

M&A Committees and M&A Performance

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Abstract

This study examines whether acquirers' voluntary use of M&A committees on boards of directors affects their M&A performance. We find that acquirers with M&A committees experience higher deal announcement returns and better post-merger performance. The results are consistent after adopting the entropy balancing approach to alleviate the endogeneity concern. In addition, the positive association between M&A committee use and M&A performance is more pronounced for M&A committees that are smaller, meet more frequently, have a higher proportion of directors with financial expertise, and are not fully composed of independent directors. Overall, our findings suggest that M&A committees play an essential role in advising and monitoring firms' M&A activities.

Keywords: Mergers and acquisitions; M&A committees; Board structure; Corporate governance

JEL classifications: G34; G30

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1. Introduction

Over recent decades, mergers and acquisitions (M&A) activities in the U.S have experienced substantial growth, with a total value of US\$1.27 trillion in 2020.¹ However, empirical evidence indicates that more than half of the M&A deals turn to be value-destroying or do not deliver their expected performance (Dong & Doukas, 2021). In an attempt to understand the role of corporate governance in firms' M&A activities, we examine whether acquirers' use of M&A committees on boards of directors improves M&A performance.

Based on the descriptions in proxy statements, firms may use M&A committees to review, assess and approve M&A transactions, and to make recommendations to management and the board of directors. For example, Catalent, Inc. established a Mergers & Acquisitions Committee in 2017 to assist the board of directors in reviewing and assessing potential M&As, and providing overall direction to management with respect to such transactions.² Different from the required monitoring committees (i.e., audit, compensation, and nominating/governance committees)³, M&A committees are voluntary and could have both advisory and monitoring functions.

The use of M&A committees has benefits and costs. On one hand, delegating authority for specific tasks to committees can increase directors' accountability, thus reducing the problems of social loafing, free riding, and herding (Adams et al., 2021; Chen & Wu, 2016; Harkins & Petty, 1982; Harrison, 1987; Reeb & Upadhyay, 2010). In addition, task division through committees can mitigate coordination and communication problems in larger boards, which improves the efficiency of boards' decision-making process (Chen & Wu, 2016; Reeb & Upadhyay, 2010). Furthermore, committees allow for knowledge specialization (Chen & Wu, 2016), which can be important for M&A activities as these events are complex and require directors to have firm-specific and deal-specific knowledge in order to play advisory and monitoring roles (Kim et al., 2014).

On the other hand, delegating tasks to board committees may create barriers in communication

¹ <https://www.whitecase.com/publications/insight/us-ma-2021/us-ma-hits-record-highs>, White & Case, 2021.

² <https://www.sec.gov/Archives/edgar/data/0001596783/000119312517275736/d396185dpre14a.htm>, Catalent's 2017 proxy statement.

³ Since 2003, publicly listed U.S. firms are required to have three monitoring committees (i.e., audit, compensation, and nominating/governance committees) on their boards of directors (Chen & Wu, 2016; Reeb and Upadhyay, 2010).

and information sharing within the board and thus increase information asymmetry among directors on different committees and directors who do not sit on any committees (Chen & Wu, 2016; Reeb & Upadhyay, 2010; Vafeas & Vlittis, 2019). This information segregation may be costly for M&A committees as their members need to use firm-specific and deal-specific information to advise and monitor M&A activities, but the use of committees may hinder the information flow from directors who do not sit on M&A committees. Therefore, it is an empirical question whether having an M&A committee improves M&A performance.

We use two definitions of M&A committees in our study. Under the narrow definition, committees are identified as M&A committees if the committee's name contains keywords of "merger", "acquisition" or "M&A". Under the broad definition, we also classify committees (i.e., finance committees, strategy committees, etc.) with specified M&A responsibilities in the proxy statements as M&A committees. The reason is that firms may use those committees rather than a separate M&A committee to review and advise M&A transactions. For example, Microsoft Corporation has used the Finance Committee to oversee and make recommendations to the Board about proposed M&A activities since 2004.⁴

Using a sample of M&A transactions of U.S. Standard & Poor's (S&P) 1500 firms during the period 2004-2018, we examine the relationship between the use of M&A committees by acquirers and their M&A performance. We find a positive relationship between the use of a separate M&A committee (e.g., acquisition committee) and both deal announcement returns and post-merger stock returns, consistent with the advisory and monitoring roles of M&A committees. In addition, the use of M&A-related committees (e.g., finance committees with specified M&A responsibilities) is positively associated with announcement returns. Yet, we find a weak association between broadly defined M&A committees and post-merger stock returns. The results suggest that M&A-related committees are less effective at advising and monitoring post-merger integration.

Whether a firm has an M&A committee is likely determined by firm characteristics. To deal with the endogeneity issue that arises from the observed differences between firms with and without an

⁴<https://www.sec.gov/Archives/edgar/data/789019/000119312504159572/ddefr14a.htm>, Microsoft's 2004 proxy statement.

M&A committee, we follow Bailey et al. (2022) and Basu and Lee (2022) and adopt the entropy balancing approach. We continue to find that the use of a separate M&A committee is positively related to both M&A announcement returns and post-merger performance, while the results after entropy balancing show weak support for the use of M&A-related committees with respect to post merger stock returns.

Next, we examine the heterogeneity of the effectiveness of M&A committees by investigating their characteristics, including committee size, committee meeting frequency, committee members' financial expertise and committee members' independence. These committee characteristics are likely to be related to the benefits and costs of using committees, thus affecting the relationship between M&A committee use and M&A performance. Consistent with the accountability and efficiency benefits of M&A committees, we find that M&A committees are more effective when they are smaller. They are also more effective when they meet more frequently, providing evidence for the accountability benefits. In addition, our results are more pronounced for M&A committees that have a higher proportion of directors with financial expertise. This finding supports the knowledge specialization benefits of committees since financial experts are better at analyzing firm-specific and deal-specific information and being M&A committee members allows them to have more specialized knowledge.

As for the independence of committees, Adams et al. (2021) point out that information segregation can be especially costly for committees that comprise entirely of outside directors since these directors have less firm-specific information and the information flow from insiders is hindered by the use of committees. Consistent with the information segregation costs of committees, we find that the positive association between M&A committee use and M&A performance is less pronounced for outsider-only committees.

We conduct several robustness tests and additional analyses. First, to address the concern that time-invariant unobserved differences between firms with and without M&A committees can explain our results, we include firm fixed effects in our regressions and find consistent results for the strict measure of M&A committees. Second, our results are robust to measuring M&A committees both before and after the deal announcement. Third, we calculate cumulative abnormal returns using the market model and find that our results are robust to using these alternative measures of deal

announcement returns. Fourth, we examine one-year and two-year post-merger operating performance and find that acquirers with separate M&A committees experience better post-merger operating performance than acquirers without separate M&A committees. Lastly, we investigate the effects of different types of broadly defined M&A committees on M&A performance. Our findings show that having a separate M&A committee is more effective than using other committees to oversee M&A activities.

Our study contributes to the literature in the following ways. First, our study adds to the literature on board committees. Prior studies typically focus on audit, compensation, and nominating/governance committees (e.g., Guo & Masulis, 2015; Hermanson et al., 2012; Kim & Klein, 2017), but less attention has been given to non-required committees. With respect to the outcomes of voluntary committees, Dixon-Fowler et al. (2017) find a positive association between environmental committees and corporate environmental performance and Burke et al. (2019) show that sustainability committees are effective at generating strengths of corporate social performance. Bailey et al. (2022) provide evidence that firms with disclosure committees experience higher disclosure quality and disclose financial information in a timelier manner. While Vafeas and Vlittis (2019) find that the use of executive committees decreases firm value, Basu and Lee (2022) find weak evidence of a positive association between finance committee use and financing and investment performance.

Our study is closely related to Basu and Lee (2022) as they use merger performance as one of the proxies for investment performance. However, they focus on finance committees and classify committees as finance committees if the committee's name contains certain finance-related keywords (i.e., "finance," "invest," "acquisition," "loan", "pension", etc.). Under their classification, finance committees contain both M&A and non-M&A committees. In addition, under our broad definition of M&A committees, we classify committees that specify M&A responsibilities in the proxy statements as M&A committees. As Basu and Lee (2022) do not look at committees' responsibilities, some of our broadly defined M&A committees (e.g., strategy committees with M&A responsibilities) are not included in their classification of finance committees. By focusing on M&A committees, our study extends the literature on non-required committees.

Second, our study contributes to the literature that investigates the effect of firm-specific M&A

functions on M&A performance. Using survey data from a sample of German companies, Trichterborn et al. (2016) show that having a separate M&A department or dedicated M&A resources at the corporate and business unit levels increases M&A capability and thus M&A performance. Similarly, Aktas et al. (2021) use survey data from firms in Austria, Germany, and Switzerland, and find that internal M&A teams create value for M&A transactions. Gokkaya et al. (2023) find that firms with specialized M&A staff have better announcement returns and higher transaction synergies. Boone and Mulherin (2017) examine the use of board special committees by target firms during corporate takeovers and find that it is positively associated with conflicts of interest and negatively associated with board independence. They also show that target firms with special committees do not experience lower abnormal returns than target firms without special committees. Different from their studies, we examine whether acquirers' use of M&A committees on boards of directors improves their M&A performance. Our results suggest that acquirers' M&A committees are effective at advising and monitoring M&A transactions.

Third, our paper extends the literature on the role of board of directors in M&A activities. A large body of work focuses on board characteristics and finds that M&A decisions are affected by directors' experience (Burns et al., 2021; Field & Mkrtyan, 2017; Huang et al., 2014), independence (Masulis & Zhang, 2019; Schmidt, 2015), busyness (Ahn et al., 2010), connections (Cai & Sevilir, 2012), and gender (Levi et al., 2014). In this study, after documenting the positive association between M&A committee use and M&A performance, we examine the heterogeneity of the effectiveness of M&A committees by investigating their characteristics. We find stronger results for M&A committees that are smaller, meet more frequently, have a higher proportion of financial experts, and are not fully composed of outsiders. Our findings have implications for firms, investors, and regulators.

2. Literature review and hypothesis development

2.1. Background information on board committees

Board committees are subgroups of the board of directors that are given specialized responsibilities with respect to key activities in the firm (Adam et al., 2021; Kesner, 1988; Klein, 1998; Lorsch & Young, 1990). In the United States, board committees have been used and regulated for a long time.

The establishment of audit committees was first recommended by the U.S. Securities and Exchange Commission (SEC) in 1940 in response to the McKesson and Robbins case (SEC, 1940; DeZoort, 1997). In 1972, the SEC urged public firms to create audit committees comprised of independent directors (SEC, 1972). Following Section 301 of the Sarbanes-Oxley Act (SOX) of 2002, the SEC mandated U.S. listed firms to have audit committees composed fully of independent directors (SEC, 2003a).⁵ Requirements for the establishment of compensation and nominating/governance committees came after the SOX of 2002. Starting in 2003, the NYSE mandated listed firms to form compensation and nominating/governance committees composed entirely of independent directors, while the NASDAQ required these committees to be dominated by independent directors (SEC, 2003b; Lee, 2020).

The above three committees (i.e., audit, compensation and nominating/governance committees) are regarded as required committees since 2003 (Basu & Lee, 2022; Chen & Wu, 2016). They are generally characterized as monitoring committees (Lee, 2020; Reeb & Upadhyay, 2010; Vafeas & Vlittis, 2019). In addition to these committees, many firms voluntarily establish other committees to deal with specific issues and serve different functions (Chen & Wu, 2016). Using a sample of U.S. public firms from 2001 to 2013, Chen and Wu (2016) show that, beyond the three monitoring committees, the most commonly used committees are executive, finance, and strategy committees. Other voluntary committees include equity, environment, health, safety, compliance, technology, public policy, conflict of interest, pension, M&A, litigation, ethics, diversity, and loan committees.

2.2. Prior studies on board committees

Prior literature on board committees focuses primarily on required or commonly used committees, such as the audit committee (e.g., Abbott et al., 2004; Bédard et al., 2004; Bruynseels & Cardinaels, 2014; Cohen et al., 2014; Dhaliwal et al., 2010; He et al., 2017; Liu et al., 2022), the compensation committee (e.g., Grinstein & Hribar, 2004; Hermanson et al., 2012; Sun et al., 2009), and the nominating committee (e.g., Clune et al., 2014; Guo & Masulis, 2015; Shen et al., 2022; Walther et

⁵ Section 301 of the SOX of 2002 lists some requirements regarding the independence of audit committees. Available at <https://www.sox-online.com/the-sarbanes-oxley-act-full-text/>.

al., 2017).

A line of literature pays attention to board committee structures (Adams et al., 2021; Chen & Wu, 2016; Reeb & Upadhyay, 2010). Specifically, Chen and Wu (2016) examine the determinants of board committee structures as well as the benefits and costs of committees. They find that committee activities are positively associated with firm size, proportion of independent directors, board size, and board tenure. Reeb and Upadhyay (2010) also investigate the determinants of using board committees and find that the number of committees increases with board size, board independence, firm complexity, and diffuse shareholdings. They also show that committees mitigate the negative effects of large boards and outsider-dominated boards on firm performance, suggesting that the use of committees can alleviate problems of communication and coordination in these boards. In addition, they find that the use of advisory committees contributes to the value-enhancing effect of board committees.⁶ However, Adams et al. (2021) show that the use of outsider-only committees is costly as it is related to lower acquisition announcement returns and lower firm value. They also find evidence suggesting that the use of outsider-only committees restricts information flow and thus impairs the decision-making process.

In recent studies, scholars investigate the usage and outcomes of specific voluntary board committees. Vafeas and Vlittis (2019) examine the effects of executive committees and find that firms with such committees tend to experience lower market value and lower long-term stock returns. They argue that the negative impact of using executive committees is a consequence of the costs associated with information segregation and managerial opportunism. Other studies suggest the benefits of using voluntary committees. Dixon-Fowler et al. (2017) and Burke et al. (2019) show that the voluntary use of environmental committees and sustainability committees helps improve corporate environmental performance and corporate social performance, respectively. Bailey et al. (2022) demonstrate that disclosure committees are effective at improving the timeliness of corporate disclosure and disclosure quality.

A recent study provides weak evidence on the benefits of using board committees. Basu and

⁶ Reeb and Upadhyay (2010) identify audit, compensation, nominating/governance and executive committees as monitoring committees and other committees (e.g., finance, environment, and M&A committees) as advisory committees.

