

# Executive Appointments Around Bank Mergers

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## Abstract

We exploit a unique sample of German bank mergers to investigate whether appointing an executive of the target to the acquirer board adds value. Investigating first the probability that a target member will be appointed, we find that target performance is a strong driver, while social ties between executives of the two boards are less important. Differences in post-merger performance suggest that appointing a target member does not create value, on average. However, mergers with executives coming from targets in worse conditions show a higher post-merger performance. The findings support a picking-theory according to which executives from relatively bad targets are only included in the new board if they are high-skilled. The results are robust to various kinds of industry- and size-adjustments.

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# Contents

1	Introduction	1
2	Institutional Background and Literature Review	3
2.1	The German Banking System and Corporate Governance . .	3
2.2	Related Literature . . . . .	4
3	Data	6
3.1	Sample Construction . . . . .	6
3.2	Summary Statistics . . . . .	7
4	Empirical Analysis	11
4.1	Determinants of Appointee . . . . .	11
4.2	Do Appointees Generate Value? . . . . .	14
5	Conclusion	17
	References	20

# 1 Introduction

Bank mergers so far have been investigated from different angles, such as revenue synergies and cost reduction potentials. However, little interest has been paid to the role senior executives appointments play in the course of mergers and how they might affect subsequent performance. We introduce a new factor to the field which we expect to positively influence the financial success of mergers, namely the appointment of a target executive to the board of acquirer executives. A target executive who is appointed to the board of the acquirer, which we call *appointee*, may have positive effects on performance for several reasons. First, appointing a member of the target board grants access to private information the management of acquirers may not have without such an appointee. Second, it may also reduce informational asymmetries for instance with respect to important clients of the target. Third, target employees might exert more effort, because one of them is on the board after the transaction is completed. Finally, general integration processes between the two formerly independent entities may be smoothed and, thus. Due to these channels one could expect a positive influence of appointees on subsequent performance.

Thus, the contribution of our analysis to the literature results from combining two strands. The first strand deals with the implications of merger activity and investigates either the probability that a merger takes place (see, e.g. Hannan and Pilloff, 2009), cost efficiency (Koetter, Bos, Heid, Kool, Kolari, and Porath, 2007) or performance changes induced by the merge (Cornett, McNutt, and Tehranian, 2006a, Knapp, Gart, and Chaudhry, 2006, Altunbas and Marqués, 2008). We follow the last mentioned studies in the way performance changes around mergers are calculated. We add to this strand of the literature by investigating whether an appointee has an effect on the post-merger performance. The other strand relates board characteristics, such as experience the executive accumulated outside his or her current bank, to bank performance (Berger, Kick, Koetter, and Schaeck, 2013, Pathan and Faff, 2013). We follow this strand of the literature by using board characteristics of the acquirer to explain performance changes around mergers. We add to this strand of the literature by investigating

a situation with a high degree of uncertainty where an appointee from the target might be of highest value.

For our analysis we use a unique dataset consisting of all German bank mergers between 1994 and 2013, which allows us to identify executives of target boards that are appointed to acquirer boards. Our analysis consists of two parts. In the first part, we investigate how board characteristics and financial ratios of targets impact on the chances to place one target board member onto the acquirer board. We find that target financial performance is much more important in explaining the probability of having an appointee than board characteristics considered. In the second part, we investigate whether the appointment of an appointment has effects on merger performance. Using pre- and post-merger differences in accounting performance as used in the literature (Cornett, McNutt, and Tehranian, 2006a, Altunbas and Marqués, 2008), we find no difference between mergers with and without appointee. Since the results from the first stage suggest heterogeneity among appointees, we further distinguished between appointees from financially healthy and unhealthy targets, and find that mergers with appointees from financially less healthy targets outperform the ones without appointee as well as the ones with appointees from financially healthy targets. These findings may indicate that target in good financial shape have bargaining power to place one of their board member onto the board of the acquirer, and it may indicate that when targets lack bargaining power the most promising target members are appointed to acquirer board.

The paper is organized as follows. In Section 2 we outline information on the institutional background of the German banking system and discuss literature related to our study. In Section 3 we introduce our dataset and depict summary statistics. Section 4 delivers our empirical analysis. It first shows the results of investigating what determines that a target executive is appointed to the board of the acquirer. Second, it discusses performance changes around mergers and whether or not the performance change is higher when a target member is appointed to the board. Section 5 concludes.

## 2 Institutional Background and Literature Review

### 2.1 The German Banking System and Corporate Governance

The German universal banking system consists of three pillars: publicly-owned, cooperative and private banks. In terms of number of institutions, the cooperative sector is by far the largest, while the distribution of total assets is much more even (Hackethal, 2004). Publicly-owned banks (savings banks as well as their respective head-institutes) are owned by the federal governments, municipalities or other administrative districts. Savings banks by definition are not competing with each other. Furthermore, they are supposed to support local businesses, charities and cultural projects and are thusly not strictly profit-maximizing. Cooperative banks, on the contrary, are almost exclusively owned by their customers. Independent of their amount of shares, every owner has one vote in corporate decision-making. Private banks are very diverse; they entail the few very largest banks, while the rest is very small, comparable to cooperative banks in terms of total assets. Over the last two decades, Germany experienced a massive bank consolidation, resulting in a decline of around 50% in the number of institutions.

It is important to note that cooperative and savings banks do not compete with each other geographically within a banking group. This means that even after a merger the target bank will typically operate its business activities similar to the pre-merger period, independent of the new ownership structure.

German banks operate under a two-tiered board system. Executive directors are members of the management board, while there exists a separate supervisory board. Members of the management board are elected by the supervisory board. While the management board is concerned with the actual executive duties of management, it has to report to the supervisory board on a regular basis and certain important decisions are subject to ap-

proval by the supervisory board (see, e.g. Hackethal, 2004). We therefore have to be careful to which extent we can relate our investigations to existing theoretical and empirical work that is usually on one-tiered systems such as the United States (see, e.g. Adams and Ferreira, 2007 and Harris and Raviv, 2008).

## 2.2 Related Literature

There are three strands of literature to which our analysis contributes. The first investigated the effects of board composition on bank level outcomes. Evidence on the effect of board composition on bank performance measures and risk-taking is mixed. Neither Pathan and Faff (2013) nor Hermalin and Weisbach (1991) find strong evidence for board characteristics influencing bank performance. Concerning risk-taking, both Pathan (2009) as well as Laeven and Levine (2009) show that boards with strong shareholder influence take on more risk. Pathan also shows that risk-taking decreases in CEO power. This may be surprising in a way that managers typically have an incentive to take on more risk, because they only participate in the upside of project outcomes via incentive packages, while shareholders participate in both up- and downside and thus have an incentive to avoid excessive risk-taking by the management board. Berger, Kick, and Schaeck (forthcoming) use a similar dataset as this paper to study the impact of age, sex and education on bank risk-taking. While the effects of sex are not entirely clear, the authors find statistically as well as economically strong evidence for increased risk-taking of younger boards as well as boards without doctoral degrees. We contribute to this strand of the literature in showing how previous experience in a target bank can help to increase subsequent performance.

