measured as $(\text{operating income before depreciation-interest expenses} - \text{income taxes} - \text{capital expenditures}) / \text{book value of total assets}$ $((\text{data13} - \text{data15} - \text{data16} - \text{data128}) / \text{data6})$
Leverage	Book value of debt divided by market value of total assets $((\text{data34} + \text{data9}) / (\text{data6} - \text{data60} + \text{data25} * \text{data199}))$
Runup	Acquirer's buy-and-hold abnormal return during the period (-210, -11). The market index is CRSP value-weighted return
RelDealSz	Relative deal size, measured by the ratio of deal size (from SDC) to the acquirer's market value of equity
Cash	An indicator variable equal to one, if the deal is financed all by cash and zero otherwise
Stock	An indicator variable equal to one, if the deal is financed by some stock and zero otherwise
Private	An indicator variable equal to one, if the target is private and zero otherwise
Public	An indicator variable equal to one, if the target is public and zero otherwise
Ins_Inv	An indicator variable equal to one, if the target is an insurance firm or investment bank (SIC codes 6211, 6282, 6289, 6311, 6331, 6371, 6726, 6733, 6794 and 6799) and zero otherwise
Savings_Inst	An indicator variable equal to one, if the target is a savings institution (SIC codes 6035 and 6036) and zero otherwise

OtherFinancial	An indicator variable equal to one, if the target's SIC code is within the range 6000 to 6999 but not covered by the listed financial firm categories and zero otherwise
Nonfinancial	An indicator variable equal to one, if the target's SIC code is not within the range 6000 to 6999 and zero otherwise
Duality	An indicator variable equal to one, if the CEO is also the chairman of the board and zero otherwise
BdSz	Board size, measured by the number of directors on the board
IndepPerc	Percentage of independent board members, measured by the ratio of independent board members to the number of directors on the board. Independent board members are directors that are not employees of the firm, are not affiliated with the firm and do not own more than 2% of the firm's stock.
CEOAGE	The age of the CEO
CEOEqtyComp	Percentage CEO equity-based compensation, measured as the sum of the value of annual stock options and restricted stock grants over total compensation
CEO_Ownership	Number of shares owned by the CEO divided by total shares outstanding
CEO_Ownership2	The square term of CEO_Ownership
OprtGrth	Operating income's growth rate, measured as $(EBITDA_{t-1} - EBITDA_{t-4}) / EBITDA_{t-4}$
Riegle-Neal	An indicator variable equal one, if the acquisitions are announced after June 01, 1997 (the effective date of Riegle-Neal act) and zero otherwise
Gramm-Leach-Bliley	An indicator variable equal one, if the acquisitions are announced after November 12, 1999 (the enactment date of Gramm-Leach-Bliley act) and zero otherwise