Lee (2022) investigate the determinants of the use of finance committees in U.S. public firms and find that firms with defined benefit pension plans, debt and equity issuance and active dividend payout are more likely to have a finance committee. Yet, the creation of finance committees is positively related to restructuring and capital expenditures and negatively related to debt and equity issuance in the previous year. They also examine the effects of finance committee use on firm outcomes (i.e., cost of debt, investment efficiency and merger performance) and the results only show a weak relationship between the use of finance committees and cost of debt and merger performance. Results of further analyses suggest that firms with finance committees composed fully of independent directors experience higher investment efficiency and better merger performance, indicating the importance of independence in finance committees.

2.3. Prior studies on M&A outcomes

A large body of literature examines the effect of CEO characteristics on M&A outcomes. The evidence shows that CEO extraversion (Malhotra et al., 2018), expertise (Custódio & Metzger, 2013) and experience (Ding et al., 2021; Fich & Nguyen, 2020) contributes to M&A success. However, prior studies also find evidence supporting the dark sides of CEOs (e.g., Aktas et al., 2016; Hayward & Hambrick, 1997; Malmendier & Tate, 2008). Specifically, Malmendier and Tate (2008) find that overconfident CEOs are more likely to overpay for target companies and firms with overconfident CEOs experience lower abnormal returns. Similarly, CEO narcissism is associated with lower probability of M&A deal completion and lower acquisition performance (Aktas et al., 2016). Thus, it is essential to oversee CEO behavior in M&A activities.

The board of directors is recognized as a main internal monitoring mechanism in M&A contexts (Krug & Aguilera, 2004). Literature on board of directors and M&As shows that directors' gender (Levi et al., 2014), experience (Burns et al., 2021; Field & Mkrtchyan, 2017; Huang et al., 2014), independence (Masulis & Zhang, 2019; Schmidt, 2015), busyness (Ahn et al., 2010), and connections (Cai & Sevilir, 2012) affect firms' M&A outcomes.

In addition to the board of directors, prior studies indicate that firms can benefit from specialized M&A functions (Aktas et al., 2021; Boone & Mulherin 2017; Gokkaya et al., 2023;

Trichterborn et al., 2016). Aktas et al. (2021) show that the use of internal M&A teams by acquirers creates value for M&A transactions in both the deal initiation and post-merger phases. They also find that acquirers with M&A teams that focus on economic rationales experience higher announcement returns, while M&A teams emphasizing behavioral rationales are associated with lower announcement returns. Similarly, Trichterborn et al. (2016) document that having a separate M&A department or dedicated M&A resources at the corporate and business unit levels helps firms develop M&A capability, which in turn results in higher M&A performance as measured by respondents' subjective evaluation. Gokkaya et al. (2023) examine the effect of specialized M&A staff on M&A outcomes and find that firms with specialized M&A staff have better announcement returns and higher transaction synergies. Boone and Mulherin (2017) investigate target firms' use of special committees in corporate takeovers and find that the use of special committees is positively associated with conflicts of interest and negatively associated with board independence. They also show that in comparison to deals without special committees, deals with special committees have more financial advisors, greater takeover competition, and similar abnormal returns. The results indicate that special committees can be used by target firms to alleviate the potential negative impact of conflicts of interests.

2.4. Hypothesis development

In this study, we examine the effect of acquirers' use of M&A committees on M&A performance. M&A committees can be treated as advisory committees since M&A transactions are strategic events and the board typically plays advisory roles in M&A decisions (Baldenius et al., 2014; Kim et al., 2014). In addition, according to the descriptions in proxy statements, M&A committees can provide guidance and make recommendations to the management and the board with respect to acquisition opportunities (see Appendix B). However, M&A committees can also serve monitoring functions. Based on the descriptions in proxy statements, M&A committees review and oversee acquisition strategies and proposed acquisitions (see Appendix B). Furthermore, Brickley and Zimmerman (2010) and Katolnik et al. (2022) argue that the advisory and monitoring roles occur simultaneously and can benefit each other. Therefore, we regard M&A committees as having both advisory and monitoring functions.

The use of M&A committees could have benefits. First, prior studies suggest that delegating authority for specific tasks to committees can increase directors' accountability (Chen & Wu, 2016; Harrison, 1987; Reeb and Upadhyay, 2010). The assigned responsibilities and the risk of being punished for failures can motivate committee members to do what they are tasked with, thus mitigating problems of social loafing, free riding and herding (Adams et al., 2021; Chen & Wu, 2016; Harkins & Petty, 1982; Harrison, 1987; Lipton & Lorsch, 1992; Reeb & Upadhyay, 2010). In addition, the voluntary use of committees is presumably a sign of accountability to stakeholder groups (Burke et al., 2019). Therefore, under the accountability perspective, directors in M&A committees are more likely to seek to meet the specified responsibilities they are accountable for and put more efforts in facilitating value-increasing M&A activities.

Second, prior research has shown that communication and coordination in large boards can be impeded, thus reducing board efficiency and effectiveness (Cheng, 2008; Eisenberg et al., 1998; Malenko, 2014; Yermack, 1996). As committees are subgroups of the board of directors and are assigned with specific tasks, they can be used to mitigate problems of communication and coordination in large boards and increase the efficiency of board decision-making process (Chen & Wu, 2016; Reeb & Upadhyay, 2010). Under this view, delegating M&A tasks to a committee improves communication and coordination among directors and helps them advise and monitor M&A activities in a more efficient and effective way.

Third, task division through committees can allow directors to achieve knowledge specialization (Chen & Wu, 2016). Since M&A activities are long-term complex events that involve many uncertainties in its implementation and outcomes (Cai et al., 2016), such transactions require directors to have firm-specific and deal-specific knowledge in order to serve advisory and monitoring functions (Field & Mkrtchyan, 2017; Huang et al., 2014; Kim et al., 2014). By focusing on specific tasks, members of M&A committees are more likely to accumulate knowledge about firms' potential M&A opportunities, thus assisting management with identifying value-increasing deals. In addition, their knowledge about firms' proposed acquisitions can help them oversee the process of M&A transactions. Therefore, the knowledge specialization benefit of using committees suggests a positive association between M&A committee use and M&A performance.

However, the use of M&A committees could also have costs. The delegation of specific tasks and responsibilities to committees may lead to information sharing problems between directors on a certain committee and other directors on board (Chen & Wu, 2016; Reeb & Upadhyay, 2010; Vafeas & Vlittis, 2019). Compared with board monitoring committees, this problem can be especially costly for committees that also serve advisory functions (Chen & Wu, 2016). As M&A committee members need to use firm-specific and deal-specific information to provide guidance to the management, their advisory and even monitoring roles could be impaired by the limited access to the information and knowledge of directors who do not sit on M&A committees. Therefore, under the information segregation view, the use of M&A committees could be detrimental to M&A performance.

As the above discussions show competing views on the effect of M&A committees on M&A performance, we state our research hypothesis in the null form as follows:

Hypothesis: The use of M&A committees by acquirers is not associated with M&A performance.

3. Sample, variables, and descriptive statistics

3.1. Sample selection

To construct our sample, we begin with all U.S. M&A deals announced during the period 2004-2018 in the Thompson Financial Securities Data Company (SDC) as U.S. firms have long used board committees. The reasons for choosing 2004 as the start year are as follows. First, based on Chen and Wu (2016) and Basu and Lee (2022), there is an increasing usage of voluntary committees after the Sarbanes-Oxley Act of 2002 (SOX). Second, data about boards and committees in BoardEx are more detailed after 2002.⁷ Thus, it is appropriate to use a post-SOX sample to examine M&A committees. Data on M&A deals are obtained from SDC U.S. M&A database. Similar to prior studies, we impose several conditions: (i) the acquisition is completed; (ii) the percent of shares owned by the acquirer before the acquisition is less than 50%, and the percent of shares owned after the transaction is 100%; (iii) deal value is equal to or greater than 10 million dollars.

⁷ As lagged terms of committee-level variables are used to examine the effect of M&A committees on M&A performance, committee-level data should be one-year before the initial date of M&A data. Therefore, year 2004 is selected as the start year. The reason for selecting 2018 as the end year is because this study examines 1-year and 2-year post-merger performance.

Our sample is limited to acquisition bids initiated by acquirers included in S&P 1500 list because it covers approximately 90% of the U.S. stock market capitalization.⁸ We use ExecuComp database to identify S&P 1500 firms. As we control for industry fixed effects, M&A data without SIC code are dropped. Following Basu and Lee (2022), M&A data that belong to the utilities sector (SIC code between 4900 and 4999) or the financial services sector (SIC codes between 6000 and 6999) are excluded due to regulations regarding board committees in these industries. M&A deals with insufficient data to construct control variables are also dropped. Finally, there are 5,220 M&A deals that meet these sample requirements.

3.2. Variable measurement

3.2.1. M&A committees

Our main variables of interest, M&A committees, are obtained from BoardEx and SEC proxy statements and are measured prior to the corresponding deal announcement date. We use two variables of M&A committees in our study (*MACOMM* and *MARCOMM*). First, M&A committees are identified using several keywords in committee name, including “merger”, “acquisition”, and “M&A”. *MACOMM* is coded as one if the firm has a committee whose name includes one or more of the above keywords, and zero otherwise. Second, under the broad definition of M&A committees, we also classify committees (i.e., finance committee, strategy committee, etc.) that have specified M&A responsibilities in the proxy statements as M&A committees. Information on committee responsibilities is manually collected from the SEC proxy statements (mainly DEF 14A). *MARCOMM* is coded as one if the firm has a broadly defined M&A committee, and zero otherwise. Some examples of M&A committees and other broadly defined M&A committees are listed in Appendix B.

3.2.2. M&A performance

Data on M&A performance are obtained from the Center for Research in Security Prices (CRSP). We use both deal announcement returns and post-merger stock returns as measures of M&A

⁸ <https://www.spglobal.com/spdji/en/indices/equity/sp-composite-1500/#overview>, S&P Dow Jones Indices.

performance. Assuming market is efficient, the announcement return is an unbiased ex ante estimate of the value produced by the merger decision (Goodman et al., 2014) and it captures the market's view of whether the acquirer's management is creating or destroying shareholder wealth through the proposed merger (John et al., 2015). In line with prior literature (Liu et al., 2022; Moeller et al., 2004), we use 3-day and 5-day cumulative abnormal returns around the announcement date ($CAR3$ and $CAR5$) to assess announcement returns, where the event date zero is the deal announcement date. Specifically, $CAR3$ ($CAR[-1, +1]$) and $CAR5$ ($CAR[-2, +2]$) are measured as the difference between the returns of a sample firm and that of the market portfolio proxied by the CRSP value-weighted index returns for the three and five trading days centered on the announcement date.

Following Dong et al. (2021) and Doukas and Zhang (2021), we measure post-merger stock returns using buy-and-hold abnormal returns for one year and two years after the deal completion date ($BHAR1$ and $BHAR2$). The market index is the CRSP value-weighted return. The abnormal buy-and-hold returns are measured as the difference between the buy-and-hold returns of a sample firm and that of the market portfolio proxied by the value-weighted CRSP index returns over the 12-month and 24-month period subsequent to the deal completion date.

3.2.3. Control variables

Our control variables are obtained from CRSP, Compustat, BoardEx, and SDC database. Following previous studies on M&As (Ahn et al., 2010; Cai & Sevilir, 2012; Core et al., 1999; Custódio & Metzger, 2013; Moeller et al., 2004; Ishii & Xuan, 2014), this study controls for a set of firm-level characteristics, which include firm size ($FIRMSIZE$), leverage ($LEVERAGE$), return on assets (ROA), growth opportunities ($TOBINSQ$), ratio of operating cash flow to total assets ($OCFTOASSET$), free cash flow ($FREECASHFLOW$). Stock returns before the deal announcement ($STOCKRETURN$) and risk proxied by the standard deviation of market returns ($VOLITALITY$) are also controlled to mitigate any potential effect of uncertainty and risk on merger performance. In addition, we include board size ($BOARDSIZE$) and board independence ($BOARDINDEP$) to control for governance-related factors.

In addition, we control for deal characteristics that would affect M&A outcomes. First, given that deals crossing different sectors are more complicated and can influence M&A outcomes (Morck et

al., 1990), this study controls for related acquisitions (*RELATEDACQ*), a dummy variable indicating whether the acquirer and the target firms share the same 2-digit SIC code. Second, deal size of the M&A transaction (*DEALSIZE*) is controlled as Moeller et al. (2004) provide evidence that bidder announcement returns are related to relative deal size. Next, the methods of payment, cash only payment (*MA_CASH*) and stock only payment (*MA_STOCK*), are controlled since prior research finds that firms tend to experience negative abnormal returns when acquirers pay with equity (Amihud et al., 1990). We also control for the target firm's status (*TARGET_PUBLIC*). Lastly, the percentage of the target firm's shares owned by the acquirer before the M&A transaction (*TOEHOLD*) is controlled as the initial shares holding may affect firms' M&A outcomes (Levi et al., 2014). Detailed definitions of variables are provided in Appendix A.

3.3. Descriptive statistics

Table 1 presents summary statistics for the key variables used in this study. Our sample consists of 5,220 M&A deals. On average, *CAR3* and *CAR5* have a value of 0.008 and 0.009, respectively. The number of observations for *BHAR1* and *BHAR2* is 5,210, with a mean of 0.005 and 0.019, respectively. The reduction in the sample size is due to insufficient data to calculate buy-and-hold abnormal returns. Given that both *CARs* and *BHARs* have positive means, on average mergers increase value in our sample.

Among the 5,220 M&A deals in our sample, 15% of the deals are carried out in the acquiring firms that have a broadly defined M&A committee, and only 3.8% of the deals are occurred in the acquiring firms that have a separate M&A committee. These statistics reveal that not a lot of M&A deals are reviewed under M&A committees.

The mean value of *FIRMSIZE* is 8.013 with a standard deviation of 1.613, while the mean value of *LEVERAGE* is 0.224 with a standard deviation of 0.173. On average, *ROA* for our sample is 0.059 with a maximum of 0.236 and minimum of -0.228. The market value of assets over book value of assets (*TOBINSQ*) has a mean of 2.099. The average value of operating cash flow to total assets (*OCFTOASSET*) and free cash flow (*FREECASHFLOW*) are 0.112 and 0.064, respectively. The stock return (*STOCKRETURN*), which is the pre-announcement buy-and-hold abnormal returns for the 12-month preceding the merger announcement, varies from -0.562 to 1.386. Yet, the mean of the stock

returns has a positive value of 0.083. Return volatility (*VOLATILITY*), which is a proxy for risk, has an average of 0.312, ranging from 0.099 to 0.872. On average, the board consists of 9 to 10 directors and around 80.2% of the board members are independent directors.