The second part of the literature our analysis is related to investigates the effect of social ties on economic outcomes. As shown by Byoung-Hyoun and Kim (2009) and Haselmann, Schönherr, and Vig (2013), such personal connection-based arguments can also dominate economic considerations. In a recent paper, Berger, Kick, Koetter, and Schaeck (2013) show how homophily (i.e. affinity for similar others) effects appointments of executive directors. As a byproduct of their results they also find that merger-induced

appointments of executive directors are more likely to choose an outsider. Here it is important to distinguish between different concepts of insiders and outsiders. In Berger, Kick, Koetter, and Schaeck (2013) as well as in this paper the term *outsider* refers to a person without previous employment in the appointing bank. It is not to be confused with the term outsider as it is used in some part of the corporate governance literature where a director is considered to be an outsider if she has no material relationship with the firm other than compensation directly related to the director position. It is assumed that outsiders are better at addressing agency problems and that a share of outsiders is beneficial for information accumulation within the board of directors.

The literature investigating performance changes around mergers is huge in number and identifies various value drivers. Cornett, McNutt, and Tehranian, 2006a among others explore three dimensions of revenue synergies besides costs synergies that may materialize in increasing performance: Buying a target that operates in a growing market, buying a target that leads to diversification effects and thus reduces the volatility of income stream or buying a target that operates in a less competitive environment in which higher margins can be realized. Since the arguments developed for revenue synergies do not apply to the setting of German bank mergers (see section 2), we do not further elaborate on these arguments but only note that we use this literature strand to identify relevant control variables.

Due to the aforementioned reasons, there is no theoretical work that allows us to cleanly deduct hypotheses on the optimal board restructuring in mergers. We could, for instance find arguments in favor and against the inclusion of a target executive director in the active board. Many of the mergers in our sample follow at least mild target distress. If we expect target distress to hint at poor management quality, one could expect the probability of target members switching to the active board decreasing in the target bank's health. Another argument in this line of thought is bargaining power. When it's a target's free decision to merge, it has more bargaining power and thusly higher chances of placing at least one executive director in the acquirer's board, while the target's bargaining power decreases drastically

if it is in distress and the merger is enforced by the banking group. On the contrary, exactly due to an adverse state of the target bank, asymmetric information on the credit portfolio and the local peculiarities can be an argument to take a target member to the acquirer's board in order to smooth the integration and address distressed loans accordingly.

## 3 Data

### 3.1 Sample Construction

Our data come from the Deutsche Bundesbank's prudential database BAKIS. This information system is jointly operated by the Deutsche Bundesbank and the German Financial Supervisory Authority (see Memmel and Stein, 2008). It contains information on the financial statements of and supervisory reports on individual German banks. Data on financial statements are available from 1993 to 2013 for all German universal banks. For all variables related to the board, we use personal reporting statements with which German banks have to report all of the highest executives to the supervisor. Among others, these highest executives include executive directors. Thus, banks report when a new executive joins the board and when an executive leaves the board. These reports are available from 1974 onwards.

The number of bank mergers between 1994 to 2013 is shown in Table 1. Overall more than 2000 bank mergers took place in this time period. To be included in our sample requires that both target and acquirer are not involved in another merger transaction two years before the merger. Thus, we consider a bank merger in our sample if we have three consecutive observations for reliably measuring the merger. We do not include mergers in which money-center banks, Landesbanken and cooperative central banks participated as target or acquirer since they differ too much in size, business model and governance to be jointly examined with cooperative, savings and private banks. Moreover, we drop bank mergers that are too unequal in terms of size. Concretely, we drop mergers when the ratio of total assets



either of the target relative to the acquirer or the other way around is below 5%.<sup>1</sup>.

At the focus of our analysis is whether or not a target board executive is a member of the acquirer board after the merge transaction is completed. We refer to such a target executive who is appointed to the acquirer board as *appointee*. To identify such a target board appointee we use banks' personal reporting statements and check whether the name of a target board member as stated in the year before the merge shows up on the acquirer board in the year after the transaction is completed.<sup>2</sup> As can be seen in Table 1, we observe that a target board member becomes a member of the acquirer board in 33% of all mergers considered. Over time, this share increases.

One particularity of the banking industry is that mergers are also used to solve distress in single institutions. Koetter, Bos, Heid, Kool, Kolari, and Porath (2007) point out that not controlling for hidden bailouts may lead to biased results and thus to wrong inferences on performance effects of bank mergers. Therefore, in Table 1, we also depict the number of bank mergers when the acquirer and/or the target was distressed. In our study, a bank is in distress if it received capital assistance (capital support measures) in the merge year or in the two years preceding the merge. Noteworthy, we observe almost as many acquirers that rely on capital assistance as targets.

## 3.2 Summary Statistics

In Table 2 we present summary statistics for targets and acquirers in the year before the merge transaction was completed as well as for acquirers after the merge distinguishing between transactions with and without appointee. The first variable to be discussed is the social ties variables, which is one contribution of our analysis. While there is a vast literature on social ties,

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<sup>1</sup>Other researchers deleted transactions if target accounts for 10 % of the acquirer in terms of total assets or net income (e.g. Cornett, McNutt, and Tehranian, 2006b, or Knapp, Gart, and Chaudhry, 2006). Robustness tests show that using this requirement does not materially change the conclusions we draw from our empirical analyses. These requirements shrink our sample to a still reasonable number of 1198 bank mergers.

<sup>2</sup>This identification does not require to apply a name search routine, since each board executive has a regulatory identification number with which every executive can be tracked over time.

we are, to our best knowledge, the first to track professional careers of bank executives over multiple decades and relate it to subsequent appointments of executive directors. We construct all possible pairs of the high officials that banks report to the supervisor (the maximum per bank-year is 104) for every German bank between 1974 and 2013. In this manner we arrive at a large network of connections that might be relevant for executive appointments in the course of bank mergers. At the point of the merger we can thusly identify which of the acquiring bank's executive directors has worked previously in a) either the acquiring or the target bank at least three years before the merger is completed, or b) in a third bank that is not involved in the merger we are currently looking at. By imposing the three-year restriction we ensure that we do not generate spurious ties that are in fact just mergers that take several years to be completed, while executive directors are already exchanged beforehand.

In this respect our paper is somehow similar to a recent work by Berger, Kick, Koetter, and Schaeck (2013). The authors study whether affinity for similar others as well as common contacts influence the appointments of bank executives, mainly outside merger activity.<sup>3</sup> Table 2 shows that target executives have worked together with acquirer executives in 3.5 % of mergers without appointee, while target and acquirer executives know each other from previous board appointments in 9.2 % of mergers with appointee. This might be a first hint on the influential role of social ties on the appointments of target board executives during mergers.

Further summary statistics cover two types of variables, namely board characteristics and variables from balance-sheet and income statements. As board characteristics, we consider the number of target executives and suppose that a higher target board size is associated with higher chances that a target executive will be appointed to the acquirer board. In line with this reasoning, the median target board consists of two members for merger with-

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<sup>3</sup>Variables capturing the relationship between parties have already been applied in the finance literature. For instance, Corwin and Schultz (2005) investigate underwriting syndicates and argue that ongoing relationships may mitigate free-riding and moral hazard problems. Check: Song(2004).

out appointee and as much as three members for merger with appointee. We also see that on average, target boards have fewer members than acquirer boards, which we measure two years before the transaction is completed. This is rooted in several cases that target executives are appointed to the acquirer board in the year *before* the merger is completed. We also make use of a dummy variable equaling 1 if the youngest executive of the target board is older than 60 years to capture the fact that ‘old’ target board executives have lower chances to get an appointment to the acquirer board. This variable can also discriminate two opposed lines of reasoning. The first one is that board members close to retirement do *not hurt* when taken to the acquirer board, since their stay is very limited in any case. The second possibility is that older boards have lower chances of placing an appointee to the acquirer board, because their impact on long-run strategy is limited.

