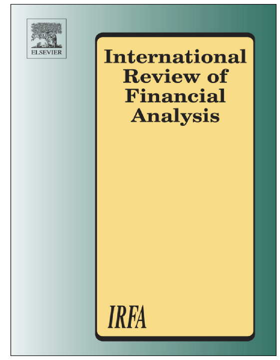

Director compensation incentives and acquisition performance

Ismail Lahlou, Patrick Navatte

PII: S1057-5219(17)30078-9
DOI: doi: 10.1016/j.irfa.2017.07.005
Reference: FINANA 1118

To appear in: *International Review of Financial Analysis*

Received date: 31 December 2016
Revised date: 2 July 2017
Accepted date: 7 July 2017

Please cite this article as: Ismail Lahlou, Patrick Navatte , Director compensation incentives and acquisition performance, *International Review of Financial Analysis* (2017), doi: 10.1016/j.irfa.2017.07.005

Director Compensation Incentives and Acquisition Performance

Ismail LAHLOU*, Patrick NAVATTE
Université de Rennes 1 & CREM

July 2, 2017

Abstract

This paper investigates the relation between director compensation structure and shareholder interests in the context of acquisitions. Our evidence suggests that acquirer firms that compensate their directors with a higher proportion of incentive-based compensation have significantly higher stock returns around the announcement. Compared to acquirers in the low equity-based compensation group, acquirers in the high equity-based compensation group outperform by 9.54% in a five-day period surrounding the announcement date. These results hold even after controlling for endogeneity issues. We further find that acquirers with higher equity-based pay exhibit greater improvements in stock price and operating performance in the three years following acquisitions. An increase in director equity-based pay also results in a lower acquisition premium for targets. These results indicate that equity-based compensation provides incentives for directors to make decisions that meet the interests of shareholders.

JEL classification: G30, G34.

Keywords: Board of directors; Compensation; Director incentives; Acquisitions; Bargaining power; Agency theory

Postal address: The Graduate School of Management, IGR-IAE de Rennes, Université de Rennes 1, 11 Rue Jean Macé, CS 70803, 35708 Rennes, Cedex 7, France
E-mail addresses: ismail.lahlou@univ-rennes1.fr, patrick.navatte@univ-rennes1.fr
* Corresponding author