As for deal-level characteristics, *RELATEDACQ* has an average of 0.575. This statistic implies that 57.5% of the 5,220 M&A deals are deals between firms in the same industry. The deal size (*DEALSIZE*), which is the logarithm of value of the deal, has a mean of 5.074, suggesting our sample on average has a relatively high deal value. The means for *MA_CASH* and *MA_STOCK* are 0.458 and 0.022, respectively, meaning that 45.8% of the deals in our sample are paid by cash only and 2.2% of the deals are paid by stock only. *TARGET_PUBLIC* has an average value of 0.166., implying that 16.6% of deals in our sample involve public targets. Lastly, *TOEHOLD*, which is the proportion of the target firm's shares owned by the acquirer before the bid announcement, has a mean of 0.3%, varying from 0% to 49.9%.⁹

4. Main results

4.1. M&A committees and M&A performance

To test the effect of M&A committees on M&A performance, we estimate the following regression equations.

$$MA_Performance_{i,t} = \beta_0 + \beta_1 \times MACOMM_{i,t-1} + \beta_2 \times Firmcontrol_{i,t-1} + \beta_3 \times Dealcontrol_{i,t} + Year\ FE + Industry\ FE + \varepsilon_{i,t} \quad (1)$$

$$MA_Performance_{i,t} = \beta_0 + \beta_1 \times MARCOMM_{i,t-1} + \beta_2 \times Firmcontrol_{i,t-1} + \beta_3 \times Dealcontrol_{i,t} + Year\ FE + Industry\ FE + \varepsilon_{i,t} \quad (2)$$

Where $MACOMM_{i,t-1}$ and $MARCOMM_{i,t-1}$ denote M&A committees defined under the narrow definition and broad definition, respectively. These variables are set to one for firms with a corresponding M&A committee, and zero otherwise. We measure M&A committees one year prior to the deal announcement date to ensure that they are predetermined and to mitigate the reverse causality concern. As for dependent variables, *CAR3*, *CAR5*, *BHAR1*, and *BHAR2* are measures of M&A

⁹ This study requires that the acquirer should own less than 50% of the target's shares before the M&A transaction.

performance. We control for firm and deal characteristics. In addition, to control the impact of extreme values on the regression results, all continuous variables are winsorized at the 1st and 99th percentiles. In our regression analysis, we include industry and year fixed effects. Standard errors are adjusted for heteroskedasticity and clustered at the firm level. Appendix A provides the descriptions of variables.

Results for Eq. (1) and Eq. (2) are reported in Panel A and Panel B of Table 2. In each panel, Columns (1) and (2) present results for separate M&A committees, and Columns (3) and (4) present results for broadly defined M&A committees. We find that the use of a separate M&A committee is positively related to both deal announcement abnormal returns and post-merger stock returns, suggesting that firms with separate M&A committees tend to experience better M&A performance both in the short run and long run.¹⁰ The results suggest that firms with M&A committees are more likely to identify value-increasing deals and are more skilled at advising and monitoring M&A integration process in comparison to firms without M&A committees.

Columns (3) and (4) of Panel A show that the coefficients on *MARCOMM* are positive and significant in the cross-sectional model for both *CAR3* and *CAR5*, indicating that firms with broadly defined M&A committees (e.g., finance committees and strategy committees with specified M&A responsibilities) are likely to have better deal announcement returns. As shown in Columns (3) and (4) of Panel B, the coefficient on *MARCOMM* is positive and significant at 10% level when the dependent variable is *BHAR2*, while it is insignificant when the dependent variable is *BHAR1*. The results suggest that in general broadly defined M&A committees are less effective at advising and monitoring post-merger integration relative to narrowly defined M&A committees. One possible explanation for this result is that the broadly defined M&A committees contain many other committees (i.e., finance committee, strategy committee, executive committee, technology committee, etc.) with specified M&A responsibilities. Compared to separate M&A committees, broadly defined M&A committees may have additional responsibilities regarding other company issues (e.g., finance committees' responsibilities regarding dividend policy and debt portfolios) and thus are unable to put all efforts in overseeing M&A activities in the long run.

¹⁰ Our main results are robust to using a 7-day and 21-day window around the deal announcement date to calculate cumulative abnormal returns.

4.2. Entropy balancing

To mitigate a potential selection bias arising from observable firm characteristics, we adopt a multivariate matching approach called entropy balancing to reweight control group observations for the main tests. Since only 15% of our sample has a broadly defined M&A committee and 3.8% of the sample has a separate M&A committee, using traditional propensity score matching (PSM) method to adjust the covariate distribution of the control group would greatly reduce our sample size and test power. Yet, entropy balancing method is found to effectively remain the sample size and realize better matching by improving covariate balance on the first (mean) and second (standard deviation) moments (McMullin & Schonberger (2020)). Consequently, in line with prior literature (Bailey et al., 2022; Basu and Lee, 2022; Ferri et al., 2018; Hainmueller, 2012; Shroff et al., 2017), we use entropy balancing method, which achieves covariate balance with binary treatments and preserves sample size when treatment and control groups are unbalanced. Covariates considered in this study are potential antecedents of M&A committee use.

4.2.1. Antecedents of M&A committee use

A logit regression¹¹ is used to test the antecedents of the use of an M&A committee:

$$Prob(MACOMM_{i,t} = 1) = F(\beta_0 + \beta_1 \times Determinants_{i,t-1} + \beta_2 \times Control_{i,t-1} + Year\ FE + Industry\ FE + \varepsilon_{i,t}) \quad (3)$$

$$Prob(MARCOMM_{i,t} = 1) = F(\beta_0 + \beta_1 \times Determinants_{i,t-1} + \beta_2 \times Control_{i,t-1} + Year\ FE + Industry\ FE + \varepsilon_{i,t}) \quad (4)$$

As for the determinants, M&A activities in previous years may indicate firms' high demand for M&As, resulting in a high propensity for firms to use M&A committees to oversee M&A activities. Consequently, we include acquisition expenditure in the previous year (*AQC*) and M&A deals in prior years (*PRIORMA*) in the logit model. Specifically, *AQC* is a dummy variable which equals one if the firm has non-missing and nonzero acquisition expenditure in the previous year, and zero otherwise.

¹¹ We use 'F' to denote the cumulative density function.

PRIORMA is a dummy variable which equals one if the firm has M&A deals announced in the prior three years and eventually completed, and zero otherwise.

Second, firm characteristics, such as firm size (*FIRMSIZE*), leverage (*LEVERAGE*), capital expenditure (*CAPEX*), R&D expenditure (*RD* and *MISSINGRD*), return on assets (*ROA*), operating cash flow (*OCFTOASSET*), stock return volatility (*VOLATILITY*), and firm age (*FIRMAGE*) are included as these firm characteristics can affect firms' M&A activities and may be determinants of the use of M&A committees. Prior studies document that board characteristics, such as board size and board independence, are known to affect committee use (Chen & Wu, 2016; Reeb & Upadhyay, 2010). Consequently, board size (*BOARDSIZE*) and board independence (*BOARDINDEP*) are included in the logit model.

Furthermore, from the litigation risk perspective, high-stakes M&A transactions often involve conflicts of interest and a failure to adequately address actual or potential conflicts of interest risks potential litigation. In the 1980s, the Delaware courts first began to embrace the use of special committees of independent directors as an innovative mechanism for addressing corporate conflicts (Simpson & Brody, 2014). Considering the potential negative impact of litigation, litigation risk (*LITIGATION*) is included as a potential determinant of using M&A committees.

Results from Eq. (3) and Eq. (4) are presented in Column (1) and Column (2) of Table 3. Column (1) reveals that the coefficient on *PRIORMA* is positive and significant when *MACOMM* is the dependent variable, suggesting that firms that have M&A deals in prior years are more likely to have a separate M&A committee. The positive and statistically significant coefficient on *FIRMSIZE* implies that large firms tend to use a separate M&A committee to review and approve M&A activities. Leverage (*LEVERAGE*) negatively affects the use of separate M&A committees (*MACOMM*), indicating that firms with higher leverage in the previous year are less likely to have a dedicated M&A committee. One explanation for this is that firms with higher leverage may be less likely to look for acquisition opportunities, reducing the need for M&A committees. Moreover, the coefficient on *FIRMAGE* is significantly negative, which indicates young firms are more likely to use a separate M&A committee to review M&A activities as they use M&A transactions to realize firm growth. This result is consistent with the argument of Levi et al. (2014) that older firms are less likely to initiate acquisitions. The

coefficient on *BOARDSIZE* is significantly positive, suggesting that firms with larger boards have a higher likelihood of using a separate M&A committee.

As shown in Column (2), the coefficients on *FIRMSIZE* and *BOARDSIZE* are positive and significant when *MARCOMM* is the dependent variable, suggesting that large firms and firms with large boards tend to use a broadly defined M&A committee to oversee M&A activities. The coefficients on *LEVERAGE* and *FIRMAGE* are negative and significant, which implies that firms with lower financial leverage and younger firms are more likely to use a broadly defined M&A committee.

4.2.2. Entropy balancing statistics

Based on the logit regression results, entropy balancing method is adopted to reweight control group observations using antecedents with significant impacts on the use of M&A committees. Specifically, following Jacob and Vossebürger (2022), we balance treatment and control samples based on the mean and variance of significant antecedents.

Panel A and Panel B of Table 4 provide balancing statistics for antecedents of separate and broadly defined M&A committees, respectively. Panel A shows that the differences in the mean, variance, and skewness of *PRIORMA*, *FIRMSIZE*, *LEVERAGE*, *FIRMAGE*, and *BOARDSIZE* between firms with and without a separate M&A committee before balancing are relatively large. After balancing, the mean and variance of these balancing dimensions between treatment and control samples are almost the same, while the differences in the skewness are also relatively small, implying that the covariate balance is useful. Similarly, as shown in Panel B, there are large differences in the mean, variance, and skewness of the balancing dimensions (*FIRMSIZE*, *LEVERAGE*, *FIRMAGE*, and *BOARDSIZE*) between firms with and without a broadly defined M&A committee before balancing. The mean, variance, and skewness of the balancing dimensions between firms with and without a broadly defined M&A committee are close after using entropy balancing.

4.2.3. M&A committees and M&A performance after entropy balancing

After using entropy balancing to reweight control group observations, we examine the effect of M&A committees. Table 5 reports the results of OLS regressions after using entropy balancing. As

shown in Panel A, the coefficients on *MACOMM* after entropy balancing are positive and significant for both *CARs* and *BHARs*, consistent with our arguments that acquirers can use separate M&A committees to create value for M&A transactions. As shown in Panel B, the coefficients on *MARCOMM* are positive and significant for both *CAR3* and *CAR5* but insignificant for *BHARs*. The results in general support the main results of broadly defined M&A committees. Overall, the regression results after using entropy balancing confirm the importance of using M&A committees, especially separate M&A committees, to oversee M&A activities.

5. Effect of committee characteristics

The empirical results in the main tests indicate that in general firms with M&A committees experience better M&A performance. To examine the heterogeneity of the effectiveness of M&A committees, in this section, we do several subsample analyses based on four M&A committee characteristics, including committee size, committee meeting frequency, committee members' financial expertise and committee members' independence. For each regression, we partition our treatment group into two subgroups (e.g., large size committee and small size committee) with the baseline group being firms without an M&A committee.

5.1. Committee size

First, this study compares the performance of large size and small size M&A committees. Prior studies suggest that firms benefit from having standing committees as such committees can help increase directors' accountability and mitigate problems of social loafing, free riding, and herding (Adams et al., 2021; Chen & Wu, 2016; Harkins & Petty, 1982; Harrison, 1987; Reeb & Upadhyay, 2010). In addition, committees can mitigate coordination and communication problems in larger boards and thus improve the efficiency of boards' decision-making process (Chen & Wu, 2016; Reeb & Upadhyay, 2010).

With respect to the accountability benefits of M&A committees, small size committees may be more accountable for their responsibilities and affect M&A outcomes in a more meaningful way compared to large size committees. With respect to the efficiency benefits of M&A committees, small size committees may operate more efficiently as communication and co-ordination problems can be

mitigated. Based on these arguments, small size committees may outperform large size committees.

We use the following model to test the effect of M&A committee size on M&A performance.

$$MA_Performance_{i,t} = \beta_0 + \beta_1 \times Large_size_{i,t-1} + \beta_2 \times Small_size_{i,t-1} + \beta_3 \times FirmControl_{i,t-1} + \beta_4 \times DealControl_{i,t} + Year\ FE + Industry\ FE + \varepsilon_t \quad (5)$$

Where $Large_size_{i,t-1}$ ($Small_size_{i,t-1}$) represents large size (small size) M&A committees, a dummy variable which equals one if the number of committee members is above (below) the median, and zero otherwise. Specifically, $MACOMM_LS$ and $MACOMM_SS$ represent large size and small size for separate M&A committees, while $MARCOMM_LS$ and $MARCOMM_SS$ represent large size and small size for broadly defined M&A committees. In line with the main tests, $MA_Performance_{i,t}$ is proxied by 3-day and 5-day cumulative abnormal returns ($CAR3$ and $CAR5$) and buy-and-hold abnormal returns for one year and two years ($BHAR1$ and $BHAR2$) after the merger completion, respectively. Controls are consistent with those in the main tests. Detailed descriptions of variables are provided in Appendix A.

Results for Eq. (5) are presented in Panel A and Panel B of Table 6. Consistent with the accountability and efficiency benefits of M&A committees, we find that small size M&A committees are more efficient in advising and monitoring M&A activities.

5.2. Frequency of committee meetings

Second, this study compares the performance of M&A committees with high frequency of committee meetings (regarded as high diligence committees) and low frequency of committee meetings (regarded as low diligence committees). In comparison to low diligence M&A committees, we predict that directors on high diligence M&A committees are more accountable and tend to better oversee M&A issues, thus improving M&A performance. If so, high diligence committees may outperform low diligence committees.

This study uses the following model to test the effect of M&A committee meeting frequency

$$MA_Performance_{i,t} = \beta_0 + \beta_1 \times High_Diligence_{i,t-1} + \beta_2 \times Low_Diligence_{i,t-1} + \beta_3 \times FirmControl_{i,t-1} + \beta_4 \times DealControl_{i,t} + Year\ FE + Industry\ FE + \varepsilon_t \quad (6)$$

on M&A performance.

Where $High_Diligence_{i,t-1}$ ($Low_Diligence_{i,t-1}$) represents committees with high (low) frequency of meetings before the bid announcement, a dummy variable which equals one if the number of committee meetings is above (below) the median, and zero otherwise. Specifically, $MACOMM_HM$ and $MACOMM_LM$ represent high diligence and low diligence for separate M&A committees, while $MARCOMM_HM$ and $MARCOMM_LM$ represent high diligence and low diligence for broadly defined M&A committees.

Results for Eq. (6) are presented in Panel A and Panel B of Table 7, which show that in general M&A committees with high frequency of meetings outperform their counterparts (M&A committees with low frequency of meetings), supporting the accountability benefits of committees.