The third board characteristic considered is whether or not the board members have experience as board executives outside their current bank. We associate target executives with outside experience as having higher chances for being appointed as executive to the acquirer board. Note, that our definition of outsiders differs from the one used in the literature dealing with outsider succession (e.g. Parrino, 1997, Houston and James, 2001). We include outsider experience with a dummy variable *D\_outsider* that equals one when one of the executives on a board has experience in another bank. As we can see in Table 2, 50 % of merger transactions without appointee and 64.4 % of merger transactions with appointee have at least one target executive with outside experience. We also generate a variable capturing the change on board size around the merger event. It equals one when the number of acquirer executives in the year after the merge is higher than the one two years before the merge. Appointing a target member often goes hand-in-hand with increasing the board size.

Next, we discuss variables capturing the financial situation of targets and acquirers before the transaction is completed. We follow the literature that has used performance measures to capture the bargaining power of the target as compared to the acquirer (Ahern, 2012). In the year before the merge, we see that targets have lower ROA and ROE than acquirers, where the return

gap is wider when no target executive is appointed to the acquirer board than when at least one target member is on the acquirer board after the transaction is completed. This might indicate that the probability of having an appointee depends on the performance of the target. This reasoning is also supported when looking at non-performing loans, which are measured relative to total assets, *NPL*: targets in mergers without appointee have on average a non-performing loan ratio of 5.1 %, while the ratio is as low as 3.4 % for targets of mergers with appointee. We also apply a capital ratio, liquidity ratio and a ratio capturing personal expenses.

We recognize that dummy variables that equal 1 when the target or the acquirer is in financial distress are too highly correlated to be of any use in an empirical analysis. Therefore, we created three variables capturing financial distress. The first variable equals 1 when both the target and acquirer received capital assistance before the merge transaction. The second (third) variable equals 1 when the acquirer only (the target only) was financially distressed. Both banks are financially distressed in 15 % of mergers without appointee, but only in 4.5 % of mergers with appointee. The target is distressed in 10.6 % of mergers without appointee, but only in 5.2 % of mergers with appointee. This further underlines the importance of the target's financial health for the appointment of a target executive as a member of the acquirer board.

One central variable used in merger studies (Cornett, McNutt, and Tehranian, 2006b, Hannan and Pilloff, 2009) are size differences between target and acquirers. Targets are smaller than acquirers in mergers with and without appointee as indicated by the relative size, which is target total assets to acquirer total assets. We see that size differences between target and acquirer are less pronounced in mergers with appointee than in the ones without appointee.

Finally, we also depict how our sample is distributed among two ownership structures in the German banking industry. We distinguish between publicly owned banks and privately owned banks. The overwhelmingly number of mergers involves privately owned banks. Noteworthy is the observation

that target executives in publicly owned banks have much higher chances to be appointed to the acquirer board than target executives in cooperative banks.

## 4 Empirical Analysis

### 4.1 Determinants of Appointee

In the first step of our empirical analysis, we investigate the probability of target members to be appointed to the acquirer board. The dependent variable in our model is binary; it equals 1 when one or more target executive directors are appointed as members of the acquirer board, and 0 otherwise. Therefore, we apply logit models. To control for time-fixed effects we use dummy variables that capture several years instead of adding the full set of 18 annual dummy variables which is not feasible since we have several years with only a few merger transactions (see Table 1). We use four time dummy variables (for the years 1994-1998, 1999-2004, 2005-2010, and 2011-2013). We present estimation results in Table 3 for various specifications that differ with respect to independent variables considered or with respect to the sample chosen. More specifically, we use the full sample (columns (1)-(6)) and subsamples of banks with public ownership (column (7)) or private ownership (column (8)).

For social ties the results suggest the following: The probability that a target executive becomes a member of the acquirer board is significantly higher when the members of the target and acquirer have already met each other in another bank and thus know each other. Switching this dummy variable from 0 to 1 increases the probability of having an appointee by 11.6 %. This effect is only moderate compared to the economic effects of other independent variables discussed below. The subsample regressions for banks with public and private ownership show that the effect of social ties is driven by banks with private ownership. Thus, social ties seem to have different roles depending on bank ownership.

Board size of the target in the year before the merge affects the probability

of having a target appointee significantly positive. The larger the board of the target, the higher the chances that at least one target executive will be appointed to the acquirer board. The effect is of importance in economic terms. A one-standard deviation increase in this variable starting at the mean board size increases the probability of having a target appointee by 17%. In column (2), we replace the board size of the target with a measure of relative board size, defined as the board size of the target relative to the one of the acquirer.<sup>4</sup> We do so because both sizes may be relevant in the decision to select and finally to appoint a member of the target board. We find that the probability of having a target appointee increases with relative board size. In unreported regressions, we also checked the size of the acquirer board to find that it is not related to the probability of having a target appointee. The economic effect of relative board size differs between publicly and privately owned banks: A one-standard deviation increase in this variable starting at the mean board size increases the probability of having a target appointee by 10.3% for publicly owned banks, but only by less than 6% for privately owned banks, while the effect of the full sample is close to the one of privately owned banks.

Target boards with executives who are older than 60 years (the retirement age equals 65 years during our sample period) have low chances to have one member appointed to the board of the acquirer. The probability of having an appointee decreases by 26.5 % when switching this dummy variable from 0 to 1. For publicly owned banks, we report no effect of old target boards, since all publicly owned target banks involved in mergers have a minimum age of board executives below 60 years.

When we use the relative board size instead of the target board size, we find the dummy variable for target executives' outsider experience to be significantly positive related to the probability of having a target appointee. Switching the dummy variable for outside experience from 0 to 1 increases the probability of having an appointee by 9% (column (2)). The insignificant

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<sup>4</sup>This reduces the number of observations, since we use acquirer board size two years before the merger takes place in order to get rid of cases where target executives are already appointed to acquirer boards before the transaction is completed.

effect of the outsider dummy variable in column (1) is reasonable, because larger target board size implies higher chances to have outside experience of at least one target board member. Thus, target board size and the dummy variable for outsider experience are positively correlated. Comparing the economic effects of the board measures indicates that the potential of the target board (captured by the dummy variable for old target boards and target board size) is the most influential one followed by social ties among executives of target and acquirer boards.

Next, we add ROA and NPL of the target as additional independent variables in column (3). In line with a bargaining power hypothesis of target members, we find target ROA to be positively related to the probability of having a target appointee. The effect is not only highly statistically significant but it is also huge in economic terms. An increase in target ROA by one standard deviation starting from the mean increases the probability by 30 %. Using the same scenario, the probability of having a target appointee increases only by 14 % for publicly owned banks, while it jumps by more than 40 % for privately owned banks. This finding also holds when we add further financial ratios of the target in column (4). The statistical significance of target's *NPL* is only weak as long as we also include the three distress dummy variables in the model (see column (3) versus (4)). This is not astonishing since both the distress dummy variables and *NPL* capture the financial health of the target. Excluding the distress dummy variables, we find *NPL* highly significant in statistical terms. However, return is much more important than non-performing loans in economic terms. An increase in target *NPL* by one standard deviation starting from the mean decreases the probability by only 7 %. Overall, these findings may indicate that the target's performance and risk determine the target executives' bargaining power in a merge transaction. This reasoning is also supported by the outcomes on the distress dummy variables. Executives from distressed targets have lower chances to be appointed to the board of the acquirer. According to the results in column (1), the probability of having a target appointee decreases by about 30 % when both banks are distressed or when the target is distressed only.

