Does The Director Labor Market Offer Ex Post Settling-up for CEOs? The Case of Acquisitions

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Abstract
A common view in the literature is that the director labor market provides an ex post settling-up for past decisions by rewarding CEO ability and actions that are consistent with shareholder interests. In this paper we focus on large CEO acquisition decisions to investigate whether the director labor market offers ex post settling-up for value destroying decisions. Prior studies have found that the director labor market values CEO ability as reflected in overall firm performance suggesting that only value creating acquisitions should lead to additional subsequent directorships. However, given that CEOs that make acquisitions, even value destroying ones, gain important experience that may be valuable to other firms, it is possible that by rewarding experience, the director labor market’s settling-up breaks down for these important decisions. In this paper we show that large acquisitions are associated with significantly increased numbers of subsequent board seats for the acquiring CEO, target CEO, and the directors. We also find that in the case of acquisitions, experience is more important than ability—value-destroying and value-increasing acquisitions have equally significant and positive effects on a CEO’s future prospects in the director labor market. In addition to increasing our understanding of the director labor market, these results suggest that the ex post settling-up incentives thought to exist in the director labor market do not exist for acquisitions, and if anything exacerbate the agency conflict over acquisitions by encouraging them.