5.3. Committee financial expertise

Chen and Wu (2016) point out that one benefit of committees is the realization of knowledge specialization through the process of decentralization, which helps directors play their monitoring and advising roles. The financial expertise of directors on M&A committees could be important as directors who possess relevant skills and experience can ask more challenging questions and provide better advice to the management. Therefore, M&A committees that have a higher proportion of directors with financial expertise are likely to play better monitoring and advising roles than their counterparts, thus experiencing better M&A performance.

We use the following model to test the effect of M&A committee expertise on M&A performance.

$$MA_Performance_{i,t} = \beta_0 + \beta_1 \times High_Expertise_{i,t-1} + \beta_2 \times Low_Expertise_{i,t-1} + \beta_3 \times FirmControl_{i,t-1} + \beta_4 \times DealControl_{i,t} + Year\ FE + Industry\ FE + \varepsilon_t \quad (7)$$

Where $High_Expertise_{i,t-1}$ ($Low_Expertise_{i,t-1}$) represents committees with high (low) financial expertise, a dummy variable which equals one if the proportion of directors with financial

expertise on M&A committees is above 50%, and zero otherwise.¹² Specifically, *MACOMM_HE* and *MACOMM_LE* represent high financial expertise and low financial expertise for separate M&A committees, while *MARCOMM_HE* and *MARCOMM_LE* represent high financial expertise and low financial expertise for broadly defined M&A committees.¹³

Results for Eq. (7) are presented in Panel A and Panel B of Table 8, which reveal that on average M&A committees with higher proportion of financial experts outperform their counterparts (M&A committees with lower proportion of financial experts), suggesting that financial experts are able to bring valuable contributions to M&A committee effectiveness. This result is in line with the knowledge specialization benefits of committees since financial experts are better at analyzing firm-specific and deal-specific information and being M&A committee members allows them to have more specialized knowledge.

5.4. Committee independence

Independence can be particularly significant for voluntary committees like M&A committees because firms can create a committee for reasons other than to increase firm value (e.g., to retain former executives on the board). Under this assumption, M&A committees composed of high proportion of independent directors are more likely to play a monitoring role than their counterparts, thus having better M&A performance. However, Adams et al. (2021) point out that information segregation can be especially costly for outsider-only committees since outside directors have less firm-specific information and the information flow from insiders is hindered.

¹² Following Basu and Lee (2022), we classify M&A committees as high financial expertise committees if the proportion of directors with financial expertise on M&A committees is above 50%.

¹³ Following Badolato et al. (2014), Basu and Lee (2022) and Dhaliwal et al. (2010), this study classifies M&A committee members as having financial expertise if their information in education, qualification, and prior employment history in BoradEx includes terms reflecting accounting experience, supervisory experience, or finance experience. Specifically, this study identifies: (a) accounting expertise with keywords: CPA, CAO, Accounting officer, Head of accounting, President of accounting, Chief accounting, Public accounting, Chartered accounting, Auditor, Controller, CFO, and Financial officer; (b) supervisory expertise with keywords: CEO, Chief executive officer, President; and (c) finance expertise with keywords: Finance director, Finance manager, President of finance, Analyst, Business lawyer, Investment manager, Asset manager, Fund manager, Loan officer, Banker, Treasurer, CFA, MBA, and Master of Business of Administration.

We use the following model to investigate the effect of M&A committee independence on M&A performance.

$$MA_Performance_{i,t} = \beta_0 + \beta_1 \times High_Independence_{i,t-1} + \beta_2 \times Low_Independence_{i,t-1} + \beta_3 \times FirmControl_{i,t-1} + \beta_4 \times DealControl_{i,t} + Year\ FE + Industry\ FE + \varepsilon_t \quad (8)$$

Where *High_Independence_{i,t-1}* (*Low_Independence_{i,t-1}*) represents committees with high (low) independence, a dummy variable which equals one if M&A committees are fully composed of independent directors, and zero otherwise. Specifically, *MACOMM_HI* and *MACOMM_LI* represent high independence and low independence for separate M&A committees, while *MARCOMM_HI* and *MARCOMM_LI* represent high independence and low independence for broadly defined M&A committees.

Results for Eq. (8) are presented in Panel A and Panel B of Table 9. We find that on average M&A committees are less effective when they are fully composed of independent outsiders, which supports the view of information segregation costs of committees.

6. Robustness tests and additional analyses

6.1. Firm-fixed effects

To alleviate the endogeneity concern that arises from time-invariant unobserved variables, following Adams and Ferreira (2009) and Levi et al. (2014), we include firm fixed effects.¹⁴ Panel A of Table 10 presents regression results after controlling for firm fixed effects. We find consistent results for separate M&A committees as the coefficients on *MACOMM* remain positive and significant for both deal announcement returns and post-merger stock returns. The coefficient on *MARCOMM* for *CAR3* is positive but becomes statistically insignificant, which is a weak support for the main results of broadly defined M&A committees.

¹⁴ Although we adopt the entropy balancing approach and control for firm fixed effects to alleviate endogeneity concerns that arise from observed variables and time-invariant unobserved variables, we acknowledge that we are unable to fully address them as there may exist time-variant unobserved variables that affect both M&A committees use and M&A performance. Thus, we caution readers not to interpret our results as evidence of causality.

6.2. Alternative measurement of M&A committees

Given that M&A committees may continue to oversee M&A activities after deal announcements, we examine the effect of using M&A committees both before and after the deal announcement date on M&A performance. Specifically, *MACOMM2* is a dummy variable which equals one if the firm has a separate M&A committee both before and after the announcement date, and *MARCOMM2* is a dummy variable which equals one if the firm has a broadly defined M&A committee both before and after the announcement date.

Panel B of Table 10 shows that the use of M&A committees both before and after the deal announcement date is positively related to deal announcement returns and post-merger stock returns. The results hold for both narrowly defined M&A committees and broadly defined M&A committees, suggesting the importance of long-term use of M&A committees.

6.3. Alternative measurement of announcement returns

Following De Bodt et al. (2018), we calculate alternative measures of deal announcement returns using the market model, where the parameters of the model are estimated over the window (-250, -10) preceding the merger announcement and the market return is measured as the return to the CRSP value-weighted index. Consistent with the main tests, we use the 3-day and 5-day cumulative abnormal returns around the acquisition announcement. The results from these analyses, reported in Panel C of Table 10, are consistent with those reported in our main tests.

6.4. Post-merger operating performance

Operating performance measures are often used to evaluate the success of an acquisition because accounting-based measures capture the economic performance of a firm and represent actual and realized performance as reported in the annual financial statement (Thanos & Papadakis, 2012). Synergies obtained from M&As are best reflected in accounting measures such as return on assets (ROA) (Hitt et al., 1998). Consequently, we examine the effect of M&A committees on long-term operating performance (one-year ROA and two-year average ROA after the deal completion date). Following Lehn and Zhao (2006), in calculating one- and two-year average post-merger ROA, we use two

measures: (1) one-year or two-year average ROA after the deal completion date, adjusted by industry-median value ($ROA1$ and $ROA2$); (2) the change in the one-year or two-year average ROA (of the combined entity) after the deal completion from the one-year or two-year (acquirer and target value-weighted) average ROA before the merger ($\Delta ROA1$ and $\Delta ROA2$).

The results are reported in Panel D and Panel E of Table 10. We find that the coefficients on $MACOMM$ are positive and significant for $ROA1$, $ROA2$, $\Delta ROA1$, and $\Delta ROA2$, indicating that firms with separate M&A committees are likely to have better post-merger operating performance, which is in line with the main results.

6.5. Different types of M&A committees

Considering there are several types of M&A committees classified under the broad definition, this study further tests the effect of different types of broadly defined M&A committees on M&A performance.

Panel F of Table 10 reports the regression results of different types of M&A committees on M&A performance. Consistent with our main results, the coefficients on $MACOMM$ are positive and significant in all four columns. However, the coefficients on $FINANCECOMM$, $STRATEGYCOMM$, $EXECUTIVECOMM$ and $OTHERCOMM$ are in general insignificant. This is consistent with the notion that these committees have responsibilities regarding other company issues besides M&A duties and thus are unable to put all efforts in overseeing M&A activities. For example, finance committees may be responsible for reviewing and making recommendations to the board regarding debt portfolio, capital expenditure, and tax strategies. Overall, the results suggest that having a separate M&A committee is more effective than using other broadly defined M&A committees to oversee M&A activities.

7. Conclusion

M&A committees are non-required subcommittees of the boards of directors. In this study, we examine the role of acquirers' M&A committees in their M&A activities. We find that having a separate M&A committee is positively associated with deal announcement returns and post-merger stock returns. To alleviate endogeneity concerns, we adopt the entropy balancing approach and control for firm fixed

effects in our regressions and find consistent results. Our results are also robust to using alternative measures of M&A committees and alternative measures of announcement returns. In addition, firms with separate M&A committees experience better post-merger operating performance.

Furthermore, we examine M&A committee characteristics and find that M&A committees are more effective when they are smaller, meet more frequently and have a higher proportion of directors with financial expertise. The findings are consistent with the accountability, efficiency, and knowledge specialization benefits of M&A committees. We also find that M&A committees are less effective when they are fully composed of independent directors, suggesting that information segregation is especially costly for outsider-only committees.

Overall, our results support the notion that M&A committees play advisory and monitoring roles in M&A activities and their effectiveness is affected by committee characteristics.

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Table 1 Descriptive statistics

| Variable | N | Mean | SD | Min | P50 | Max |
|----------------------|-------|-------|-------|--------|--------|--------|
| <i>CAR3</i> | 5,220 | 0.008 | 0.053 | -0.170 | 0.005 | 0.192 |
| <i>CAR5</i> | 5,220 | 0.009 | 0.058 | -0.181 | 0.006 | 0.210 |
| <i>BHAR1</i> | 5,210 | 0.005 | 0.304 | -0.681 | -0.009 | 1.063 |
| <i>BHAR2</i> | 5,210 | 0.019 | 0.456 | -0.941 | -0.010 | 1.661 |
| <i>MACOMM</i> | 5,220 | 0.038 | 0.191 | 0.000 | 0.000 | 1.000 |
| <i>MARCOMM</i> | 5,220 | 0.150 | 0.357 | 0.000 | 0.000 | 1.000 |
| <i>FIRMSIZE</i> | 5,220 | 8.013 | 1.613 | 4.911 | 7.836 | 12.180 |
| <i>LEVERAGE</i> | 5,220 | 0.224 | 0.173 | 0.000 | 0.213 | 0.799 |
| <i>ROA</i> | 5,220 | 0.059 | 0.064 | -0.228 | 0.060 | 0.236 |
| <i>TOBINSQ</i> | 5,220 | 2.099 | 1.068 | 0.858 | 1.798 | 6.709 |
| <i>OCFTOASSET</i> | 5,220 | 0.112 | 0.062 | -0.063 | 0.108 | 0.307 |
| <i>FREECASHFLOW</i> | 5,220 | 0.064 | 0.063 | -0.207 | 0.068 | 0.223 |
| <i>STOCKRETURN</i> | 5,220 | 0.083 | 0.335 | -0.562 | 0.038 | 1.386 |
| <i>VOLATILITY</i> | 5,220 | 0.312 | 0.151 | 0.099 | 0.281 | 0.872 |
| <i>BOARDSIZE</i> | 5,220 | 9.323 | 2.108 | 5.000 | 9.000 | 15.000 |
| <i>BOARDINDEP</i> | 5,220 | 0.802 | 0.105 | 0.455 | 0.833 | 0.929 |
| <i>RELATEDACQ</i> | 5,220 | 0.575 | 0.494 | 0.000 | 1.000 | 1.000 |
| <i>DEALSIZE</i> | 5,220 | 5.074 | 1.613 | 2.351 | 4.942 | 9.499 |
| <i>MA_CASH</i> | 5,220 | 0.458 | 0.498 | 0.000 | 0.000 | 1.000 |
| <i>MA_STOCK</i> | 5,220 | 0.022 | 0.147 | 0.000 | 0.000 | 1.000 |
| <i>TARGET_PUBLIC</i> | 5,220 | 0.166 | 0.372 | 0.000 | 0.000 | 1.000 |
| <i>TOEHOLD</i> | 5,220 | 0.003 | 0.034 | 0.000 | 0.000 | 0.499 |

This table reports descriptive statistics for variables used in our main tests. All continuous variables are winsorized at the 1% and 99% levels. Variable definitions are available in Appendix A.