The acquirer's financial ratios help little in explaining the probability of having a target appointee. In column (1), we see that coming from a healthy target and merging with an acquirer in distress has no implications for target executives' probability of being appointed. Further, acquirers *ROA* and *NPL* are not significantly related to appointing a member of the target to the board of the acquirer, we only see a weakly significant and negative effect of acquirers' personal expenses in column (6). The economic effect of this variable is, however, small. The overall conclusion to be drawn from the probability model is that target performance is the most influential factor determining the probability that a member of the target board is appointed to the acquirer board. Other factors, such as social ties, are less important for the appointment choice. Also, ownership structure matters: for publicly owned banks financial health of the target is less relevant for the decision to appoint a target member than for privately owned banks. This difference is in line with our expectations, since publicly owned banks aim at not only at maximizing the return to their shareholders but are guided by other social aims, as well.

## 4.2 Do Appointees Generate Value?

After having studied the determinants of whether a board member of the target bank joins the active board after a merger, it is natural to ask whether this is beneficial in economic terms. If this is indeed the case, one should be able to observe a different performance of mergers, depending on whether a target member switched to the active board, or not.

We follow the merger literature in calculating performance differences (see, e.g. Cornett, McNutt, and Tehranian, 2006b). More precisely, we compare the observed post-merger performance with the hypothetical pre-merger performance if both banks had been operating as a single unit. This hypothetical measure is obtained by weighting both the observed pre-merger performance measures of target and acquirer by assets (equity) for assets-(equity)-based performance measures. For the pre- and post-merger perfor-



mance, we use two-year window averages. This choice reflects the trade-off between having a larger estimation sample, that is not reduced by more than one merger in the performance window on the one hand, and a long enough time frame to allow for real changes in bank governance following a merger. Put formally, we construct the difference in performance of measure Y as

$$\Delta Y = \frac{1}{2} \left( \sum_{t=1}^2 Y_t^{acq} \right) - \frac{1}{2} \left( \sum_{t=-2}^{-1} Y_t^{acq} \cdot \omega_{Y,t}^{acq} + Y_t^{tar} \cdot \omega_{Y,t}^{tar} \right) \quad (1)$$

where the merger takes place in  $t=0$  and the weights of acquirer and target  $\omega_{Y,t}^{acq}$  and  $\omega_{Y,t}^{tar}$  sum up to unity. Our basic performance measures are ROA and ROE. We use these indicators as well as two kinds of industry adjustments. The first adjustment accounts for average return differences in the respective banking group. The second adjustment accounts for the average return in the respective asset decile of the acquirer. We furthermore compute the return differences of the acquirer only. This gives us a total of eight performance measures as dependent variables. Table 4 presents univariate results on the relation of target members in the new board and post-merger bank performance. We can confirm earlier studies on the German banking system finding that mergers are, at best, not related to statistically significant performance increases (Berger, Kick, Koetter, and Schaeck, 2013).

For studying the potential impact of an appointee on subsequent performance we employ three sets of controls. In choosing the variables, we stick to the merger- as well as to the performance literature (see Cornett, McNutt, and Tehranian, 2006b, Molyneux and Thornton, 1992). The first set of control variables are the same dummy variables that account for combinations of distressed targets and acquirers. We expect a significant catching-up effect for mergers in which at least one of both was in distress, previous to the merger. The second set of controls consists of balance sheet and income statement positions. In particular, we employ the natural logarithm of total assets, the ratio of the natural logarithms of total assets of target and acquirer, the liquidity ratio, the equity ratio, the ratio of personnel expenses over total assets as well as the ratio of non-performing loans to total assets. All of them are transformed in the way already described for the dependent

variables in equation 1 in order to yield the difference over relevant time periods. Different to studies such as Molyneux and Thornton (1992) our sample consists of German banks only, rendering the macroeconomic factors employed in Molyneux and Thornton (1992) and similar studies very highly correlated for our sample. This is the reason why we rely on the same time fixed effects as in the previous section to capture macroeconomic factors influencing banks' performance. The third set of controls captures increases in board size of the acquirer and a dummy variable for outside experience, similar to the first part of the analysis.

The results are presented in Tables 5 and 6. The variable of interest in the performance regressions indicate whether a member of the target board was included in the acquirer board in the course of merger activity. However, we have reasons to suggest that there may be significant heterogeneity of this effect across banks. In particular, we expect the effect to be different depending on the profitability of the target. We therefore present both a single dummy variable indicating that at least one target member is present in the new board, as well as two dummy variables as interaction of at least one target member in the new board with a high(low) pre-merger performance of the target. In particular, we define a target bank to be low-performing if its ratio of return to non-performing loans is in the lower quartile of all target banks in our sample. While all control variable have the expected sign, the coefficient of interest is statistically insignificant. We then proceed to distinguish the presence of an appointee by the former profitability of target bank before the merger. As we can see in column (2), mergers involving a target member coming to the new board exhibit a return on assets that is on average 0.18 percent higher if the passive bank was relatively unprofitable, compared to the case when a target member joins the new board coming from a relatively profitable target bank.

By constructing the measure of target performance pre-merger as return on non-performing loans, one might be concerned about an endogeneity problem arising from the fact that the performance of the passive bank is part of both the left- and right hand side variables, even though through two very different functions. We therefore test the specification in column (3),

using the difference in return on assets of the active bank only as dependent variable, similar to Knapp, Gart, and Chaudhry (2006). As our results from column (2) still hold we are confident that endogeneity concerns stemming from the construction of the target performance measure are rather negligible. We then continue to use two industry-adjusted measures of return on assets. Column (4) employs the difference in performance calculated as described in equation 1 adjusted by the mean of the respective banking-group years. Column (5) uses the size-adjusted return on assets, where we subtract the mean performance of the corresponding asset-decile of our sample over the relevant time periods.

We can see that our results still hold despite adjusting for industry performance. The economic magnitude also stays very constant over all specifications. We furthermore note, that it is unlikely that our results in terms of significance are driven by a too small sample size: by construction we have three times as many *good* banks as *bad* banks. In Table 6 we show the corresponding results for the return on equity. The results are exactly the same as to the return on assets in terms of sign and significance. The economic magnitude is also similar; an additional increase in return on equity of 4.3 percent per year for appointees coming from relatively bad-performing targets corresponds to almost a half standard deviation in return difference. Throughout all specifications we can see that distressed banks exhibit a catch-up effect after the merge, resulting in positive and statistically significant coefficients. This effect is most pronounced when both banks were in distress at the time of the merger and least when only the acquirer was in distress.