Table 2 Regression results of M&A committees and M&A performance

| Panel A. M&A committees and deal announcement returns | | | | |
|---|------------------------|------------------------|------------------------|------------------------|
| | <i>CAR3</i> | <i>CAR5</i> | <i>CAR3</i> | <i>CAR5</i> |
| | (1) | (2) | (3) | (4) |
| <i>MACOMM</i> | 0.0057* (1.664) | 0.0086** (2.092) | | |
| <i>MARCOMM</i> | | | 0.0045** (2.315) | 0.0059*** (2.670) |
| <i>FIRMSIZE</i> | -0.0045*** (-5.896) | -0.0050*** (-5.800) | -0.0045*** (-5.949) | -0.0050*** (-5.917) |
| <i>LEVERAGE</i> | 0.0136** (2.508) | 0.0180*** (3.064) | 0.0135** (2.508) | 0.0178*** (3.053) |
| <i>ROA</i> | -0.0028 (-0.119) | 0.0043 (0.162) | -0.0027 (-0.114) | 0.0046 (0.171) |
| <i>TOBINSQ</i> | -0.0015 (-1.442) | -0.0012 (-1.091) | -0.0014 (-1.346) | -0.0011 (-0.959) |
| <i>OCFTOASSET</i> | -0.0114 (-0.560) | -0.0107 (-0.484) | -0.0116 (-0.571) | -0.0110 (-0.500) |
| <i>FREECASHFLOW</i> | 0.0128 (0.581) | 0.0019 (0.079) | 0.0120 (0.543) | 0.0008 (0.035) |
| <i>STOCKRETURN</i> | 0.0047 (1.601) | 0.0057* (1.758) | 0.0046 (1.593) | 0.0057* (1.745) |
| <i>VOLATILITY</i> | 0.0087 (1.102) | 0.0102 (1.129) | 0.0089 (1.122) | 0.0105 (1.160) |
| <i>BOARDSIZE</i> | -0.0002 (-0.509) | -0.0004 (-0.729) | -0.0003 (-0.646) | -0.0005 (-0.895) |
| <i>BOARDINDEP</i> | -0.0078 (-1.065) | -0.0008 (-0.098) | -0.0085 (-1.163) | -0.0018 (-0.224) |
| <i>RELATEDACQ</i> | 0.0040** (2.532) | 0.0039** (2.270) | 0.0039** (2.490) | 0.0038** (2.209) |
| <i>DEALSIZE</i> | 0.0035*** (5.116) | 0.0032*** (4.291) | 0.0035*** (5.120) | 0.0032*** (4.297) |
| <i>MA_CASH</i> | 0.0041*** (2.591) | 0.0030* (1.708) | 0.0041*** (2.599) | 0.0030* (1.726) |
| <i>MA_STOCK</i> | -0.0091 (-1.176) | -0.0111 (-1.336) | -0.0092 (-1.180) | -0.0111 (-1.338) |
| <i>TARGET_PUBLIC</i> | -0.0163*** (-6.281) | -0.0156*** (-5.605) | -0.0165*** (-6.332) | -0.0158*** (-5.667) |
| <i>TOEHOLD</i> | -0.0340* (-1.648) | -0.0303 (-1.219) | -0.0348* (-1.695) | -0.0312 (-1.266) |
| Constant | 0.0269*** (2.614) | 0.0314*** (2.841) | 0.0283*** (2.713) | 0.0331*** (2.957) |
| Fixed Effects | Year & Ind | Year & Ind | Year & Ind | Year & Ind |
| Observations | 5,220 | 5,220 | 5,220 | 5,220 |
| R-squared | 0.063 | 0.060 | 0.064 | 0.060 |

Panel B. M&A committees and post-merger stock returns

| | <i>BHAR1</i> | <i>BHAR2</i> | <i>BHAR1</i> | <i>BHAR2</i> |
|-----------------|----------------------|----------------------|---------------------|---------------------|
| | (1) | (2) | (3) | (4) |
| <i>MACOMM</i> | 0.0829*** (3.740) | 0.1795*** (4.403) | | |
| <i>MARCOMM</i> | | | 0.0188 (1.413) | 0.0419* (1.649) |
| <i>FIRMSIZE</i> | 0.0013 (0.270) | -0.0112 (-1.445) | 0.0026 (0.550) | -0.0083 (-1.048) |
| <i>LEVERAGE</i> | 0.0696** (2.092) | 0.1047* (1.828) | 0.0640* (1.918) | 0.0928 (1.601) |
| <i>ROA</i> | -0.0508 (-0.370) | -0.3164 (-1.383) | -0.0463 (-0.337) | -0.3067 (-1.341) |

| | | | | |
|----------------------|------------------------|------------------------|------------------------|------------------------|
| <i>TOBINSQ</i> | -0.0091 (-1.329) | -0.0160 (-1.468) | -0.0078 (-1.148) | -0.0133 (-1.214) |
| <i>OCFTOASSET</i> | 0.1246 (0.984) | 0.4022** (2.015) | 0.1201 (0.943) | 0.3926* (1.948) |
| <i>FREECASHFLOW</i> | 0.0969 (0.670) | 0.4352* (1.679) | 0.0925 (0.639) | 0.4254 (1.640) |
| <i>BOARDINDEP</i> | 0.0110 (0.614) | 0.0319 (1.212) | 0.0101 (0.563) | 0.0300 (1.133) |
| <i>BOARDSIZE</i> | -0.0527 (-1.051) | -0.2127*** (-2.842) | -0.0486 (-0.972) | -0.2040*** (-2.700) |
| <i>STOCKRETURN</i> | 0.0010 (0.320) | 0.0043 (0.838) | 0.0007 (0.231) | 0.0037 (0.709) |
| <i>VOLATILITY</i> | -0.0110 (-0.216) | -0.0015 (-0.017) | -0.0223 (-0.431) | -0.0258 (-0.290) |
| <i>MA_CASH</i> | 0.0199** (2.156) | 0.0355** (2.388) | 0.0187** (2.019) | 0.0329** (2.205) |
| <i>MA_STOCK</i> | -0.0124*** (-3.593) | -0.0177*** (-3.532) | -0.0125*** (-3.610) | -0.0178*** (-3.540) |
| <i>RELATEDACQ</i> | -0.0050 (-0.541) | -0.0026 (-0.180) | -0.0043 (-0.464) | -0.0010 (-0.072) |
| <i>TARGET_PUBLIC</i> | -0.0280 (-0.714) | 0.0015 (0.028) | -0.0268 (-0.680) | 0.0042 (0.076) |
| <i>DEALSIZE</i> | 0.0316** (2.464) | 0.0268 (1.402) | 0.0302** (2.347) | 0.0238 (1.246) |
| <i>TOEHOLD</i> | -0.0984 (-0.916) | -0.3197* (-1.893) | -0.0947 (-0.889) | -0.3121* (-1.796) |
| Constant | 0.0193 (0.222) | 0.0617 (0.525) | 0.0164 (0.189) | 0.0560 (0.468) |
| Fixed Effects | Year & Ind | Year & Ind | Year & Ind | Year & Ind |
| Observations | 5,210 | 5,210 | 5,210 | 5,210 |
| R-squared | 0.035 | 0.057 | 0.033 | 0.053 |

Panel A of this table presents the results of ordinary least squares (OLS) regressions of the effect of acquirers' use of M&A committees (*MACOMM* and *MARCOMM*) on deal announcement returns (*CAR3* and *CAR5*). The sample consists of 5,220 M&A deals between 2004 and 2018. Panel B presents the results of ordinary least squares (OLS) regressions of the effect of acquirers' use of M&A committees (*MACOMM* and *MARCOMM*) on acquirers' post-merger stock returns (*BHARI* and *BHAR2*). The reduction in sample size is due to missing data of buy-and-hold returns. *MACOMM* is a dummy variable which equals one if the firm has an M&A committee whose committee name contains keywords of "merger", "acquisition", or "M&A". *MARCOMM* is a dummy variable which equals one if the firm has a committee whose committee responsibilities in the proxy statements (i.e., DEF 14A) include specified M&A responsibilities. All continuous variables are winsorized at the 1% and 99% levels. All models include year and industry fixed effects. The industry classification follows the Fama-French 48-industry categories. The corresponding t-statistics are reported in parentheses based on standard errors adjusted for heteroskedasticity and clustered by acquirers. *, **, *** stand for significance at the 10%, 5%, and 1% level respectively, in two-tailed tests. All variables are defined in the Appendix A.

Table 3 Antecedents of M&A committee use

| | <i>MACOMM</i> (1) | <i>MARCOMM</i> (2) |
|-----------------------|-------------------------|------------------------|
| <i>AQC</i> | -0.3311 (-0.922) | 0.1112 (0.672) |
| <i>PRIORMA</i> | 1.4275** (2.309) | 0.2326 (1.039) |
| <i>FIRMSIZE</i> | 0.5963*** (3.819) | 0.3668*** (4.063) |
| <i>LEVERAGE</i> | -4.0620*** (-2.932) | -0.9717* (-1.677) |
| <i>CAPEX</i> | -12.7913 (-1.387) | -2.9326 (-0.884) |
| <i>RD</i> | 2.0277 (0.613) | -1.3186 (-0.468) |
| <i>MISSINGRD</i> | -0.5052 (-0.881) | -0.1399 (-0.491) |
| <i>ROA</i> | 3.4164 (1.318) | 0.8448 (0.640) |
| <i>OCFASSET</i> | -3.6058 (-1.257) | 0.7391 (0.487) |
| <i>VOLATILITY</i> | 1.3759 (1.087) | 0.7480 (1.255) |
| <i>FIRMAGE</i> | -0.0600*** (-3.426) | -0.0139* (-1.864) |
| <i>BOARDSIZE</i> | 0.1738* (1.729) | 0.1580*** (2.904) |
| <i>BOARDINDEP</i> | -1.6735 (-1.137) | 0.4344 (0.441) |
| <i>LITIGATION</i> | 1.0676 (1.644) | -0.2634 (-0.778) |
| Constant | -10.9053*** (-5.220) | -5.8891*** (-5.019) |
| Fixed Effects | Year & Ind | Year & Ind |
| Observations | 3,735 | 4,949 |
| Pseudo R ² | 0.4145 | 0.1546 |

This table shows the logit regression results regarding the determinants of M&A committee use. Column (1) and Column (2) examine the determinants for the strict measure of M&A committees (*MACOMM*) and broad measure of M&A committees (*MARCOMM*), respectively. The reduction in sample size is due to insufficient data of determinants. In addition, some industry dummies are omitted and excluded from the regression model as a result of predicting the dependent variable perfectly. *MACOMM* is a dummy variable which equals one if the firm has an M&A committee whose committee name contains keywords of “merger”, “acquisition”, or “M&A”. *MARCOMM* is a dummy variable which equals one if the firm has a committee whose committee responsibilities in the proxy statements (i.e., DEF 14A) include specified M&A responsibilities. All continuous variables are winsorized at the 1% and 99% levels. All models include year and industry fixed effects. The industry classification follows the Fama-French 48-industry categories. The corresponding t-statistics are reported in parentheses based on standard errors adjusted for heteroskedasticity and clustered by acquirers. *, **, *** stand for significance at the 10%, 5%, and 1% level respectively, in two-tailed tests. All variables are defined in the Appendix A.

Table 4 Entropy balancing statisticsPanel A. Balancing statistics for the strict measure of M&A committees (*MACOMM*)

| Before balancing | | | | | | |
|------------------|-----------------------------|----------|----------|------------------------------|----------|----------|
| | <i>MACOMM</i> =1 (N=196) | | | <i>MACOMM</i> =0 (N=4918) | | |
| | Mean | Variance | Skewness | Mean | Variance | Skewness |
| <i>PRIORMA</i> | 0.964 | 0.035 | -5.004 | 0.842 | 0.133 | -1.871 |
| <i>FIRMSIZE</i> | 9.238 | 3.973 | -0.678 | 7.867 | 2.553 | 0.421 |
| <i>LEVERAGE</i> | 0.120 | 0.017 | 1.204 | 0.226 | 0.031 | 0.801 |
| <i>FIRMAGE</i> | 15.995 | 94.620 | 1.017 | 24.785 | 305.989 | 0.615 |
| <i>BOARDSIZE</i> | 10.250 | 3.799 | -0.166 | 9.238 | 4.656 | 0.397 |
| After balancing | | | | | | |
| | <i>MACOMM</i> =1 (N=196) | | | <i>MACOMM</i> =0 (N=4918) | | |
| | Mean | Variance | Skewness | Mean | Variance | Skewness |
| <i>PRIORMA</i> | 0.964 | 0.035 | -5.004 | 0.964 | 0.035 | -4.989 |
| <i>FIRMSIZE</i> | 9.238 | 3.973 | -0.678 | 9.231 | 3.969 | -0.513 |
| <i>LEVERAGE</i> | 0.120 | 0.017 | 1.204 | 0.120 | 0.017 | 1.617 |
| <i>FIRMAGE</i> | 15.995 | 94.620 | 1.017 | 15.984 | 94.552 | 0.650 |
| <i>BOARDSIZE</i> | 10.250 | 3.799 | -0.166 | 10.243 | 3.798 | -0.224 |

Panel B. Balancing statistics for the broad measure of M&A committees (*MARCOMM*)

| Before balancing | | | | | | |
|------------------|------------------------------|----------|----------|-------------------------------|----------|----------|
| | <i>MARCOMM</i> =1 (N=772) | | | <i>MARCOMM</i> =0 (N=4342) | | |
| | Mean | Variance | Skewness | Mean | Variance | Skewness |
| <i>FIRMSIZE</i> | 8.772 | 3.162 | -0.021 | 7.767 | 2.438 | 0.431 |
| <i>LEVERAGE</i> | 0.204 | 0.025 | 0.916 | 0.225 | 0.032 | 0.795 |
| <i>FIRMAGE</i> | 25.115 | 285.589 | 0.606 | 24.329 | 303.379 | 0.657 |
| <i>BOARDSIZE</i> | 10.212 | 4.450 | 0.195 | 9.111 | 4.515 | 0.413 |
| After balancing | | | | | | |
| | <i>MARCOMM</i> =1 (N=772) | | | <i>MARCOMM</i> =0 (N=4342) | | |
| | Mean | Variance | Skewness | Mean | Variance | Skewness |
| <i>FIRMSIZE</i> | 8.772 | 3.162 | -0.021 | 8.769 | 3.161 | 0.022 |
| <i>LEVERAGE</i> | 0.204 | 0.025 | 0.916 | 0.204 | 0.025 | 0.924 |
| <i>FIRMAGE</i> | 25.115 | 285.589 | 0.606 | 25.111 | 285.461 | 0.576 |
| <i>BOARDSIZE</i> | 10.212 | 4.450 | 0.195 | 10.209 | 4.449 | 0.014 |

This table presents the distributional properties of treatment (*MACOMM/MARCOMM*=1) and control (*MACOMM/MARCOMM*=0) firms before and after entropy balancing. The reduction in the sample size is due to insufficient data of determinants. *MACOMM* is a dummy variable which equals one if the firm has an M&A committee whose committee name contains keywords of “merger”, “acquisition”, or “M&A”. *MARCOMM* is a dummy variable which equals one if the firm has a committee whose committee responsibilities in the proxy statements (i.e., DEF 14A) include specified M&A responsibilities. All continuous variables are winsorized at the 1% and 99% levels. All variables are defined in the Appendix A.

Table 5 M&A committees and M&A performance after entropy balancing

| Panel A. M&A committees and deal announcement returns | | | | |
|---|---------------------|-----------------------|------------------------|------------------------|
| | CAR3 | CAR5 | CAR3 | CAR5 |
| | (1) | (2) | (3) | (4) |
| <i>MACOMM</i> | 0.0086** (1.977) | 0.0085* (1.711) | | |
| <i>MARCOMM</i> | | | 0.0033* (1.700) | 0.0042* (1.943) |
| <i>FIRMSIZE</i> | -0.0005 (-0.320) | 0.0020 (1.238) | -0.0032*** (-3.493) | -0.0032*** (-3.219) |
| <i>LEVERAGE</i> | 0.0076 (0.422) | -0.0072 (-0.345) | 0.0091 (1.203) | 0.0113 (1.379) |
| <i>ROA</i> | 0.0760 (0.755) | 0.1838 (1.612) | 0.0072 (0.213) | 0.0040 (0.096) |
| <i>TOBINSQ</i> | -0.0051 (-1.364) | -0.0071* (-1.945) | -0.0015 (-1.030) | -0.0019 (-1.180) |
| <i>OCFTOASSET</i> | 0.0022 (0.041) | -0.0735 (-1.185) | 0.0197 (0.772) | 0.0300 (1.024) |
| <i>FREECASHFLOW</i> | -0.0643 (-0.953) | -0.0944 (-1.253) | -0.0477 (-1.399) | -0.0389 (-0.998) |
| <i>STOCKRETURN</i> | 0.0008 (0.103) | -0.0042 (-0.408) | 0.0053 (1.351) | 0.0063 (1.412) |
| <i>VOLATILITY</i> | 0.0236 (1.643) | 0.0659*** (3.833) | 0.0214** (2.168) | 0.0339*** (2.987) |
| <i>BOARDSIZE</i> | 0.0010 (0.846) | -0.0001 (-0.090) | -0.0002 (-0.241) | -0.0002 (-0.326) |
| <i>BOARDINDEP</i> | -0.0130 (-0.630) | -0.0145 (-0.633) | -0.0013 (-0.138) | -0.0043 (-0.394) |
| <i>RELATEDACQ</i> | 0.0157** (2.008) | 0.0203** (2.412) | 0.0012 (0.496) | 0.0018 (0.675) |
| <i>DEALSIZE</i> | -0.0020 (-1.092) | -0.0048** (-2.273) | 0.0016* (1.767) | 0.0015 (1.430) |
| <i>MA_CASH</i> | -0.0023 (-0.529) | -0.0019 (-0.398) | 0.0006 (0.252) | -0.0008 (-0.319) |
| <i>MA_STOCK</i> | 0.0039 (0.366) | 0.0154 (1.483) | -0.0035 (-0.464) | -0.0042 (-0.511) |
| <i>TARGET_PUBLIC</i> | -0.0054 (-0.852) | -0.0018 (-0.304) | -0.0093*** (-3.011) | -0.0103*** (-3.254) |
| <i>TOEHOLD</i> | -0.0096 (-0.356) | -0.0245 (-0.889) | -0.0157 (-0.865) | -0.0069 (-0.295) |
| Constant | 0.0031 (0.125) | -0.0058 (-0.196) | 0.0319** (2.543) | 0.0350** (2.403) |
| Fixed Effects | Year & Ind | Year & Ind | Year & Ind | Year & Ind |
| Observations | 5,114 | 5,114 | 5,114 | 5,114 |
| R-squared | 0.144 | 0.220 | 0.064 | 0.072 |

| Panel B. M&A committees and post-merger stock returns | | | | |
|---|----------------------|----------------------|-------------------|---------------------|
| | BHAR1 | BHAR2 | BHAR1 | BHAR2 |
| | (1) | (2) | (3) | (4) |
| <i>MACOMM</i> | 0.0912*** (4.243) | 0.1556*** (3.728) | | |
| <i>MARCOMM</i> | | | 0.0110 (0.837) | 0.0299 (1.217) |
| <i>FIRMSIZE</i> | 0.0073 (0.601) | 0.0207 (1.167) | 0.0090 (1.529) | 0.0070 (0.705) |
| <i>LEVERAGE</i> | -0.0806 (-0.614) | -0.0738 (-0.336) | 0.0457 (0.920) | -0.0338 (-0.405) |
| <i>ROA</i> | -0.2173 (-0.441) | -0.0118 (-0.020) | 0.0119 (0.057) | -0.2926 (-0.675) |

| | | | | |
|----------------------|------------------------|---------------------|----------------------|---------------------|
| <i>TOBINSQ</i> | -0.0272 (-1.299) | -0.0315 (-1.179) | 0.0096 (0.848) | 0.0058 (0.313) |
| <i>OCFTOASSET</i> | 0.4708 (1.439) | 0.8338* (1.850) | -0.1771 (-0.944) | 0.1634 (0.532) |
| <i>FREECASHFLOW</i> | -0.3045 (-0.719) | -0.1966 (-0.345) | -0.1524 (-0.659) | -0.1728 (-0.425) |
| <i>BOARDINDEP</i> | -0.0628 (-1.268) | -0.0829 (-1.078) | -0.0205 (-0.836) | -0.0275 (-0.646) |
| <i>BOARDSIZE</i> | 0.1846 (1.312) | 0.3359 (1.216) | -0.0030 (-0.041) | -0.1683 (-1.467) |
| <i>STOCKRETURN</i> | 0.0011 (0.134) | -0.0161 (-1.251) | 0.0001 (0.020) | -0.0012 (-0.169) |
| <i>VOLATILITY</i> | 0.1972 (1.137) | 0.4970* (1.851) | 0.0139 (0.198) | -0.0411 (-0.336) |
| <i>MA_CASH</i> | 0.0382 (1.342) | -0.0104 (-0.230) | 0.0220* (1.773) | 0.0198 (0.968) |
| <i>MA_STOCK</i> | -0.0061 (-0.637) | -0.0015 (-0.114) | -0.0087* (-1.791) | -0.0085 (-1.216) |
| <i>RELATEDACQ</i> | -0.0091 (-0.363) | 0.0069 (0.157) | 0.0010 (0.084) | 0.0174 (0.951) |
| <i>TARGET_PUBLIC</i> | 0.0292 (0.705) | 0.1183 (0.913) | 0.0292 (0.609) | 0.1089 (1.019) |
| <i>DEALSIZE</i> | 0.0449 (1.248) | 0.0527 (1.249) | 0.0284 (1.613) | 0.0099 (0.400) |
| <i>TOEHOLD</i> | -0.5927*** (-3.370) | -0.1118 (-0.295) | -0.1407 (-1.395) | -0.0843 (-0.375) |
| Constant | -0.2983 (-1.590) | -0.4148 (-1.363) | -0.1539 (-1.593) | -0.1440 (-0.799) |
| Fixed Effects | Year & Ind | Year & Ind | Year & Ind | Year & Ind |
| Observations | 5,104 | 5,104 | 5,104 | 5,104 |
| R-squared | 0.240 | 0.314 | 0.069 | 0.070 |

Panel A of this table presents the results of ordinary least squares (OLS) regressions of the effect of acquirers' use of M&A committees (*MACOMM* and *MARCOMM*) on deal announcement returns (*CAR3* and *CAR5*) after using entropy balancing. Panel B presents the results of ordinary least squares (OLS) regressions of the effect of acquirers' use of M&A committees (*MACOMM* and *MARCOMM*) on acquirers' post-merger stock returns (*BHAR1* and *BHAR2*) after using entropy balancing. *MACOMM* is a dummy variable which equals one if the firm has an M&A committee whose committee name contains keywords of "merger", "acquisition", or "M&A". *MARCOMM* is a dummy variable which equals one if the firm has a committee whose committee responsibilities in the proxy statements (i.e., DEF 14A) include specified M&A responsibilities. All continuous variables are winsorized at the 1% and 99% levels. All models include year and industry fixed effects. The industry classification follows the Fama-French 48-industry categories. The corresponding t-statistics are reported in parentheses based on standard errors adjusted for heteroskedasticity and clustered by acquirers. *, **, *** stand for significance at the 10%, 5%, and 1% level respectively, in two-tailed tests. All variables are defined in the Appendix A.

Table 6 Regression results of M&A committee size and M&A performance

| Panel A. M&A committee size and deal announcement returns | | | | |
|---|----------------------|----------------------|----------------------|----------------------|
| | <i>CAR3</i> | <i>CAR5</i> | <i>CAR3</i> | <i>CAR5</i> |
| | (1) | (2) | (3) | (4) |
| <i>MACOMM_LS</i> | 0.0030 (0.517) | 0.0014 (0.204) | | |
| <i>MACOMM_SS</i> | 0.0064* (1.682) | 0.0115** (2.459) | | |
| <i>MARCOMM_LS</i> | | | 0.0015 (0.494) | 0.0003 (0.075) |
| <i>MARCOMM_SS</i> | | | 0.0049** (2.221) | 0.0073*** (2.933) |
| Constant | 0.0267*** (2.587) | 0.0310*** (2.800) | 0.0274*** (2.632) | 0.0313*** (2.814) |
| Controls | YES | YES | YES | YES |
| Fixed Effects | Year & Ind | Year & Ind | Year & Ind | Year & Ind |
| Observations | 5,198 | 5,198 | 5,188 | 5,188 |
| R-squared | 0.064 | 0.060 | 0.063 | 0.060 |

| Panel B. M&A committee size and post-merger stock returns | | | | |
|---|----------------------|----------------------|-------------------|--------------------|
| | <i>BHAR1</i> | <i>BHAR2</i> | <i>BHAR1</i> | <i>BHAR2</i> |
| | (1) | (2) | (3) | (4) |
| <i>MACOMM_LS</i> | 0.0539 (1.387) | 0.0769 (1.594) | | |
| <i>MACOMM_SS</i> | 0.0879*** (3.446) | 0.1962*** (4.155) | | |
| <i>MARCOMM_LS</i> | | | 0.0135 (0.541) | 0.0041 (0.097) |
| <i>MARCOMM_SS</i> | | | 0.0195 (1.206) | 0.0543* (1.855) |
| Constant | 0.0202 (0.232) | 0.0608 (0.517) | 0.0186 (0.214) | 0.0529 (0.441) |
| Controls | YES | YES | YES | YES |
| Fixed Effects | Year & Ind | Year & Ind | Year & Ind | Year & Ind |
| Observations | 5,188 | 5,188 | 5,178 | 5,178 |
| R-squared | 0.035 | 0.058 | 0.034 | 0.055 |

Panel A of this table presents regression results of the effect of M&A committee size on deal announcement returns. Panel B presents regression results of the effect of M&A committee size on post-merger stock returns. *MACOMM_LS* (*MARCOMM_LS*) is a dummy variable which equals one if the size of the M&A committee (broadly defined M&A committee) is above the median, and zero otherwise. *MACOMM_SS* (*MARCOMM_SS*) is a dummy variable which equals one if the size of the M&A committee (broadly defined M&A committee) is below or equal to the median, and zero otherwise. Control variables are the same as those used in the main tests. All continuous variables are winsorized at the 1% and 99% levels. All models include year and industry fixed effects. The industry classification follows the Fama-French 48-industry categories. The corresponding t-statistics are reported in parentheses based on standard errors adjusted for heteroskedasticity and clustered by acquirers. *, **, *** stand for significance at the 10%, 5%, and 1% level respectively, in two-tailed tests. All variables are defined in the Appendix A.

Table 7 Regression results of M&A committee meeting frequency and M&A performance

| Panel A. M&A committee meeting frequency and deal announcement returns | | | | |
|--|----------------------|----------------------|----------------------|----------------------|
| | <i>CAR3</i> | <i>CAR5</i> | <i>CAR3</i> | <i>CAR5</i> |
| | (1) | (2) | (3) | (4) |
| <i>MACOMM_HM</i> | 0.0075** (2.079) | 0.0123** (2.187) | | |
| <i>MACOMM_LM</i> | 0.0051 (0.904) | 0.0067 (1.153) | | |
| <i>MARCOMM_HM</i> | | | 0.0051* (1.931) | 0.0064** (1.988) |
| <i>MARCOMM_LM</i> | | | 0.0030 (1.227) | 0.0039 (1.454) |
| Constant | 0.0265** (2.558) | 0.0305*** (2.742) | 0.0274*** (2.624) | 0.0316*** (2.824) |
| Controls | YES | YES | YES | YES |
| Fixed Effects | Year & Ind | Year & Ind | Year & Ind | Year & Ind |
| Observations | 5,188 | 5,188 | 5,161 | 5,161 |
| R-squared | 0.063 | 0.059 | 0.063 | 0.059 |
| Panel B. M&A committee meeting frequency and post-merger stock returns | | | | |
| | <i>BHAR1</i> | <i>BHAR2</i> | <i>BHAR1</i> | <i>BHAR2</i> |
| | (1) | (2) | (3) | (4) |
| <i>MACOMM_HM</i> | 0.1222*** (4.435) | 0.2030*** (4.073) | | |
| <i>MACOMM_LM</i> | 0.0562* (1.687) | 0.1558** (2.578) | | |
| <i>MARCOMM_HM</i> | | | 0.0147 (0.663) | 0.0295 (0.861) |
| <i>MARCOMM_LM</i> | | | 0.0186 (1.165) | 0.0422 (1.439) |
| Constant | 0.0310 (0.355) | 0.0804 (0.691) | 0.0344 (0.393) | 0.0771 (0.647) |
| Controls | YES | YES | YES | YES |
| Fixed Effects | Year & Ind | Year & Ind | Year & Ind | Year & Ind |
| Observations | 5,178 | 5,178 | 5,151 | 5,151 |
| R-squared | 0.035 | 0.057 | 0.033 | 0.054 |

Panel A of this table presents regression results of the effect of M&A committee meeting frequency on deal announcement returns. Panel B presents regression results of the effect of M&A committee meeting frequency on post-merger stock returns. *MACOMM_HM* (*MARCOMM_HM*) is a dummy variable which equals one if the number of meetings of the M&A committee (broadly defined M&A committee) is above the median, and zero otherwise. *MACOMM_LM* (*MARCOMM_LM*) is a dummy variable which equals one if the number of meetings of the M&A committee (broadly defined M&A committee) is below or equal to the median, and zero otherwise. Control variables are the same as those used in the main tests. All continuous variables are winsorized at the 1% and 99% levels. All models include year and industry fixed effects. The industry classification follows the Fama-French 48-industry categories. The corresponding t-statistics are reported in parentheses based on standard errors adjusted for heteroskedasticity and clustered by acquirers. *, **, *** stand for significance at the 10%, 5%, and 1% level respectively, in two-tailed tests. All variables are defined in the Appendix A.