## 5 Conclusion

We investigated the appointment of target executives to acquirer boards in the course of mergers in two parts. In the first part, we examined how target board characteristics and financial characteristics influence the probability that at least one member of the target executive board is appointed to the acquirer board. We found that both board and financial characteristics help explain the probability of *appointees*, i.e. target board executives appointed

to the board of the acquirer. While financial characteristics of acquirer are not significantly related to this probability, the financial health of the target has a huge effect that goes far beyond the one of the target board characteristics. Thus, one can conclude from the first part of our analysis that bargaining power of the target likely plays a large role in the decision to appoint a target executive to the acquirer board.

The second part of our analysis aimed at measuring performance implications of merger activity and whether or not an appointee from the target board creates value that is reflected in performance. In line with previous studies on German bank mergers, we found that mergers do not generate value, on average. In addition, mergers with an appointee perform as good or bad as mergers without appointee, on average. Since the results from the first stage indicated two different types of appointees, we proceeded by distinguishing between appointees from relatively good and those from relatively bad target banks, giving them more or less bargaining power for being appointed to the acquirer board. We found that the latter but not the former increase post-merger performance measured relative to the pre-merger performance. Appointees having low bargaining power thus create value. This result holds for both the acquirer performance and the performance of the pro forma combined merge partners. Moreover, it also holds when we adjust the performance change of the merger for industry-wide effects or size-specific performance developments. Our findings are consistent with a *picking* hypothesis. This means that if acquirer executives choose to appoint a board member from a relatively bad target bank, they choose a person with high qualifications that may really benefit the integration process. In contrast, executives from relatively good targets, i.e. with high bargaining power, may be appointed not because of their management skills.

The results of our analysis are interesting for regulators and public authorities at least in two ways. First, we measured the effects of appointees from the target board separately for publicly and privately owned banks and found that an appointee comes along with significantly higher performance change around mergers for privately but not for publicly owned banks. In line with this, we also found in the first stage of our analysis that measures

of the financial health of the target are much less strongly related to the probability of appointees for publicly-owned banks.

Tentatively we may conclude from these findings that merger transactions of publicly owned banks follow less financial arguments than privately owned banks. Second, when performing both parts of our analysis we tackled distressed mergers by distinguishing between three groups, namely those where both banks were in distress and received capital support, as well as cases where only one of the banks, either the target or the acquirer, was distressed. Our performance analysis shows that when both partners were in distress a catching up effect can be observed. These mergers have a significantly higher increase in their post-merger performance, which holds irrespective of whether or not we use adjusted or unadjusted performance measures. This catching up effect is in the interest of regulators and public authorities, because it indicates that the financial health of the post-merger bank is better than the one of the combined partners before the merge.

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Table 1: Bank Mergers in Germany

	Industry				Sample			
	Mergers	with Appointee	acquirer distressed	target distressed	Mergers	with Appointee	acquirer distressed	target distressed
1994	146	19	21	20	83	16	15	15
1995	91	15	18	14	52	13	9	9
1996	100	17	18	18	60	14	15	11
1997	94	15	15	20	47	13	7	10
1998	167	31	28	39	106	28	20	24
1999	199	43	31	34	131	38	21	27
2000	220	51	36	39	134	43	22	28
2001	179	50	37	34	107	45	22	20
2002	136	36	20	23	81	26	10	14
2003	124	38	19	30	90	31	14	25
2004	71	19	12	20	46	14	10	16
2005	61	26	12	19	44	22	10	14
2006	43	14	5	7	36	13	5	6
2007	34	12	2	5	29	12	2	3
2008	45	18	4	7	37	16	3	7
2009	48	20	7	5	35	18	6	4
2010	28	10	3	2	15	8	1	2
2011	25	13	3	1	19	13	3	1
2012	26	9	2	2	20	9	1	2
2013	31	13	3	2	26	12	2	2
Total	2022	469	311	341	1198	404	198	240

The number of mergers is depicted for the German banking industry and for our sample. A distinction is made regarding appointees from the target to the active board, and whether the acquirer or target is distressed.

Table 2: Summary Statistics

<i>Target before</i>									
	w/o Appointee			with Appointee			total		
	mean	median	sd	mean	median	sd	mean	median	sd
$D\_Ties_{i,t-1}$	0.035	0		0.092	0		0.054	0	
$BoardSize_{i,t-2}^{TAR}$	2.194	2	1.125	3.064	3	1.342	2.487	2	1.271
$D\_old_{i,t-1}^{TAR}$	0.038	0		0.005	0		0.027	0	
$D\_outsider_{i,t-1}^{TAR}$	0.500	1		0.644	1		0.548	1	
$ROA_{i,t-1}^{TAR}$	0.216	0.510	3.089	0.671	0.682	0.585	0.375	0.569	2.526
$ROE_{i,t-1}^{TAR}$	3.451	9.509	48.947	9.471	12.753	72.858	5.548	10.781	58.433
$NPL_{i,t-1}^{TAR}$	5.097	3.606	5.461	3.445	2.909	2.638	4.521	3.303	4.739
$\ln(SIZE)_{i,t-1}^{TAR}$	18.446	18.332	1.041	19.407	19.347	1.109	18.770	18.624	1.157
$CAP_{i,t-1}^{TAR}$	5.981	5.608	2.447	6.470	6.128	2.319	6.146	5.830	2.415
$LIQ_{i,t-1}^{TAR}$	39.149	37.684	13.279	37.571	34.987	12.554	38.614	36.737	13.054
$PERS_{i,t-1}^{TAR}$	1.665	1.622	0.455	1.519	1.498	0.355	1.616	1.570	0.429
$D\_public_{i,t-1}^{TAR}$	0.107	0		0.295	0		0.170	0	

  

<i>Acquirer before</i>									
	w/o Appointee			with Appointee			total		
	mean	median	sd	mean	median	sd	mean	median	sd
$D\_Ties_{i,t}$	0.035	0		0.092	0		0.054	0	
$BoardSize_{i,t-2}^{ACQ}$	2.831	2	1.550	3.349	3	1.799	3.013	3	1.659
$D\_old_{i,t-1}^{ACQ}$	0.005	0		0.000	0		0.003	0	
$D\_outsider_{i,t-1}^{ACQ}$	0.689	1		0.695	1		0.691	1	
$ROA_{i,t-1}^{ACQ}$	0.731	0.714	0.609	0.726	0.735	0.615	0.729	0.722	0.611
$ROE_{i,t-1}^{ACQ}$	14.640	14.087	12.212	13.884	14.018	12.140	14.384	14.053	12.188
$NPL_{i,t-1}^{ACQ}$	3.651	3.074	2.687	3.488	2.902	2.644	3.596	3.021	2.672
$\ln(SIZE)_{i,t-1}^{ACQ}$	19.532	19.451	1.108	19.913	19.863	1.178	19.661	19.575	1.146
$CAP_{i,t-1}^{ACQ}$	6.156	5.846	1.927	6.629	6.319	2.504	6.316	5.993	2.150
$LIQ_{i,t-1}^{ACQ}$	36.542	34.108	12.474	37.209	34.575	12.950	36.767	34.320	12.635
$PERS_{i,t-1}^{ACQ}$	1.532	1.510	0.403	1.484	1.449	0.484	1.516	1.488	0.432
$D\_public_{i,t-1}^{ACQ}$	0.107	0		0.295	0		0.170	0	

  

<i>Acquirer after</i>									
	w/o Appointee			with Appointee			total		
	mean	median	sd	mean	median	sd	mean	median	sd
$BoardSize_{i,t+2}^{ACQ}$	3.183	3	1.482	4.678	4	2.306	3.715	3	1.953
$D\_outsider_{i,t+2}^{ACQ}$	0.861	1		0.929	1		0.885	1	
$NPL_{i,t+2}$	4.106	3.236	3.278	3.378	2.809	2.513	3.847	3.108	3.046
$\ln(SIZE)_{i,t+2}$	19.892	19.764	1.055	20.444	20.450	1.155	20.088	19.938	1.123
$CAP_{i,t+2}$	6.613	6.329	2.087	6.931	6.703	2.149	6.726	6.435	2.114
$LIQ_{i,t+2}$	37.388	35.508	12.821	36.967	34.306	13.240	37.239	35.091	12.966
$PERS_{i,t+2}$	1.547	1.541	0.372	1.470	1.462	0.358	1.520	1.513	0.368
$D\_distress_{i,t-1}^{both}$	0.146	0		0.045	0		0.112	0	
$D\_distress_{i,t-1}^{TARonly}$	0.106	0		0.052	0		0.088	0	
$D\_distress_{i,t-1}^{ACQonly}$	0.054	0		0.052	0		0.053	0	
$D\_BoardIncrease_{i,t-1}^{ACQ}$	0.518	1		0.853	1		0.631	1	
$RelSIZE_{i,t-1}$	0.484	0.393	0.408	0.755	0.643	1.261	0.579	0.482	0.826

In this table,  $i$  identifies the merger and  $j$  the bank (either target or acquirer).  $D\_Ties_{i,t-1}$  is a dummy which equals one if at least one member of each board were previously employed together in leading positions in a German bank since 1974 one year before merger  $i$ .  $BoardSize_{i,t-2}^{TAR}$  denotes the size of the target's board one year before the merger.  $D\_old_{i,t-1}^{TAR}$  equals one if every member of the target's board is at least 60 years old at the time of the merger.  $D\_outsider_{i,t-1}$  equals one if there is at least one member of the target board with previous experience in another bank's board. Furthermore there are three dummy variables included for different combinations of acquirer and target distress.  $ROA_{i,t}^j$  denotes the ROA of bank  $j$ .  $ROE_{i,t}^j$  denotes the return on equity.  $NPL_{i,t}^j$  is the percentage of non-performing loans relative to year-end total assets of bank  $j$ .  $\ln(SIZE)_{i,t}^j$  is the natural logarithm of bank total assets.  $CAP_{i,t}^j$  denotes the equity ratio of bank  $j$ . Equity equals the book value of equity.  $LIQ_{i,t}^j$  denotes a liquidity ratio of bank  $j$ . It is calculated as cash holdings plus bank assets that are due on demand plus investment securities as a percentage of year-end total assets.  $PERS_{i,t}^j$  is the ratio of wages and salaries relative to total assets of bank  $j$ .  $D\_public$  equals one if the bank is publicly-owned and zero else.

Table 3: Determinants of Appointee

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	ALL	ALL	ALL	ALL	ALL	ALL	PUBLIC	PRIVATE
$D\_Ties_{i,t-1}$	0.629** (1.99)	0.669** (2.30)	0.649** (2.23)	0.756*** (2.62)	0.718** (2.39)	0.851*** (2.99)	-0.421 (-0.55)	1.092*** (3.24)
$BoardSize_{i,t-1}^{TAR}$	0.605*** (7.93)							
$RelBoardSize_{i,t-1}$		0.470*** (3.25)	0.507*** (3.36)	0.642*** (4.03)	0.475*** (3.29)	0.425*** (3.21)	1.804*** (2.92)	0.600*** (3.74)
$D\_outsider_{i,t-1}^{TAR}$	0.2 (1.36)	0.440*** (3.02)	0.479*** (3.20)	0.437*** (2.82)	0.406*** (2.76)	0.250* (1.72)	-0.477 (-1.12)	0.550*** (3.10)
$D\_distress_{i,t-1}^{both}$	-1.672*** (-5.72)	-1.597*** (-5.84)	-0.915*** (-2.96)		-1.643*** (-5.86)			
$D\_distress_{i,t-1}^{TARonly}$	-1.626*** (-4.94)	-1.031*** (-4.07)	-0.404 (-1.47)		-1.019*** (-4.02)			
$D\_distress_{i,t-1}^{ACQonly}$	-0.227 (-0.74)	-0.221 (-0.75)	0.031 (0.11)		-0.29 (-0.96)			
$D\_old_{i,t-1}^{TAR}$	-1.437** (-1.98)	-1.784** (-2.44)	-1.703** (-2.31)	-1.794** (-2.38)	-1.810** (-2.47)	-1.731** (-2.37)		-1.633** (-2.16)
$ROA_{i,t-1}^{TAR}$			0.549*** (3.83)	0.771*** (4.81)			0.853** (2.07)	0.822*** (4.13)
$NPL_{i,t-1}^{TAR}$			-0.044* (-1.86)	-0.086*** (-3.54)			-0.178* (-1.83)	-0.070*** (-2.78)
$ROA_{i,t-1}^{ACQ}$					-0.118 (-0.94)	-0.04 (-0.31)	-0.42 (-1.07)	-0.08 (-0.54)
$NPL_{i,t-1}^{ACQ}$					0.022 (0.73)	-0.006 (-0.24)	-0.011 (-0.11)	0.042 (1.35)
$CAP_{i,t-1}^{TAR}$				-0.081* (-1.72)			-0.089 (-0.59)	-0.023 (-0.46)
$LIQ_{i,t-1}^{TAR}$				-0.026*** (-4.23)			-0.015 (-0.93)	-0.031*** (-4.15)
$PERS_{i,t-1}^{TAR}$				-0.907*** (-4.36)			-1.595** (-1.99)	-0.347 (-1.54)
$CAP_{i,t-1}^{ACQ}$						0.019 (0.40)		
$LIQ_{i,t-1}^{ACQ}$						-0.001 (-0.23)		
$PERS_{i,t-1}^{ACQ}$						-0.406* (-1.91)		
adj. $R^2$	0.148	0.085	0.106	0.133	0.087	0.054	0.211	0.138
N	1188	1090	1074	1067	1075	1070	168	886

The table presents coefficients from the logistic regression on the determinants of a dummy variable that equals one if at least one former executive director of the target bank is appointed to the acquirer board in the course of the merger  $i$ .  $D\_Ties_{i,t-1}$  is a dummy which equals one if at least one target and one acquirer board member were previously employed together in leading positions in a German bank since 1974.  $BoardSize_{i,t-1}^{TAR}$  denotes the size of the target board one year before the merger and  $RelBoardSize_{i,t-2}$  is the ratio of the target to acquirer board size two years before the merger.  $D\_outsider_{i,t-1}^{TAR}$  equals one if there is at least one member of the target board with previous experience in another bank's board. Furthermore there are three dummy variables included for different combinations of acquirer and target distress.  $D\_old_{i,t-1}^{TAR}$  equals one if every member of the target board is at least 60 years old at the time of the merger. We furthermore include balance sheet control variables. ROA denotes the year-end ratio of return on assets, NPL the ratio of nonperforming loans to total assets, CAP is the equity ratio, LIQ the sum of cash, bank deposits and investment securities over total assets and PERS the ratio of personnel expenses over total assets. We include yearbin dummy variables that cover five different periods of our sample.