Table 8 Regression results of M&A committee expertise and M&A performance

| Panel A. M&A committee expertise and deal announcement returns | | | | |
|--|----------------------|----------------------|----------------------|----------------------|
| | <i>CAR3</i> | <i>CAR5</i> | <i>CAR3</i> | <i>CAR5</i> |
| | (1) | (2) | (3) | (4) |
| <i>MACOMM_HE</i> | 0.0082** (2.093) | 0.0089* (1.796) | | |
| <i>MACOMM_LE</i> | -0.0067 (-1.224) | 0.0080 (0.924) | | |
| <i>MARCOMM_HE</i> | | | 0.0072*** (2.873) | 0.0077*** (2.766) |
| <i>MARCOMM_LE</i> | | | 0.0022 (0.755) | 0.0040 (1.192) |
| Constant | 0.0266** (2.567) | 0.0306*** (2.756) | 0.0282*** (2.658) | 0.0329*** (2.892) |
| Controls | YES | YES | YES | YES |
| Fixed Effects | Year & Ind | Year & Ind | Year & Ind | Year & Ind |
| Observations | 5,193 | 5,193 | 5,121 | 5,121 |
| R-squared | 0.064 | 0.060 | 0.064 | 0.060 |
| Panel B. M&A committee expertise and post-merger stock returns | | | | |
| | <i>BHAR1</i> | <i>BHAR2</i> | <i>BHAR1</i> | <i>BHAR2</i> |
| | (1) | (2) | (3) | (4) |
| <i>MACOMM_HE</i> | 0.0856*** (3.098) | 0.1780*** (4.553) | | |
| <i>MACOMM_LE</i> | 0.0610 (1.035) | 0.1425 (1.031) | | |
| <i>MARCOMM_HE</i> | | | 0.0174 (1.131) | 0.0408 (1.386) |
| <i>MARCOMM_LE</i> | | | 0.0278 (1.226) | 0.0560 (1.159) |
| Constant | 0.0207 (0.238) | 0.0637 (0.540) | 0.0271 (0.308) | 0.0717 (0.595) |
| Controls | YES | YES | YES | YES |
| Fixed Effects | Year & Ind | Year & Ind | Year & Ind | Year & Ind |
| Observations | 5,183 | 5,183 | 5,111 | 5,111 |
| R-squared | 0.035 | 0.057 | 0.034 | 0.054 |

Panel A of this table presents regression results of the effect of M&A committee expertise on deal announcement returns. Panel B presents regression results of the effect of M&A committee expertise on post-merger stock returns. *MACOMM_HE* (*MARCOMM_HE*) is a dummy variable which equals one if the proportion of financial experts on the M&A committee (broadly defined M&A committee) is above 50%, and zero otherwise. *MACOMM_LE* (*MARCOMM_LE*) is a dummy variable which equals one if the proportion of financial experts on the M&A committee (broadly defined M&A committee) is below or equal to 50%, and zero otherwise. Control variables are the same as those used in the main tests. All continuous variables are winsorized at the 1% and 99% levels. All models include year and industry fixed effects. The industry classification follows the Fama-French 48-industry categories. The corresponding t-statistics are reported in parentheses based on standard errors adjusted for heteroskedasticity and clustered by acquirers. *, **, *** stand for significance at the 10%, 5%, and 1% level respectively, in two-tailed tests. All variables are defined in the Appendix A.

Table 9 Regression results of M&A committee independence and M&A performance

| Panel A. M&A committee independence and deal announcement returns | | | | |
|---|----------------------|----------------------|----------------------|----------------------|
| | <i>CAR3</i> | <i>CAR5</i> | <i>CAR3</i> | <i>CAR5</i> |
| | (1) | (2) | (3) | (4) |
| <i>MACOMM_HI</i> | 0.0012 (0.160) | 0.0118 (1.484) | | |
| <i>MACOMM_LI</i> | 0.0075** (1.973) | 0.0085* (1.668) | | |
| <i>MARCOMM_HI</i> | | | 0.0020 (0.799) | 0.0031 (1.059) |
| <i>MARCOMM_LI</i> | | | 0.0059** (2.168) | 0.0075** (2.417) |
| Constant | 0.0269*** (2.602) | 0.0311*** (2.802) | 0.0272*** (2.605) | 0.0315*** (2.819) |
| Controls | YES | YES | YES | YES |
| Fixed Effects | Year & Ind | Year & Ind | Year & Ind | Year & Ind |
| Observations | 5,198 | 5,198 | 5,188 | 5,188 |
| R-squared | 0.064 | 0.060 | 0.063 | 0.059 |
| Panel B. M&A committee independence and post-merger stock returns | | | | |
| | <i>BHAR1</i> | <i>BHAR2</i> | <i>BHAR1</i> | <i>BHAR2</i> |
| | (1) | (2) | (3) | (4) |
| <i>MACOMM_HI</i> | 0.0925* (1.937) | 0.1498 (1.539) | | |
| <i>MACOMM_LI</i> | 0.0766*** (3.046) | 0.1816*** (4.828) | | |
| <i>MARCOMM_HI</i> | | | 0.0120 (0.640) | 0.0165 (0.466) |
| <i>MARCOMM_LI</i> | | | 0.0235 (1.288) | 0.0633* (1.885) |
| Constant | 0.0202 (0.232) | 0.0631 (0.536) | 0.0175 (0.201) | 0.0519 (0.431) |
| Controls | YES | YES | YES | YES |
| Fixed Effects | Year & Ind | Year & Ind | Year & Ind | Year & Ind |
| Observations | 5,188 | 5,188 | 5,178 | 5,178 |
| R-squared | 0.035 | 0.057 | 0.034 | 0.055 |

Panel A of this table presents regression results of the effect of M&A committee independence on deal announcement returns. Panel B presents regression results of the effect of M&A committee independence on post-merger stock returns. *MACOMM_HI* (*MARCOMM_HI*) is a dummy variable which equals one if the M&A committee (broadly defined M&A committee) is fully composed of independent directors, and zero otherwise. *MACOMM_LI* (*MARCOMM_LI*) is a dummy variable which equals one if the M&A committee (broadly defined M&A committee) is not fully composed of independent directors, and zero otherwise. Control variables are the same as those used in the main tests. All continuous variables are winsorized at the 1% and 99% levels. All models include year and industry fixed effects. The industry classification follows the Fama-French 48-industry categories. The corresponding t-statistics are reported in parentheses based on standard errors adjusted for heteroskedasticity and clustered by acquirers. *, **, *** stand for significance at the 10%, 5%, and 1% level respectively, in two-tailed tests. All variables are defined in the Appendix A.

Table 10 Robustness tests and additional analyses

| Panel A. Controlling for firm-fixed effects | | | | |
|--|------------------------|------------------------|------------------------|------------------------|
| | <i>CAR3</i> (1) | <i>BHAR1</i> (2) | <i>CAR3</i> (3) | <i>BHAR1</i> (4) |
| <i>MACOMM</i> | 0.0106** (2.055) | 0.1418*** (2.895) | | |
| <i>MARCOMM</i> | | | 0.0044 (0.997) | 0.0246 (0.967) |
| Constant | 0.1122*** (3.674) | 1.3838*** (5.834) | 0.1119*** (3.656) | 1.3845*** (5.815) |
| Controls | YES | YES | YES | YES |
| Fixed Effects | Firm & Year | Firm & Year | Firm & Year | Firm & Year |
| Observations | 5,220 | 5,210 | 5,220 | 5,210 |
| R-squared | 0.411 | 0.431 | 0.411 | 0.430 |
| Panel B. Alternative measurement of M&A committees | | | | |
| | <i>CAR3</i> (1) | <i>BHAR1</i> (2) | <i>CAR3</i> (3) | <i>BHAR1</i> (4) |
| <i>MACOMM2</i> | 0.0065* (1.845) | 0.0839*** (3.700) | | |
| <i>MARCOMM2</i> | | | 0.0051** (2.525) | 0.0243* (1.741) |
| Constant | 0.0268** (2.561) | 0.0176 (0.203) | 0.0283*** (2.669) | 0.0163 (0.189) |
| Controls | YES | YES | YES | YES |
| Fixed Effects | Year & Ind | Year & Ind | Year & Ind | Year & Ind |
| Observations | 5,076 | 5,073 | 5,076 | 5,073 |
| R-squared | 0.064 | 0.036 | 0.065 | 0.035 |
| Panel C. Alternative measurement of deal announcement returns | | | | |
| | <i>MCAR3</i> (1) | <i>MCAR5</i> (2) | <i>MCAR3</i> (3) | <i>MCAR5</i> (4) |
| <i>MACOMM</i> | 0.0057* (1.653) | 0.0089** (2.105) | | |
| <i>MARCOMM</i> | | | 0.0044** (2.265) | 0.0059*** (2.716) |
| Constant | 0.0207** (2.050) | 0.0285*** (2.609) | 0.0220** (2.153) | 0.0301*** (2.729) |
| Controls | YES | YES | YES | YES |
| Fixed Effects | Year & Ind | Year & Ind | Year & Ind | Year & Ind |
| Observations | 5,220 | 5,220 | 5,220 | 5,220 |
| R-squared | 0.062 | 0.059 | 0.062 | 0.059 |
| Panel D. Post-merger operating performance (<i>ROA1</i> and <i>ROA2</i>) | | | | |
| | <i>ROA1</i> (1) | <i>ROA2</i> (2) | <i>ROA1</i> (3) | <i>ROA2</i> (4) |
| <i>MACOMM</i> | 0.0096* (1.667) | 0.0122* (1.892) | | |
| <i>MARCOMM</i> | | | 0.0018 (0.544) | 0.0021 (0.585) |
| Constant | -0.0618*** (-4.120) | -0.0519*** (-3.359) | -0.0624*** (-4.173) | -0.0528*** (-3.438) |
| Controls | YES | YES | YES | YES |
| Fixed Effects | Year & Ind | Year & Ind | Year & Ind | Year & Ind |
| Observations | 4,994 | 4,779 | 4,994 | 4,779 |
| R-squared | 0.258 | 0.281 | 0.257 | 0.280 |
| Panel E. Post-merger operating performance ($\Delta ROA1$ and $\Delta ROA2$) | | | | |
| | $\Delta ROA1$ (1) | $\Delta ROA2$ (2) | $\Delta ROA1$ (3) | $\Delta ROA2$ (4) |

| | | | | |
|----------------|---------------------|---------------------|---------------------|-------------------|
| <i>MACOMM</i> | 0.0300** (1.989) | 0.0307** (2.225) | | |
| <i>MARCOMM</i> | | | 0.0141 (1.551) | 0.0009 (0.116) |
| Constant | -0.0196 (-0.243) | 0.1190 (1.564) | -0.0095 (-0.117) | 0.1199 (1.564) |
| Controls | YES | YES | YES | YES |
| Fixed Effects | Year & Ind | Year & Ind | Year & Ind | Year & Ind |
| Observations | 484 | 451 | 484 | 451 |
| R-squared | 0.253 | 0.307 | 0.252 | 0.302 |

Panel F. Different types of M&A committees

| | <i>CAR3</i> (1) | <i>CAR5</i> (2) | <i>BHAR1</i> (3) | <i>BHAR1</i> (4) |
|----------------------|----------------------|----------------------|----------------------|----------------------|
| <i>MACOMM</i> | 0.0063* (1.787) | 0.0093** (2.236) | 0.0828*** (3.720) | 0.1789*** (4.344) |
| <i>FINANCECOMM</i> | 0.0032 (1.380) | 0.0040 (1.569) | -0.0033 (-0.218) | -0.0139 (-0.492) |
| <i>STRATEGYCOMM</i> | 0.0079 (1.125) | 0.0082 (0.980) | 0.0119 (0.266) | 0.0313 (0.465) |
| <i>EXECUTIVECOMM</i> | 0.0073 (1.234) | 0.0095* (1.726) | 0.0014 (0.022) | 0.0363 (0.270) |
| <i>OTHERCOMM</i> | -0.0010 (-0.175) | -0.0004 (-0.053) | 0.0311 (0.691) | 0.1452** (2.028) |
| Constant | 0.0277*** (2.659) | 0.0325*** (2.906) | 0.0183 (0.209) | 0.0565 (0.478) |
| Controls | YES | YES | YES | YES |
| Fixed Effects | Year & Ind | Year & Ind | Year & Ind | Year & Ind |
| Observations | 5,220 | 5,220 | 5,210 | 5,210 |
| R-squared | 0.064 | 0.060 | 0.035 | 0.058 |

This table shows the regression results of robustness tests and additional analyses. Panel A reports regressions results of the main tests using firm-fixed effect. Panel B presents regression results using M&A committees measured both before and after the announcement date (*MACOMM2* and *MARCOMM2*). Panel C shows regression results in which abnormal announcement returns are measured using the market model (*MCAR3* and *MCAR5*). Panel D and Panel E present regression results using industry-adjusted post-merger operating performance (*ROA1* and *ROA2*) and the change in post-merger operating performance ($\Delta ROA1$ and $\Delta ROA2$), respectively. Panel F shows regression results of the effects of different types of broadly defined M&A committees (*MACOMM*, *FINANCECOMM*, *STRATEGYCOMM*, *EXECUTIVECOMM*, and *OTHERCOMM*) on M&A performance. *MACOMM* is a dummy variable which equals one if the firm has an M&A committee whose committee name contains keywords of “merger”, “acquisition”, or “M&A”. *MARCOMM* is a dummy variable which equals one if the firm has a committee whose committee responsibilities in the proxy statements (i.e., DEF 14A) include specified M&A responsibilities. Control variables are the same as those used in the main tests. All continuous variables are winsorized at the 1% and 99% levels. All models, except for the models in Panel A, include year and industry fixed effects. The industry classification follows the Fama-French 48-industry categories. The corresponding t-statistics are reported in parentheses based on standard errors adjusted for heteroskedasticity and clustered by acquirers. *, **, *** stand for significance at the 10%, 5%, and 1% level respectively, in two-tailed tests. All variables are defined in the Appendix A.