\*, \*\* and \*\*\* indicate significance at the 10%, 5% and 1% level, respectively.

Table 4: Performance Differences: Descriptive Statistics

<b>Return on Assets (ROA)</b>					
	both	acquirer only	<i>total</i>	industry-adjusted	size-adjusted
Mean	-0.04		-0.10	0.00	0.01
Median	-0.03		-0.11	0.01	0.01
SD	0.52		0.63	0.47	0.47
<i>with Appointee</i>					
Mean	-0.02		-0.04	0.01	0.01
Median	-0.04		-0.06	0.00	0.02
SD	0.50		0.65	0.45	0.45
<i>w/o Appointee</i>					
Mean	-0.05		-0.14	0.00	0.01
Median	-0.03		-0.13	0.01	0.01
SD	0.53		0.63	0.48	0.48
<b>Return on Equity (ROE)</b>					
	both	acquirer only	<i>total</i>	industry-adjusted	size-adjusted
Mean	-1.72		-2.64	-0.15	-0.36
Median	-1.85		-2.66	-0.22	-0.46
SD	10.44		12.53	9.49	9.51
<i>with Appointee</i>					
Mean	-1.03		-0.86	0.24	-0.07
Median	-1.57		-1.67	-0.20	-0.45
SD	10.43		12.88	9.56	9.57
<i>w/o Appointee</i>					
Mean	-2.11		-3.61	-0.37	-0.53
Median	-1.96		-3.35	-0.23	-0.47
SD	10.43		12.24	9.44	9.48

The table presents performance differences after and before the merger. We construct the difference in performance of measure Y as  $\Delta Y = \frac{1}{2}(\sum_{t=1}^2 Y_t^{acq}) - \frac{1}{2}(\sum_{t=-2}^{-1} Y_t^{acq} * \omega_{y,t}^{acq} + Y_t^{tar} * \omega_{y,t}^{tar})$  where the merger takes place in  $t=0$  and the weights of acquirer and target  $\omega_{Y,t}^{acq}$  and  $\omega_{Y,t}^{tar}$  sum up to unity. Our basic performance measures are return on assets (ROA) and return on equity (ROE). We use these indicators, returns for the acquirer only, as well as two kinds of industry adjustments. The first adjustment accounts for average return differences in the respective banking group. The second adjustment accounts for the average return in the respective asset decile of the acquiring bank.

Table 5: Performance Stage - Return on Assets

	(1) both	(2) both	(3) acquirer only	(4) industry-adj.	(5) size-adj.	(6) public & size-adj.	(7) priv. & size-adj.
$D\_Appointee_{i,t}$	0.01 (0.265)						
$D\_Appointee_{i,t-1}^{low}$		0.189** (2.384)	0.175** (1.976)	0.183** (2.416)	0.193** (2.567)	0.087 (0.633)	0.231*** (2.707)
$D\_Appointee_{i,t-1}^{high}$		-0.028 (-0.759)	0.069 (1.590)	0.011 (0.317)	-0.001 (-0.029)	0.076 (0.756)	-0.012 (-0.334)
$ROA/NPL_{i,t-1}^{TAR}$	-0.088** (-2.552)	-0.076** (-2.248)	0.015 (0.369)	-0.088*** (-2.878)	-0.079*** (-2.646)	-0.182** (-1.998)	-0.064** (-2.039)
$D\_distress_{i,t-1}^{both}$	0.187*** (3.352)	0.167*** (2.967)	-0.005 (-0.069)	0.166*** (3.043)	0.160*** (2.899)	0.218 (0.817)	0.161*** (2.835)
$D\_distress_{i,t-1}^{TARonly}$	0.122** (2.194)	0.102* (1.870)	-0.03 (-0.549)	0.067 (1.360)	0.061 (1.222)	0.200* (1.955)	0.024 (0.421)
$D\_distress_{i,t-1}^{ACQonly}$	0.153* (1.757)	0.147* (1.689)	0.112 (0.968)	0.171* (1.955)	0.167* (1.892)	0.107 (0.686)	0.179* (1.853)
$\ln(SIZE)_{i,t-1}^{ACQ}$	0.024 (1.591)	0.024 (1.635)	0.013 (0.775)	0.017 (1.206)	0.009 (0.624)	-0.052 (-1.051)	0.011 (0.648)
$RelSIZE_{i,t-1}$	0.064 (1.520)	0.074* (1.763)	-0.01 (-0.217)	0.044 (1.045)	0.032 (0.773)	-0.029 (-0.327)	0.037 (0.771)
$\Delta CAP_{i,t-1}$	0.099*** (3.635)	0.102*** (3.956)	0.074*** (2.750)	0.081*** (3.327)	0.072*** (3.090)	0.139** (2.361)	0.062** (2.464)
$\Delta NPL_{i,t-1}$	-0.042*** (-4.991)	-0.041*** (-4.939)	-0.045*** (-4.245)	-0.057*** (-6.920)	-0.054*** (-6.807)	-0.035 (-1.152)	-0.056*** (-6.853)
$\Delta LIQ_{i,t-1}$	0.011*** (3.214)	0.011*** (3.160)	0.011*** (2.628)	0.008*** (2.606)	0.008** (2.389)	0.004 (0.330)	0.008** (2.381)
$\Delta PERS_{i,t-1}$	-0.126 (-1.127)	-0.132 (-1.187)	-0.077 (-0.622)	-0.079 (-0.743)	-0.093 (-0.872)	-0.395 (-1.101)	-0.062 (-0.539)
$D\_outsider_{i,t-1}^{ACQ}$	0.007 (0.212)	0.004 (0.124)	0.01 (0.251)	0.005 (0.161)	0.002 (0.073)	-0.101 (-0.970)	0.011 (0.322)
$D\_BoardIncrease_i^{ACQ}$	0.02 (0.572)	0.019 (0.549)	0.033 (0.918)	-0.006 (-0.168)	0.01 (0.293)	-0.029 (-0.353)	0.011 (0.295)
adj. $R^2$	0.236	0.243	0.164	0.176	0.157	0.074	0.172
N	901	901	901	901	901	152	749

Coefficient estimates from OLS estimations with White (1980) corrected standard errors given in brackets below the coefficients. The dependent variable in column 1 and 2,  $\Delta ROA_{i,t}^{both}$ , denotes the change in ROA of the merged banks in years -1 and -2 (before) to years +1 and +2 (after) of the  $i$ th bank merger. In column 3 we use the acquirer performance only. Columns 4 to 7 use adjusted returns with weighted as in columns 1 and 2, where we adjust either for the banking group returns or returns of the corresponding the asset decile. Column 6 and 7 present subsample estimations on whether the bank was publicly- or privately-owned.  $D\_Appointee_{i,t}$  is a dummy variable equal to one if at least one former member of the target board joined the acquirer board until one year after the merger. In columns 2 through 7 we split this dummy variable into two subcategories, depending on whether the appointee belonged to a target with relatively good or bad performance. We define a target bank to have a relatively bad performance if it had returns to non-performing loans in the lower quartile of all target banks in our sample.  $(ROA/NPL)_{i,t-1}^{TAR}$  denotes the logarithm of the target's return on assets relative to its non-performing loans in the year before the  $i$ th bank merger. We include three dummy variables to account for different combinations of target and acquirer distress.  $\ln(SIZE)_{i,t-1}^{ACQ}$  is the natural logarithm of the acquirer's total assets in the year before the  $i$ th bank merger.  $RelSIZE_{i,t-1}$  is total assets of the acquirer to the ones of the target in the year before the  $i$ th bank merger.  $\Delta CAP_{i,t}$  denotes the equity ratio of bank  $j$  in the year before or two years after the  $i$ th bank merger. Equity equals the book value of equity plus reserves.  $\Delta NPL_i$  is the change in non-performing loans relative to total assets.  $\Delta LIQ_{i,t}$  is the change in liquidity.  $\Delta PERS_i$  is the change in personnel expenses relative to total assets. All changes abbreviated with  $\Delta$  are computed in the same way depicted in equation 1 that is also used to generate the weighted dependent variable (*both*).  $D\_outsider_{i,t-1}^{ACQ}$  equals one if the acquiring board one year prior to the merger had at least one member with experience in another bank's board.  $D\_BoardIncrease_i^{ACQ}$  is a dummy that equals one if the acquirer boardsize increase in the course of the merger.