Appendix A Variable definitions

| Variable name | Definition | Data source |
|---|---|------------------------------------|
| <i>Measures of M&A performance</i> | | |
| <i>CAR3</i> | 3-day cumulative abnormal return measured over 3 days [-1, +1] around the merger announcement date, in which the abnormal return is measured as the difference between the returns of a sample firm and that of the market portfolio proxied by the CRSP value-weighted index returns. | CRSP |
| <i>CAR5</i> | 5-day cumulative abnormal return measured over 5 days [-2, +2] around the merger announcement date, in which the abnormal return is measured as the difference between the returns of a sample firm and that of the market portfolio proxied by the CRSP value-weighted index returns. | CRSP |
| <i>MCAR3</i> | 3-day cumulative abnormal return measured over 3 days [-1, +1] around the merger announcement date, in which the abnormal return is obtained from a market model with the CRSP value-weighted index returns as the market return, where the parameters of the model are estimated over the window [-250, -10] preceding the merger announcement date. | CRSP |
| <i>MCAR5</i> | 5-day cumulative abnormal return measured over 5 days [-2, +2] around the merger announcement date, in which the abnormal return is obtained from a market model with the CRSP value-weighted index returns as the market return, where the parameters of the model are estimated over the window [-250, -10] preceding the merger announcement date. | CRSP |
| <i>BHAR1</i> | Buy-and-hold abnormal returns over the 12-month period subsequent to the deal completion date. The market index is the CRSP value-weighted returns. | CRSP |
| <i>BHAR2</i> | Buy-and-hold abnormal returns over the 24-month period subsequent to the deal completion date. The market index is the CRSP value-weighted returns. | CRSP |
| <i>ROA1</i> | Acquirers' ROA in the first year after the deal completion date, adjusted by industry-median value. ROA is measured as income before extraordinary items scaled by book value of total assets. 2-digit SIC code is used to identify industry-median value. | Compustat |
| <i>ROA2</i> | Acquirers' two-year average ROA after the deal completion date, adjusted by industry-median value. ROA is measured as income before extraordinary items scaled by book value of total assets. 2-digit SIC code is used to identify industry-median value. | Compustat |
| <i>ΔROA1</i> | The change in the one-year ROA (of the combined entity) after the deal completion from pre-merger one-year (acquirer and target value-weighted) ROA. ROA is measured as income before extraordinary items scaled by book value of total assets. | Compustat |
| <i>ΔROA2</i> | The change in the two-year average ROA (of combined entity) after the deal completion from pre-merger two-year (acquirer and target value-weighted) average ROA. ROA is measured as income before extraordinary items scaled by book value of total assets. | Compustat |
| <i>Measures of M&A committees and M&A committee characteristics</i> | | |
| <i>MACOMM</i> | Dummy variable which equals one if the board has an M&A committee (including merger committee, acquisition | SEC Proxy filings (mainly DEF 14A) |

| | | |
|----------------------|---|------------------------------------|
| | committee, merger and acquisition committee, and M&A committee), and zero otherwise. | |
| <i>MARCOMM</i> | Dummy variable which equals one if the board has a committee that is assigned with specified M&A responsibilities in the proxy statement (including M&A committees, finance committees with M&A responsibilities, strategy committees with M&A responsibilities, executive committees with M&A responsibilities, and other committees with M&A responsibilities), and zero otherwise. | SEC Proxy filings (mainly DEF 14A) |
| <i>FINANCECOMM</i> | Dummy variable which equals one if the board has a finance committee with specified M&A responsibilities in the proxy statement, and zero otherwise. Finance committee is identified with committee name containing keywords of "financ", "transaction", "investment", "risk", and "capital". | SEC Proxy filings (mainly DEF 14A) |
| <i>STRATEGYCOMM</i> | Dummy variable which equals one if the board has a strategy committee with specified M&A responsibilities in the proxy statement, and zero otherwise. Strategy committee is identified with committee name containing keywords of "strateg", "planning", or "development. However, committees that have already been identified as finance committees but contain the above keywords will not be identified as strategy committees. | SEC Proxy filings (mainly DEF 14A) |
| <i>EXECUTIVECOMM</i> | Dummy variable which equals one if the board has an executive committee with specified M&A responsibilities in the proxy statement, and zero otherwise. | SEC Proxy filings (mainly DEF 14A) |
| <i>OTHERCOMM</i> | Dummy variable which equals one if the board has other committees (e.g., technology committee, special committee, audit committee, and governance committee) with specified M&A responsibilities in the proxy statement, and zero otherwise. | SEC Proxy filings (mainly DEF 14A) |
| <i>MACOMM2</i> | Dummy variable which equals one if the board has a separate M&A committee both before and after the announcement date, and zero otherwise. | SEC Proxy filings (mainly DEF 14A) |
| <i>MARCOMM2</i> | Dummy variable which equals one if the board has a broadly defined M&A committee both before and after the announcement date, and zero otherwise. | SEC Proxy filings (mainly DEF 14A) |
| <i>MACOMM_LS</i> | Dummy variable which equals one if the size of the separate M&A committee is above the median, and zero otherwise. | BoardEx |
| <i>MACOMM_SS</i> | Dummy variable which equals one if the size of the M&A separate committee is below or equal to the median, and zero otherwise. | BoardEx |
| <i>MARCOMM_LS</i> | Dummy variable which equals one if the size of the broadly defined M&A committee is above the median, and zero otherwise. | BoardEx |
| <i>MARCOMM_SS</i> | Dummy variable which equals one if the size of the broadly defined M&A committee is below or equal to the median, and zero otherwise. | BoardEx |
| <i>MACOMM_HM</i> | Dummy variable which equals one if the number of meetings held by the separate M&A committee is above the median, and zero otherwise. | SEC Proxy filings (mainly DEF 14A) |
| <i>MACOMM_LM</i> | Dummy variable which equals one if the number of meetings held by the separate M&A committee is below or equal to the median, and zero otherwise. | SEC Proxy filings (mainly DEF 14A) |
| <i>MARCOMM_HM</i> | Dummy variable which equals one if the number of meetings held by the broadly defined M&A committee is above the median, and zero otherwise. | SEC Proxy filings (mainly DEF 14A) |
| <i>MARCOMM_LM</i> | Dummy variable which equals one if the number of meetings held by the broadly defined M&A committee is below or equal to the median, and zero otherwise. | SEC Proxy filings (mainly DEF 14A) |

| | | |
|---------------------------------|---|-----------|
| <i>MACOMM_HE</i> | Dummy variable which equals one if the proportion of financial experts on the separate M&A committee is above 50%, and zero otherwise. | BoardEx |
| <i>MACOMM_LE</i> | Dummy variable which equals one if the proportion of financial experts on the separate M&A committee is below or equal to 50%, and zero otherwise. | BoardEx |
| <i>MARCOMM_HE</i> | Dummy variable which equals one if the proportion of financial experts on the broadly defined M&A committee is above 50%, and zero otherwise. | BoardEx |
| <i>MARCOMM_LE</i> | Dummy variable which equals one if the proportion of financial expertise on the broadly defined M&A committee is below or equal to 50%, and zero otherwise. | BoardEx |
| <i>MACOMM_HI</i> | Dummy variable which equals one if the separate M&A committee is fully composed of independent directors, and zero otherwise. | BoardEx |
| <i>MACOMM_LI</i> | Dummy variable which equals one if the separate M&A committee is not fully composed of independent directors, and zero otherwise. | BoardEx |
| <i>MARCOMM_HI</i> | Dummy variable which equals one if the broadly defined M&A committee is fully composed of independent directors, and zero otherwise. | BoardEx |
| <i>MARCOMM_LI</i> | Dummy variable which equals one if the broadly defined M&A committee is not fully composed of independent directors, and zero otherwise. | BoardEx |
| <i>Control variables</i> | | |
| <i>FIRMSIZE</i> | The logarithm of the firm's total assets. [COMPUSTAT items log (AT)] | Compustat |
| <i>LEVERAGE</i> | Book value of debt over book value of total assets. [COMPUSTAT items (AT-CEQ)/AT] | Compustat |
| <i>ROA</i> | Ratio of income before extraordinary items to the book value of total assets. [COMPUSTAT items IB/AT] | Compustat |
| <i>TOBINSQ</i> | Market value of assets over book value of total assets. [COMPUSTAT items (AT+PRCC_F*CSHO-CEQ)/AT] | Compustat |
| <i>OCFTOASSET</i> | Ratio of cash flow from operating activities to total assets. [COMPUSTAT items OANCF/AT] | Compustat |
| <i>FREECASHFLOW</i> | Operating income before depreciation minus interest expenses, income taxes and capital expenditures, scaled by the book value of total assets, at the end of the fiscal year before the deal announcement. [COMPUSTAT items (OIBDP-XINT-TXT-CAPX)/AT] | Compustat |
| <i>STOCKRETURN</i> | Acquirer's buy-and-hold return over the twelve months before the merger announcement date. The CRSP value-weighted index is used as the benchmark. | CRSP |
| <i>VOLATILITY</i> | Return volatility, defined as the standard deviation of monthly stock returns over the fiscal year before the merger announcement date. | CRSP |
| <i>BOARDSIZE</i> | Number of the firm's board members. | BoardEx |
| <i>BOARDINDEP</i> | Percentage of independent directors on board. | BoardEx |
| <i>RELATEDACQ</i> | Dummy variable which equals one if the acquirer and target are from the same 2-digit SIC code industry, and zero otherwise. | SDC |
| <i>DEALSIZE</i> | The logarithm of the value of the deal. | SDC |
| <i>MA_CASH</i> | Dummy variable which equals one if the acquisition is paid with 100% cash, and zero otherwise. | SDC |
| <i>MA_STOCK</i> | Dummy variable which equals one if the acquisition is paid with 100% stock, and zero otherwise. | SDC |
| <i>TARGET_PUBLIC</i> | Dummy variable which equals one if the target firm is a public firm, and zero otherwise. | SDC |

| | | |
|--|---|-----------|
| <i>TOEHOLD</i> | Percentage of the target firms' shares owned by the bidder before the announcement date. | SDC |
| <i>Additional variables for potential antecedents in the logit model</i> | | |
| <i>AQC</i> | Dummy variable which equals one if the firm has non-missing and nonzero acquisition expenditure, and zero otherwise. [COMPUSTAT item AQC] | Compustat |
| <i>PRIORMA</i> | Dummy variable which equals one if the firm has M&A deals announced in the prior 3 years and eventually completed, and zero otherwise. | SDC |
| <i>CAPEX</i> | Ratio of capital expenditure to total assets. [COMPUSTAT items CAPEX =CAPX/AT] | Compustat |
| <i>RD</i> | Ratio of research and development (R&D) expenditure to total assets. If R&D expenditure is missing, then RD equals zero. [COMPUSTAT items XRD/AT] | Compustat |
| <i>MISSINGRD</i> | Dummy variable which equals one if the firm has missing R&D expenditure. [COMPUSTAT item XRD] | Compustat |
| <i>FIRMAGE</i> | Number of years since the company appeared in COMPUSTAT. | Compustat |
| <i>LITIGATION</i> | Dummy variable which equals one if firm's SIC code is 2833–2836, 3570–3577, 3600–3674, 5200–5961, or 7370–7374, and zero otherwise (i.e., whether the company operates in one of four industries: biotechnology, computers, electronics and retailing). | Compustat |

Appendix B Examples of key responsibilities of broadly defined M&A committees

Panel A. M&A committees

| |
|---|
| <p>Committee Name: Acquisitions Committee HEWLETT-PACKARD COMPANY. (2016) (https://www.sec.gov/Archives/edgar/data/0000047217/000104746907000347/a2175536zdef14a.htm)</p> <p>The Acquisitions Committee assists the Board in overseeing HP's investment, acquisition, managed services, joint venture and divestiture transactions as part of HP's business strategy. The Acquisitions Committee evaluates and revises policies with respect to such transactions and reviews and approves proposed transactions in accordance with such policies. The Acquisitions Committee also oversees HP's integration planning and execution, and the financial results of transactions after integration.</p> |
| <p>Committee Name: Acquisition Committee CISCO SYSTEMS, INC. (2016) (https://www.sec.gov/Archives/edgar/data/0000858877/000119312516745159/d246728ddef14a.htm)</p> <p>The Acquisition Committee reviews acquisition strategies and opportunities with management. The Acquisition Committee also approves certain acquisitions and investment transactions and makes recommendations to the Board of Directors.</p> |
| <p>Committee Name: Acquisition Committee EXAMWORKS GROUP, INC. (2015) (https://www.sec.gov/Archives/edgar/data/0001498021/000143774915005994/exam20150324_def14a.htm)</p> <p>The Acquisition Committee has the responsibility of assisting management and the Board with the identification of acquisition opportunities, reviewing acquisition strategies, and providing guidance to management and the Board regarding the Company's acquisitions.</p> |
| <p>Committee Name: Acquisitions Committee GOOGLE INC. (2010) (https://www.sec.gov/Archives/edgar/data/1288776/000119312510070028/ddef14a.htm)</p> <p>The Acquisition Committee, for which the board of directors adopted a formal charter in 2006, serves as an administrative committee of the board of directors to review and approve certain investment, acquisition, and divestiture transactions proposed by management.</p> |
| <p>Committee Name: Mergers & Acquisitions Committee CATALENT, INC. (2018) (https://www.sec.gov/Archives/edgar/data/0001596783/000119312518279393/d578381ddef14a.htm)</p> <p>Function: Assists our Board in reviewing and assessing potential mergers, acquisitions, divestitures, and other similar strategic transactions, taking into account, among other things, (i) the risks and benefits to the company and (ii) our Board's obligation to oversee and provide overall direction to management with respect to such transactions.</p> |
| <p>Committee Name: Merger, Acquisition and Disposition Committee QUANTA SERVICES, INC. (2010) (https://www.sec.gov/Archives/edgar/data/0001050915/000119312510086178/ddef14a.htm)</p> <p>Function: Reviewing and monitoring the strategic direction of Quanta's acquisition and disposition program; Approving acquisitions and dispositions of companies within certain financial parameters.</p> |

Panel B. Other broadly defined M&A committees

Committee Name: Finance Committee

COMCAST CORPORATION. (2018)

(<https://www.sec.gov/Archives/edgar/data/0001166691/000119312518142400/d507526ddef14a.htm>)

The Finance Committee provides advice and assistance to us, including as requested by the Board. It also may act for the directors in the intervals between Board meetings with respect to matters delegated to it from time to time by our Board in connection with a range of financial and related matters. Areas of the Finance Committee's focus may include **acquisitions**, banking activities and relationships, capital allocation initiatives, capital structure, cash management, derivatives risks, equity and debt financings, investments and share repurchase activities.

Committee Name: Finance Committee

MICROSOFT CORPORATION. (2010)

(<https://www.sec.gov/Archives/edgar/data/789019/000119312510221150/ddef14a.htm>)

The Finance Committee is responsible for consulting with management and making recommendations to the Board of Directors about the financial affairs of the Company including areas of financial exposure and risk management. The principal topics the Finance Committee addresses include: proposed **mergers, acquisitions**, divestitures, and strategic investments.

Committee Name: Strategy Development Committee

MAXLINEAR, INC. (2017)

(<https://www.sec.gov/Archives/edgar/data/0001288469/000119312517130633/d363071ddef14a.htm>)

The purpose of the Strategy Development Committee is to ensure board oversight and engagement with respect to product development, **acquisitions**, and other strategic and corporate development initiatives, particularly in light of MaxLinear's efforts to expand its addressable markets.

Committee Name: Executive Committee

OSI SYSTEM, INC. (2016)

(<https://www.sec.gov/Archives/edgar/data/0001039065/000104746916016207/a2230040zdef14a.htm>)

The Executive Committee convenes for the purpose of advising and consulting with our management regarding potential **acquisitions, mergers** and strategic alliances.

Committee Name: Science & Technology Committee

ALLERGAN, INC. (2013)

(<https://www.sec.gov/Archives/edgar/data/0000850693/000119312513071358/d489296dpre14a.htm>)

Our Science & Technology Committee helps evaluate the investment allocation for our research and development portfolio, reviews the major strategic priorities within our research and development organization, and reviews risks associated with potential **acquisitions** and partners.

Committee Name: Special Activities Committee

RAYTHEON COMPANY (2014)

(<https://www.sec.gov/Archives/edgar/data/0001047122/000104712214000064/a2014definitiveproxy.htm>)

The Special Activities Committee:

Function: Reviews company programs, activities and **potential acquisitions** involving classified business which involve special performance, financial, reputational or other risks; and Reviews policies, processes, practices, procedures, risk management and internal controls applicable to the Company's classified business to the extent that they deviate from those applicable to the Company's non-classified business activities.