\*, \*\* and \*\*\* indicate significance at the 10%, 5% and 1% level, respectively.

Table 6: Performance Stage - Return on Equity

	(1) both	(2) both	(3) acquirer only	(4) industry adj.	(5) size adj.	(6) public & size adj.	(7) priv. & size adj.
$D\_Appointee_{i,t}$	0.586 (0.784)						
$D\_Appointee_{i,t-1}^{low}$		4.469** (2.394)	4.767** (2.171)	4.497** (2.459)	4.522** (2.484)	3.308 (0.868)	4.999*** (2.764)
$D\_Appointee_{i,t-1}^{high}$		-0.227 (-0.304)	1.789** (1.992)	0.535 (0.778)	0.369 (0.530)	2.198 (0.817)	-0.006 (-0.009)
$ROA/NPL_{i,t-1}^{TAR}$	-1.584** (-2.305)	-1.329** (-1.984)	0.155 (0.187)	-1.507** (-2.447)	-1.336** (-2.179)	-3.586 (-1.558)	-1.008 (-1.644)
$D\_distress_{i,t-1}^{both}$	3.588*** (3.116)	3.169*** (2.742)	0.041 (0.030)	3.223*** (2.858)	3.340*** (2.918)	3.644 (0.480)	3.563*** (3.166)
$D\_distress_{i,t-1}^{TARonly}$	1.702 (1.534)	1.274 (1.165)	-0.383 (-0.333)	0.632 (0.638)	0.518 (0.520)	3.007 (1.118)	-0.069 (-0.062)
$D\_distress_{i,t-1}^{ACQonly}$	3.480** (1.966)	3.364* (1.896)	2.767 (1.193)	3.628** (2.099)	3.882** (2.164)	2.122 (0.675)	4.187** (2.127)
$\ln(SIZE)_{i,t-1}^{ACQ}$	0.317 (1.016)	0.324 (1.051)	0.166 (0.458)	0.267 (0.911)	0.288 (0.974)	-0.93 (-0.771)	0.241 (0.714)
$RelSIZE_{i,t-1}$	1.165 (1.333)	1.389 (1.583)	0.432 (0.398)	0.85 (0.972)	0.587 (0.677)	0.017 (0.008)	0.436 (0.476)
$\Delta CAP_{i,t-1}$	1.042* (1.788)	1.125** (2.013)	0.745 (1.321)	0.949* (1.833)	0.685 (1.336)	3.117** (1.999)	0.264 (0.510)
$\Delta NPL_{i,t-1}$	-0.923*** (-5.210)	-0.908*** (-5.139)	-0.885*** (-4.130)	-1.163*** (-6.743)	-1.140*** (-6.756)	-1.028 (-1.365)	-1.178*** (-7.053)
$\Delta LIQ_{i,t-1}$	0.221*** (3.050)	0.216*** (2.982)	0.223** (2.571)	0.169** (2.456)	0.161** (2.323)	0.008 (0.025)	0.162** (2.481)
$\Delta PERS_{i,t-1}$	-4.275* (-1.843)	-4.401* (-1.904)	-4.099 (-1.560)	-3.982* (-1.825)	-3.584 (-1.622)	-13.367 (-1.390)	-2.566 (-1.133)
$D\_outsider_{i,t-1}^{ACQ}$	0.278 (0.388)	0.211 (0.297)	0.205 (0.247)	0.183 (0.273)	0.055 (0.082)	-2.227 (-0.827)	0.185 (0.284)
$D\_BoardIncrease_i^{ACQ}$	0.281 (0.393)	0.26 (0.367)	0.628 (0.837)	-0.082 (-0.123)	-0.045 (-0.067)	-0.39 (-0.181)	-0.094 (-0.127)
adj. $R^2$	0.209	0.218	0.15	0.165	0.15	0.058	0.186
N	901	901	901	901	901	152	749

Coefficient estimates from OLS estimations with White (1980) corrected standard errors given in brackets below the coefficients. The dependent variable in column 1 and 2,  $\Delta ROE_{i,t}^{both}$ , denotes the change in ROE of the merged banks in years -1 and -2 (before) to years +1 and +2 (after) of the  $i$ th bank merger. In column 3 we use the acquirer performance only. Columns 4 to 7 use adjusted returns with weighted as in columns 1 and 2, where we adjust either for the banking group returns or returns of the corresponding the asset decile. Column 6 and 7 present subsample estimations on whether the bank was publicly- or privately-owned.  $D\_Appointee_{i,t}$  is a dummy variable equal to one if at least one former member of the target board joined the acquirer board until one year after the merger. In columns 2 through 7 we split this dummy variable into two subcategories, depending on whether the appointee belonged to a target with relatively good or bad performance. We define a target bank to have a relatively bad performance if it had returns to non-performing loans in the lower quartile of all target banks in our sample.  $(ROA/NPL)_{i,t-1}^{TAR}$  denotes the logarithm of the target's return on assets relative to its non-performing loans in the year before the  $i$ th bank merger. We include three dummy variables to account for different combinations of target and acquirer distress.  $\ln(SIZE)_{i,t-1}^{ACQ}$  is the natural logarithm of the acquirer's total assets in the year before the  $i$ th bank merger.  $RelSIZE_{i,t-1}$  is total assets of the acquirer to the ones of the target in the year before the  $i$ th bank merger.  $\Delta CAP_{i,t}$  denotes the equity ratio of bank  $j$  in the year before or two years after the  $i$ th bank merger. Equity equals the book value of equity plus reserves.  $\Delta NPL_i$  is the change in non-performing loans relative to total assets.  $\Delta LIQ_{i,t}$  is the change in liquidity.  $\Delta PERS_i$  is the change in personnel expenses relative to total assets. All changes abbreviated with  $\Delta$  are computed in the same way depicted in equation 1 that is also used to generate the weighted dependent variable (*both*).  $D\_outsider_{i,t-1}^{ACQ}$  equals one if the acquiring board one year prior to the merger had at least one member with experience in another bank's board.  $D\_BoardIncrease_i^{ACQ}$  is a dummy that equals one if the acquirer boardsize increase in the course of the merger. \*, \*\* and \*\*\* indicate significance at the 10%, 5% and 1% level, respectively.